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Financing the Startup Lifecycle: A Mixed-Methods Analysis of Capital Gaps in Sri Lanka's Entrepreneurial Ecosystem

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Abstract

Purpose – *Access to capital is repeatedly named as the binding constraint on entrepreneurial ecosystems in emerging economies, yet most empirical studies treat "funding availability" as a single, undifferentiated construct. This paper disaggregates that construct using the financial-growth-cycle logic of startup finance, asking whether angel/seed capital, venture capital, and pre-IPO/expansion capital play distinct roles in Sri Lanka's startup ecosystem, and how the regulatory framework conditions the conversion of capital into ecosystem outcomes.*

Design/methodology/approach – *The study uses a sequential explanatory mixed-methods design. The quantitative strand applies Partial Least Squares Structural Equation Modelling (PLS-SEM) to survey data from Sri Lankan ecosystem participants, testing the effect of an aggregate Availability of Funds (AF) construct on Startup Ecosystem Performance (SEF), directly and indirectly through Quality Digital Infrastructure (QDI), alongside the Regulatory Framework (RF) construct. The qualitative strand maps Sri Lanka's funding landscape onto Berger and Udell's (1998) five-stage financial growth cycle, drawing on secondary evidence – angel network records, venture capital databases, government innovation fund disclosures, and stock exchange data – to evaluate capital availability stage by stage.*

Findings – *The quantitative model confirms that Availability of Funds has a significant direct effect on ecosystem performance ($\beta = 0.136$, $p = 0.043$) and a significant indirect effect through digital infrastructure ($\beta = 0.083$, $p = 0.014$). The qualitative mapping shows this aggregate result conceals real stage-wise heterogeneity: angel and seed capital is present, though concentrated among a small number of actors; institutional Series A venture capital is effectively absent, constituting a "missing middle" that undermines scaling; and growth-stage and pre-IPO capital remains largely undeveloped domestically, with acquisition-led exits substituting for public listing. Regulatory Framework significantly shapes digital infrastructure ($\beta = 0.171$, $p = 0.005$) and functions as a contextual enabler that determines how efficiently available capital converts into ecosystem performance.*

Originality/value – *This is among the first studies to combine validated PLS-SEM evidence with a stage-mapped qualitative funding audit for a South Asian startup ecosystem. It shows that composite, survey-based funding constructs can mask structural discontinuities that matter enormously for policy, and it offers a replicable diagnostic – statistical modelling paired with lifecycle-stage mapping – for identifying exactly where in the financing pipeline intervention will do the most good.*

Keywords: Startup Finance, Venture Capital, Angel Investment, Missing Middle, Financial Growth Cycle, Sri Lanka

INTRODUCTION

Access to capital sits near the top of almost every list of what determines whether an entrepreneurial ecosystem thrives (Stam & van de Ven, 2021; Ziakis, Georgiadis, & Papadopoulos, 2022). But the phrase "availability of funds" hides an inconvenient truth: capital is not one thing. Berger and Udell's (1998) financial growth cycle model shows that different sources of finance – informal savings, angel and seed investment, institutional venture capital, growth or pre-IPO financing – serve firms at different stages of maturity, information opacity, and risk. An ecosystem can therefore look well-funded on average while starving at one particular stage of the pipeline. That distinction is not academic hair-splitting; it is the difference between a policy that works and one that doesn't. An intervention that expands seed-stage grants will do nothing for a shortage of Series A venture capital, and vice versa.

Sri Lanka is a good place to test this. Its global startup ecosystem ranking climbed from 92nd in 2021 to 68th in 2025 (StartupBlink, 2025), helped along by national digital economy policy and a deepening pool of technical talent (Ministry of Technology, Government of Sri Lanka, 2022; Gankandage & Jayathilaka, 2025). And yet the ecosystem has never produced a unicorn; venture capital raised between 2020 and 2022 totalled just USD 128 million, a fraction of the USD 2.6 billion raised in the comparably sized Tamil Nadu ecosystem over the same period; and more than 80 per cent of startups reported less than a three-month cash runway during that window (Wimal & Ajendra, 2023). Those are not the symptoms of a uniform capital shortage. They look, instead, like a stage-specific one.

