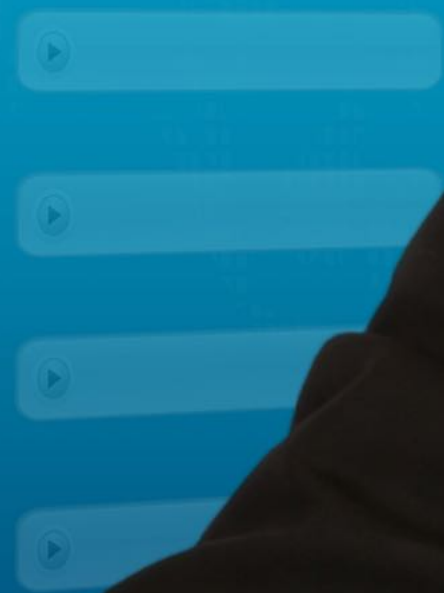
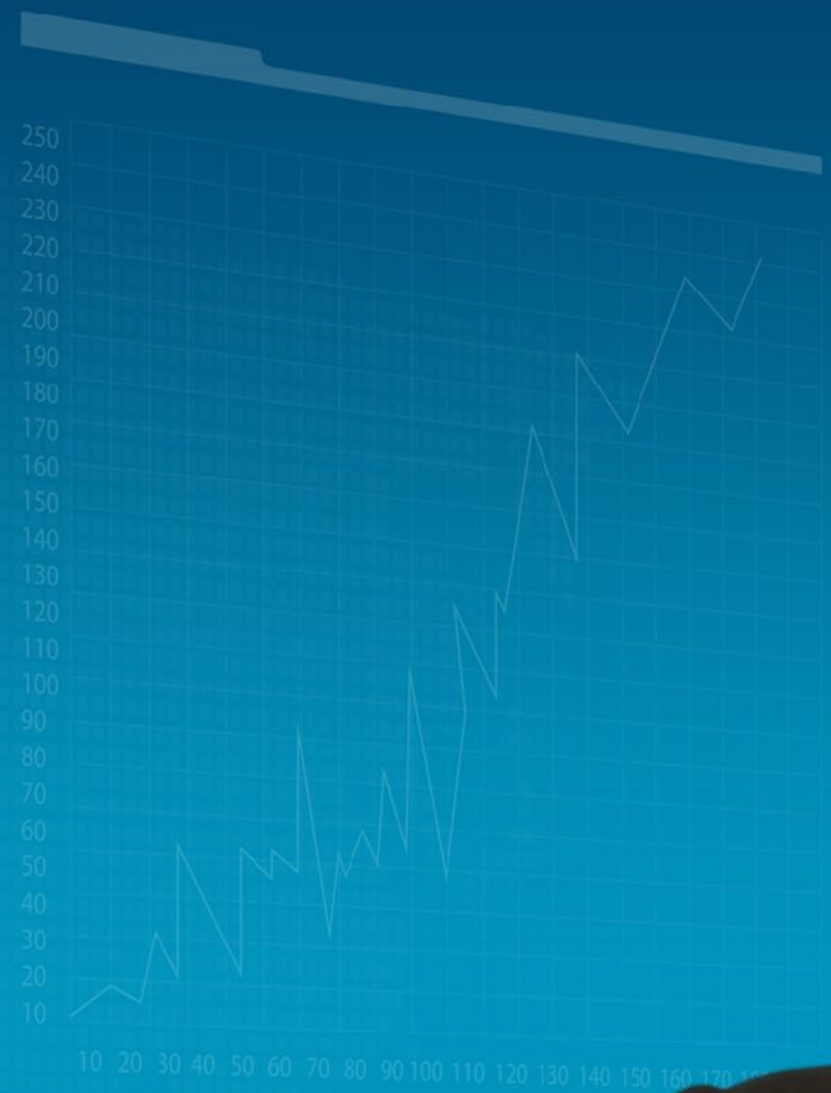


# Small Towns, Big Ideas

The Rise of Innovation and Entrepreneurship  
in India's Tier 2 and Tier 3 Cities



# Foreword

Dear Readers,

Our Report "Small Towns, Big Ideas," salutes the spirit of entrepreneurship celebrating the 2<sup>nd</sup> anniversary of the National Startup Day since its declaration by Hon'ble Prime Minister, Shri Narendra Modi Ji. The report brings out the fundamental principles of entrepreneurship, innovation, and resilience, particularly in the dynamic landscapes of Tier 2 and 3 cities.

Our personal perspective finds reflection in this report. Having been part of a startup journey myself as one of the co-founding team of Primus Partners, with all of us transitioning from the big 4 multinational culture to shaping our own home-grown Indian Management Consulting firm, I have personally experienced the survival and transformational pangs of growth phase of startups.

Beyond narratives of sectoral growth, challenges, and opportunities, the Report delves into human perspectives, the symphony of government initiatives, stakeholder engagement, and the transformative impact of digitalization on the startup landscape. From boardrooms to grassroots, we cover initiatives that have contributed to various domains - economy, youth empowerment, policy influence, development, entrepreneurship, and innovation. We have crafted a playbook drawing on individual experiences of those who have successfully navigated the challenges of entrepreneurship. We also present recommendations recognizing the potential that exists beyond traditional boundaries and conventional expectations, such that we can amplify the role of these cities in shaping the future of India's startup landscape and resultantly the Indian economy.

As we celebrate National Startup Week, we would like to recognize and champion the entrepreneurs shaping India's future. We hope that you will enjoy reading this Report and in your own myriad ways give encouragement to the talent pool of entrepreneurs, whose dedication and innovative spirit are forging the path for India to stand out as a Global Epicenter of Startup Excellence. I also take this opportunity to congratulate team Primus Partners in striving toward that excellence.