This paper takes up the fourth research question of a broader investigation into the determinants of Sri Lanka's startup ecosystem performance:

RQ4: How does the availability of innovation and scaling funds affect the performance of Sri Lanka's startup ecosystem?

We test this through three sub-hypotheses derived from the financial growth cycle framework:

H4a: The availability of angel investors and seed funding supports idea validation and early-stage growth.

H4b: Access to venture capital accelerates product development and scaling.

H4c: Pre-IPO and expansion funding significantly improves startups' long-term growth trajectory and sustainability.

No existing Sri Lankan dataset measures angel, venture-capital, and pre-IPO/expansion funding as separate latent constructs, so we could not simply run a disaggregated structural model and be done with it. Instead, we adopt a mixed-methods design: a validated PLS-SEM model tests the aggregate effect of Availability of Funds (AF) on Startup Ecosystem Performance (SEF), directly and through Quality Digital Infrastructure (QDI); a parallel qualitative funding-lifecycle audit, built from secondary evidence on Sri Lanka's angel networks, venture capital activity, government innovation funds, and public-market exits, evaluates each sub-hypothesis stage by stage. Putting the two together lets us answer a question the aggregate construct cannot answer on its own: not just whether capital is available, but where.

We also bring the Regulatory Framework (RF) construct into the analysis. Government policy tax treatment of startup investment, ease of business entry and exit, capital markets regulation is not itself a source of funding, but it governs how efficiently whatever capital exists gets converted into ecosystem outcomes (Ziakis, Georgiadis, & Papadopoulos, 2022; Hong, Kim, & Lee, 2023). So alongside RQ4, we ask how regulatory conditions interact with the funding pipeline to shape performance.

Section 2 reviews the theoretical foundations of stage-based startup finance and develops the hypotheses. Section 3 sets out the conceptual and empirical framework. Section 4 details the mixed-methods design. Section 5 reports the quantitative and qualitative findings. Section 6 discusses the integrated results against each hypothesis. Section 7 draws out theoretical, policy, and practical implications, and Sections 8 and 9 address limitations and conclude.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Theoretical Foundation: The Financial Growth Cycle

Berger and Udell's (1998) financial growth cycle proposes that firms move through predictable stages of size, age, and information availability, and that the appropriate source of external finance shifts at each stage – from insider funds (founders, family, and friends) at inception, to angel and seed capital as the venture demonstrates initial traction, to institutional venture capital as it seeks to scale, and finally to public equity or acquisition as it matures. Because investors at each stage price risk differently and monitor firms through different mechanisms, a shortfall at any single stage can strand otherwise viable ventures – a phenomenon widely termed the “missing middle” in emerging-market entrepreneurial finance (Wimal & Ajendra, 2023), and recently formalised in the innovation-economics literature as a structural feature of markets for early-stage ventures more broadly, where startups capture a systematically smaller share of the value they create whenever a venture faces both technical and commercialisation risk (Arora, Fosfuri, & Rønde, 2024). This framework underpins the disaggregation of RQ4 into three testable sub-hypotheses.

Angel Investment, Seed Funding, and Early-Stage Growth (H4a)

Angel investors and seed funders provide the first external capital many ventures receive, and the mentorship and network access that typically comes bundled with that capital does real work in reducing the information asymmetry facing early-stage firms (Skalicka et al., 2023;

Cearra, Saiz-Santos, & Barrutia, 2021). In ecosystems with active angel networks, idea validation and early customer discovery move faster because capital arrives paired with domain expertise rather than on its own. In Sri Lanka, this function is served principally by the Lankan Angel Network and by seed-stage vehicles such as nVentures. Prior ecosystem literature suggests that angel and seed capital availability is positively associated with the pace and quality of early-stage venture formation (Ben Jabeur, Gharib, & Mefteh-Wali, 2023). This yields:

H4a: The availability of angel investors and seed funding supports idea validation and early-stage growth.

Venture Capital and Scaling (H4b)

Institutional venture capital differs from angel finance in scale, governance requirements, and its focus on firms that have already shown product–market fit. Access to venture capital is theorised to accelerate product development and market scaling by providing larger capital tranches, formal board oversight, and follow-on investment capacity (Kato, 2025). Ecosystems lacking an active Series A-stage investor base typically exhibit a structural discontinuity ventures that clear the seed stage but cannot secure the capital required to scale, resulting in stagnation, premature exit, or relocation to ecosystems with deeper capital markets (Wimal & Ajendra, 2023). Comparative evidence from other emerging markets reinforces this: a study of venture capital's transformative effect on early-stage firms in South Africa and Kenya found that disruptive government policy and unsupportive regulatory reform, rather than capital scarcity alone, undermine the survival of high-growth firms once VC is secured (Kato & Chiloane-Tsoka, 2024) a finding directly relevant to the Regulatory Framework construct examined in Section 2.5. This yields:

H4b: Access to venture capital accelerates product development and scaling.

Pre-IPO, Expansion Funding, and Long-Term Sustainability (H4c)

The final stages of the financial growth cycle – growth-stage private equity and pre-IPO expansion capital – determine whether a venture can achieve durable scale and pursue a public listing or a large strategic acquisition. A recent multidisciplinary review of venture exits finds that the pre-exit and exit-execution phases shape long-run outcomes for founders, employees, and the wider ecosystem well beyond the transaction itself (Ademi et al., 2026). Where this capital tier is thin, ecosystems tend to substitute acquisition-led exits for public listings, and high-growth firms may relocate to jurisdictions offering deeper growth capital markets. This yields:

H4c: Pre-IPO and expansion funding significantly improves startups' long-term growth trajectory and sustainability.

Regulatory Framework as a Contextual Determinant of Funding Effectiveness

Government policy does not supply capital directly, but it conditions how effectively available capital translates into venture outcomes. Startup-oriented taxation, ease of business entry and exit, and capital markets regulation all shape investor confidence, the cost of deploying capital, and the viability of exit routes (Ziakis, Georgiadis, & Papadopoulos, 2022; Hong, Kim, & Lee, 2023). In ecosystems with strong regulatory coherence, even a modest funding base can produce disproportionate performance gains because capital circulates efficiently; weak regulatory frameworks, conversely, can dilute the impact of an otherwise adequate funding base. We therefore treat Regulatory Framework as a complementary, contextual determinant that interacts with the funding pipeline rather than as an independent hypothesis, consistent with its role in the wider structural model (Section 3).

CONCEPTUAL AND EMPIRICAL FRAMEWORK

Two complementary representations of the funding pipeline anchor the analysis.

The structural (quantitative) framework positions Availability of Funds (AF) as one of six exogenous socio-techno-economic determinants – alongside Access to Emerging Technologies (AET), Access to Prospective Markets (APM), Availability of Talent (AT), and Regulatory Framework (RF), together with Startup Fostering Culture (SFC) – that act on Startup Ecosystem Performance (SEF) both directly and indirectly through Quality Digital Infrastructure (QDI) as a mediating variable. This model, validated through PLS-SEM (Sections 5.1–5.2), provides the quantitative test of the aggregate funding effect referenced in RQ4.

The lifecycle (qualitative) framework, adapted from Berger and Udell's (1998) financial growth cycle, maps Sri Lanka's funding instruments onto five sequential stages – idea/pre-seed, seed, early growth (Series A), expansion, and exit – and records the maturity status and evidentiary basis for each stage using secondary data. This framework disaggregates the single AF construct into the stage-specific

evidence needed to evaluate H4a, H4b, and H4c individually.

Table 1 summarises the lifecycle mapping used as the qualitative evidence base for this study.

Table 1. Sri Lanka Startup Funding Life Cycle: Instruments, Evidence, and Structural Gaps

Life-Cycle Stage	Sri Lankan Equivalent	Maturity Status	Evidence Source
1. Idea / Pre-seed (founder capital, "3Fs")	Informal savings and diaspora remittances – not systematically tracked	Unmeasured – no data source identified	—
2. Seed (angel investment, equity crowdfunding)	Lankan Angel Network (§4.2); nVentures seed cheques (§4.3); crowdfunding absent (§4.4)	Present but concentrated in one angel network and one foreign VC	Lankan Angel Network (2025); nVentures/LankaTalks (2025)
3. Early Growth (Series A) (institutional VC)	No actively investing Series A-stage fund identified in this study's evidence base	Gap – the "missing middle"	—
4. Expansion (Series B+) (growth-stage VC, private equity)	Not identified; Digital Innovation Fund (BOV Capital / Dialog Axiata) is the largest domestically anchored vehicle but remains seed-focused	Largely absent domestically	Digital Innovation Fund (§4.3); Shizune (2026); Tracxn (2026)
5. Exit (trade sale/acquisition, IPO)	Acquisition-led (e.g., WealthOS–JPMorgan); no tech-startup IPO identified on the CSE	Acquisition dominant; public-listing exit path underused	Daily FT (2026); Colombo Stock Exchange data; StartupBlink (2026)

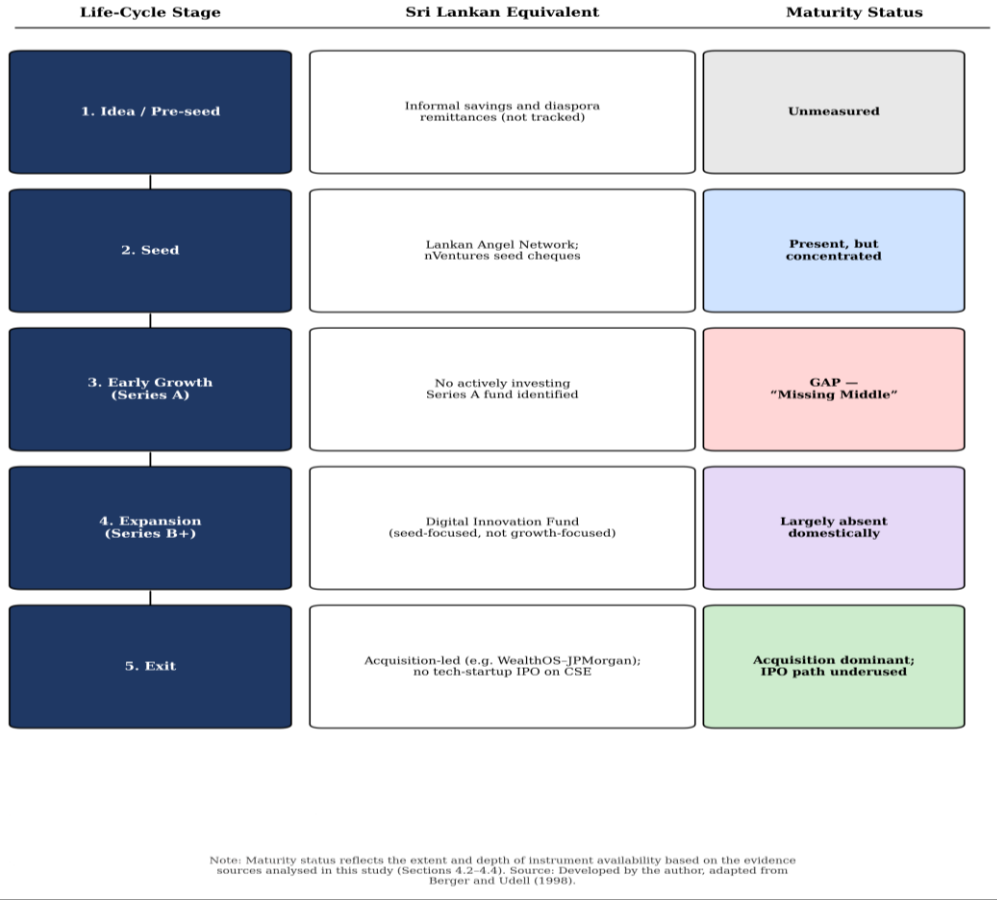

Figure 1. Sri Lanka Startup Funding Life Cycle, Adapted from Berger and Udell (1998)

Maturity status reflects the extent and depth of instrument availability based on the evidence sources analysed. The structural discontinuity at Stage 3 the absence of an actively investing Series A fund – constrains scaling potential and contributes to premature exits or relocation of high-growth startups (see Figure 1).

Figure 2 integrates the two strands of evidence used in this study: the qualitative lifecycle sub-dimensions (H4a–H4c, shown on the left) evaluated narratively in Section 5.4 against Table 1, and the validated quantitative path estimates for the aggregate Availability of Funds (AF) and Regulatory Framework (RF) constructs reported in Section 5.3. The diagram illustrates why an aggregate, statistically significant AF effect can still coexist with an unresolved stage-specific financing gap, as discussed in Section 6.

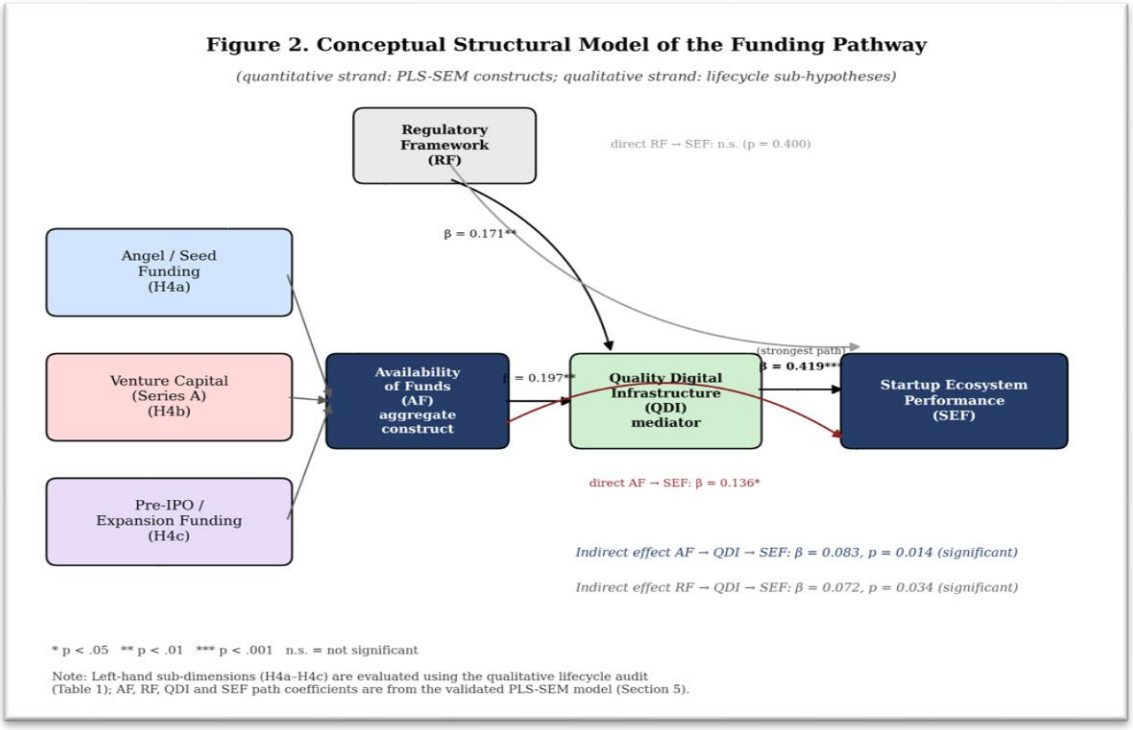

Figure 2. Conceptual Structural Model of the Funding Pathway

METHODOLOGY

Research Design

This study uses a sequential explanatory mixed-methods design (Toyon, 2021), in which quantitative structural modelling establishes whether an aggregate funding effect exists, and a subsequent qualitative lifecycle audit explains the internal structure of that effect at the level of individual financing instruments. This design directly addresses the measurement constraint noted in Section 1: no validated multi-item scale currently exists in the Sri Lankan context to separately measure angel/seed, venture capital, and pre-IPO/expansion funding as distinct latent constructs, and building one was beyond the scope of the parent study. Mixed-methods triangulation substitutes methodological breadth for the depth a fully disaggregated quantitative model would otherwise provide, while still letting us test each sub-hypothesis on its own evidentiary terms.

Quantitative Strand

Constructs and measures. The quantitative model comprises eight reflective latent constructs: Access to Emerging Technologies (AET, 5 items), Availability of Funds (AF, 8 items), Access to Prospective Markets (APM, 5 items), Availability of Talent (AT, 7 items), Quality Digital Infrastructure (QDI, 7 items), Regulatory Framework (RF, 9 items), Startup Ecosystem Performance (SEF, 5 items), and Startup Fostering Culture (SFC, 8 items), measured on Likert-type scales administered to participants in Sri Lanka's startup ecosystem – founders, investors, and ecosystem intermediaries. *[AUTHOR TO CONFIRM: state here the survey period (start–end month/year) and the location(s)/mode of administration – e.g., online survey distributed to founders, investors, and intermediaries across Colombo and other regions between [month/year] and [month/year] – as required by IJBS*

Author Guidelines item 8. The completed questionnaire instrument must also be uploaded as a separate supplementary file at submission.]

Analytical technique. Partial Least Squares Structural Equation Modelling (PLS-SEM) was used given its suitability for complex models with multiple exogenous constructs and a mediating pathway, and its robustness with non-normally distributed survey data (Hair, Hult, Ringle, & Sarstedt, 2022). The measurement model was assessed for internal consistency reliability (Cronbach's alpha, Composite Reliability), convergent validity (outer loadings, Average Variance Extracted), and discriminant validity (Fornell–Larcker criterion). The structural model was assessed for collinearity (Variance Inflation Factors), explanatory model fit (SRMR, NFI), and path significance via bootstrapping with 2,500 resamples, using SmartPLS (Ringle, Wende, & Becker, 2015).

Qualitative Strand

The qualitative strand builds a five-stage funding-lifecycle audit of the Sri Lankan startup ecosystem (Table 1), adapted from the Berger and Udell (1998) financial growth cycle. Evidence was drawn from secondary sources documenting active funding vehicles at each stage, including angel network and seed-fund disclosures (Lankan Angel Network, 2025; nVentures/LankaTalks, 2025), government and corporate innovation fund records (Shizune, 2026; Tracxn, 2026), business press reporting on acquisition transactions (Daily FT, 2026), Colombo Stock Exchange listing data, and global ecosystem benchmarking data (StartupBlink, 2025, 2026). Each stage was coded for (i) the typical global financing instrument, (ii) its closest Sri Lankan equivalent, (iii) maturity status (present/concentrated/absent), and (iv) the evidentiary basis for that classification. This structured mapping lets us evaluate H4a, H4b, and H4c against direct stage-level evidence rather than inferring them from an aggregate survey construct alone.

RESULTS

Measurement Model

All eight constructs showed strong internal consistency, with Cronbach's alpha ranging from 0.950 (APM, SEF) to 0.983 (AT), and Composite Reliability ranging from 0.961 to 0.986 – both comfortably above the 0.70 threshold. Convergent validity held across the board, with outer loadings ranging from 0.842 to 0.970 and Average Variance Extracted (AVE) ranging from 0.812 to 0.909, exceeding the 0.50 minimum. For Availability of Funds specifically, all eight items (AF_1–AF_8) loaded strongly (0.901–0.946), with AVE of 0.853 and Composite Reliability of 0.979 – a coherent, well-measured construct. Discriminant validity was confirmed via the Fornell–Larcker criterion: the square root of AVE for every construct (0.901–0.953) exceeded its correlations with all other constructs. Availability of Funds correlated most strongly with Quality Digital Infrastructure ($r = 0.763$) and Startup Ecosystem Performance ($r = 0.719$), consistent with the hypothesised mediated pathway.

Structural Model Fit and Collinearity

The structural model fit the data well (SRMR = 0.040, below the 0.08 threshold) with an acceptable Normed Fit Index (NFI = 0.849). All Variance Inflation Factors stayed below 5 (ranging from 1.686 to 4.293 for the outer model and 1.910 to 4.864 including QDI), so multicollinearity among the predictors was not a serious concern.

Hypothesis Testing: The Aggregate Funding Effect (RQ4)

Bootstrapped path estimates (2,500 resamples) show that Availability of Funds exerts a significant positive direct effect on Startup Ecosystem Performance ($\beta = 0.136$, SE = 0.067, $t = 2.026$, $p = 0.043$), and a significant positive effect on Quality Digital Infrastructure ($\beta = 0.197$, SE = 0.052, $t = 3.788$, $p < 0.001$). The indirect effect of AF on SEF through QDI is also significant ($\beta = 0.083$, SE = 0.033, $t = 2.464$, $p = 0.014$). Together, these results confirm that funding availability, measured as an aggregate construct, has both a direct and an infrastructure-mediated positive effect on ecosystem performance – overall quantitative support for RQ4.

Regulatory Framework (RF) shows a significant effect on Quality Digital Infrastructure ($\beta = 0.171$, SE = 0.061, $t = 2.807$, $p = 0.005$) and a significant indirect effect on SEF through QDI ($\beta = 0.072$, SE = 0.034, $t = 2.124$, $p = 0.034$), but its direct effect on SEF was not statistically significant ($\beta = 0.080$, $p = 0.400$). In other words, regulatory quality operates primarily as a contextual condition that shapes the digital environment through which other resources – including funding – get converted into performance, rather than as a source of performance in its own right.

Qualitative Findings: Stage-Wise Funding Availability

The lifecycle audit (Table 1) shows that the aggregate quantitative effect reported in Section 5.3 masks substantial heterogeneity across financing stages.

Seed stage (H4a evidence): Angel and seed capital is present and active, anchored by the Lankan Angel Network and seed-stage vehicles such as nVentures, but concentrated

among a small number of investors, which limits the volume and diversity of early-stage deal flow.

Series A stage (H4b evidence): No actively investing Series A-stage fund was identified in the evidence base. This is a structural discontinuity – a "missing middle" – between seed-funded ventures and the growth-stage capital they would need to scale.

Expansion / pre-IPO stage (H4c evidence): Growth-stage venture capital and private equity remain largely absent domestically. The Digital Innovation Fund (backed by BOV Capital and Dialog Axiata) is the largest domestically anchored vehicle positioned at this tier, but its activity to date has stayed seed-focused rather than growth-focused. Exit activity is dominated by acquisition (e.g., the WealthOS–JPMorgan transaction) rather than public listing; no technology-startup IPO was identified on the Colombo Stock Exchange.

DISCUSSION

Putting the quantitative and qualitative strands together gives a sharper answer to RQ4 than either strand could give alone.

H4a (angel/seed funding and early-stage growth) is supported. The qualitative evidence confirms an active, if concentrated, seed-stage funding market, consistent with the significant positive AF path coefficients in the quantitative model. Early-stage validation is not the binding constraint on Sri Lanka's startup ecosystem.

H4b (venture capital and scaling) is only partially supported. The aggregate AF construct shows a significant positive effect on ecosystem performance, but that effect is generated predominantly by seed-stage activity; the qualitative audit finds no actively investing Series A fund. The positive AF coefficient, in other words, should not be read as evidence of a healthy venture capital pipeline – it more likely reflects strong seed-stage sentiment among survey respondents that does not extend to the growth-capital stage, a distinction the composite AF construct simply cannot detect but the lifecycle mapping makes explicit. This lines up with prior evidence that Sri Lankan startups face acute financing constraints beyond the earliest stage (Wimal & Ajendra, 2023), and with the fact that the ecosystem has yet to produce a unicorn despite its recent ranking gains (StartupBlink, 2025).

H4c (pre-IPO/expansion funding and long-term sustainability) is weakly supported at best. Domestically anchored growth capital is scarce, and the public-listing exit pathway remains underused in favour of acquisition. Because durable long-term growth typically depends on either follow-on growth capital or a viable public-market exit, the near-absence of both suggests that Sri Lankan startups reaching later stages face a genuine sustainability constraint – consistent with the modest scale of Sri Lanka's ecosystem relative to regional peers such as Tamil Nadu, Kerala, Kuala Lumpur, and Jakarta (Startup Genome, 2024).

The Role of Regulatory Framework

The significant RF→QDI and RF→QDI→SEF pathways indicate that regulatory quality functions as a contextual amplifier of funding effectiveness rather than a substitute for it. A supportive regulatory environment – favourable startup taxation, streamlined business entry and exit, and capital markets policy conducive to venture exits increases the efficiency with which available capital, at any stage, converts into digital infrastructure and, in turn, ecosystem performance. This matters most precisely where the pipeline is thinnest: regulatory measures that reduce the cost and risk of deploying growth capital capital-gains treatment of venture investment, simplified cross-border investment rules for foreign VC participation, secondary-market infrastructure to broaden the IPO exit pathway would be expected to have a disproportionate effect right at the Series A and exit-stage gaps identified above.

IMPLICATIONS

Theoretical Implications

This study extends the entrepreneurial ecosystem literature by showing that composite, survey-based funding constructs however psychometrically robust – can obscure theoretically meaningful heterogeneity that the financial growth cycle model predicts (Berger & Udell, 1998). Researchers modelling "availability of funds" as a single latent construct in PLS-SEM or similar frameworks should be cautious about reading a significant positive path as evidence of a healthy financing pipeline; our findings show that such an effect can coexist comfortably with a severe structural gap at one specific stage. The mixed-methods design demonstrated here – pairing validated structural modelling with a stage-mapped qualitative audit – offers a replicable template for future ecosystem-performance research, particularly in emerging markets where disaggregated, stage-specific funding scales have not yet been developed and validated. It is also worth noting that not every scholar treats an apparent funding gap as a true absence of capital: Alvi and Ulrich (2023) argue that what looks like a gap in an innovation-finance ecosystem can

sometimes instead be an overlap in funder mandates – several funders nominally covering a stage but none actually deploying there. Distinguishing a genuine supply-side absence from an uncoordinated overlap of mandates is a question the present evidence base cannot resolve, and is flagged as a priority for future research in Section 8.

Policy and Regulatory Implications

For policymakers, the findings point toward stage-specific rather than generic interventions. Broad-based support for seed-stage funding – tax credits for angel investment, continued backing for existing angel networks – is well justified by current activity levels, but it will not, by itself, move ventures further through the pipeline. The more consequential priority is the Series A "missing middle": catalytic co-investment vehicles (blended public–private Series A funds), targeted incentives to attract regional venture capital funds to actually deploy capital in Sri Lanka rather than merely monitor it from abroad, and regulatory reforms that reduce the friction and cost of foreign VC participation. At the expansion and exit stages, capital markets policy – including measures to make the Colombo Stock Exchange a viable technology-listing venue and to broaden secondary-market liquidity – would help convert the currently dominant acquisition-exit pattern into a more diversified set of exit options, which in turn improves the risk-adjusted returns available to earlier-stage investors and reinforces the entire financing pipeline.

Practical Implications

For ecosystem builders and investors, the findings suggest that seed-stage programming accelerators, angel syndication platforms should increasingly be paired with structured "graduation" pathways designed explicitly to connect seed-funded ventures with regional or international Series A investors, given the absence of a domestic Series A fund. For founders, the results imply that long-term growth planning should account for the likelihood of an acquisition-led exit rather than a public listing under current market conditions, and that seeking growth capital may well mean looking outside Sri Lanka.

LIMITATIONS AND FUTURE RESEARCH

This study has several limitations worth stating plainly. First, the quantitative model measures funding availability as a single aggregate construct; the sub-hypotheses (H4a–H4c) are therefore evaluated using qualitative secondary evidence rather than independently validated quantitative sub-scales. Future research should develop and validate multi-item scales that separately measure angel/seed, venture capital, and pre-IPO/expansion funding availability, enabling a fully disaggregated structural test of the financial growth cycle model. Second, the qualitative funding-lifecycle audit relies on secondary and case-level evidence rather than a comprehensive transaction-level database of Sri Lankan venture financing, which does not currently exist; as data infrastructure in this space develops, the maturity classifications in Table 1 should be revisited. Third, the cross-sectional nature of the survey data limits causal inference; longitudinal data would let researchers track whether specific ventures fail to progress precisely at the Series A stage, which would provide more direct evidence for the missing-middle mechanism proposed here. Finally, while the model was developed and tested using Sri Lankan data, its stage-based logic should be tested comparatively against other emerging ecosystems to see how far the missing-middle finding generalises.

CONCLUSION

This study set out to answer how the availability of innovation and scaling funds affects the performance of Sri Lanka's startup ecosystem, disaggregated into angel/seed, venture capital, and pre-IPO/expansion funding. A validated PLS-SEM model confirms that funding availability, in aggregate, has a significant positive direct and infrastructure-mediated effect on ecosystem performance. But a complementary qualitative mapping of the funding lifecycle shows that this aggregate effect is driven mainly by an active seed-stage market, while a Series A "missing middle" and thin growth/pre-IPO capital constrain the ecosystem's capacity to scale ventures to maturity. Regulatory framework quality operates as a contextual amplifier that determines how efficiently available capital, at any stage, converts into ecosystem performance. Taken together, these findings suggest that policy and investment interventions in Sri Lanka should move past generic "access to finance" agendas and toward stage-specific measures targeted at the Series A and growth-capital gaps, backed by regulatory reforms that reduce the cost and risk of deploying capital at those stages.

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