The last decade has seen the rise of a 'Startup Culture' with its own norms, behaviours and vocabulary, almost fashionable, if one were to interact with the current generation of startups. Yet it is by no means a passing fancy or fashion. It has come to nest in that it has seeded a policy environment, and today I would even say that it is that tide that will raise many boats, especially in our Indian context. The report seeks to bring out personas, journeys and perspectives that break barriers, dispel misconceptions surrounding Tier 2 and 3 cities, and highlights them not just as emerging markets but as thriving ecosystems ripe for economic growth with an entrepreneurial appetite and affinity for exploration and innovation.



**Charu Malhotra**

Co-Founder & Managing Director  
Primus Partners





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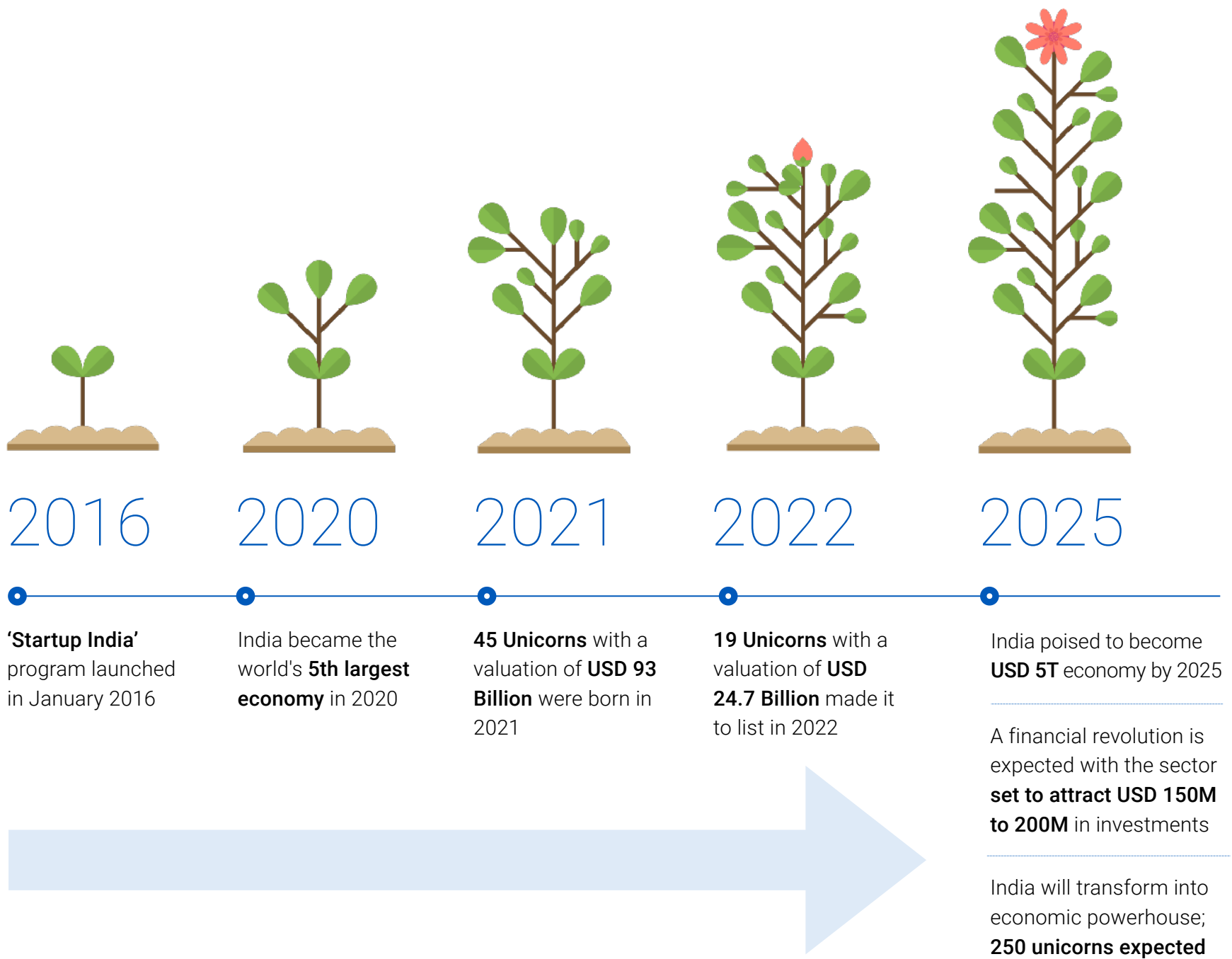
Policy Recommendations

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# 01

## Overview of the Indian Startup Ecosystem



“

In 2016, Startup India grabbed attention, yet its influence was confined to major metropolises like Mumbai, Bengaluru, and NCR. Since then, the startup landscape has proliferated across the nation, reaching smaller towns and cities like a wildfire of innovation.

At Unicorn India Ventures, our investments span the country, with over 50% dedicated to startups in Tier 2 and Tier 3 cities. Initial concerns transformed into awe as we witnessed the remarkable performance of these ventures.

Notably, our first Unicorn emerged from a Tier 2 and Tier 3 city, validating our decision to back enterprises in smaller locales. With our third fund in play, we are actively investing and confident that at least half of our portfolio will emanate from Tier 2 and Tier 3 cities, where entrepreneurs are crafting genuinely scalable solutions for the world.



Anil Joshi

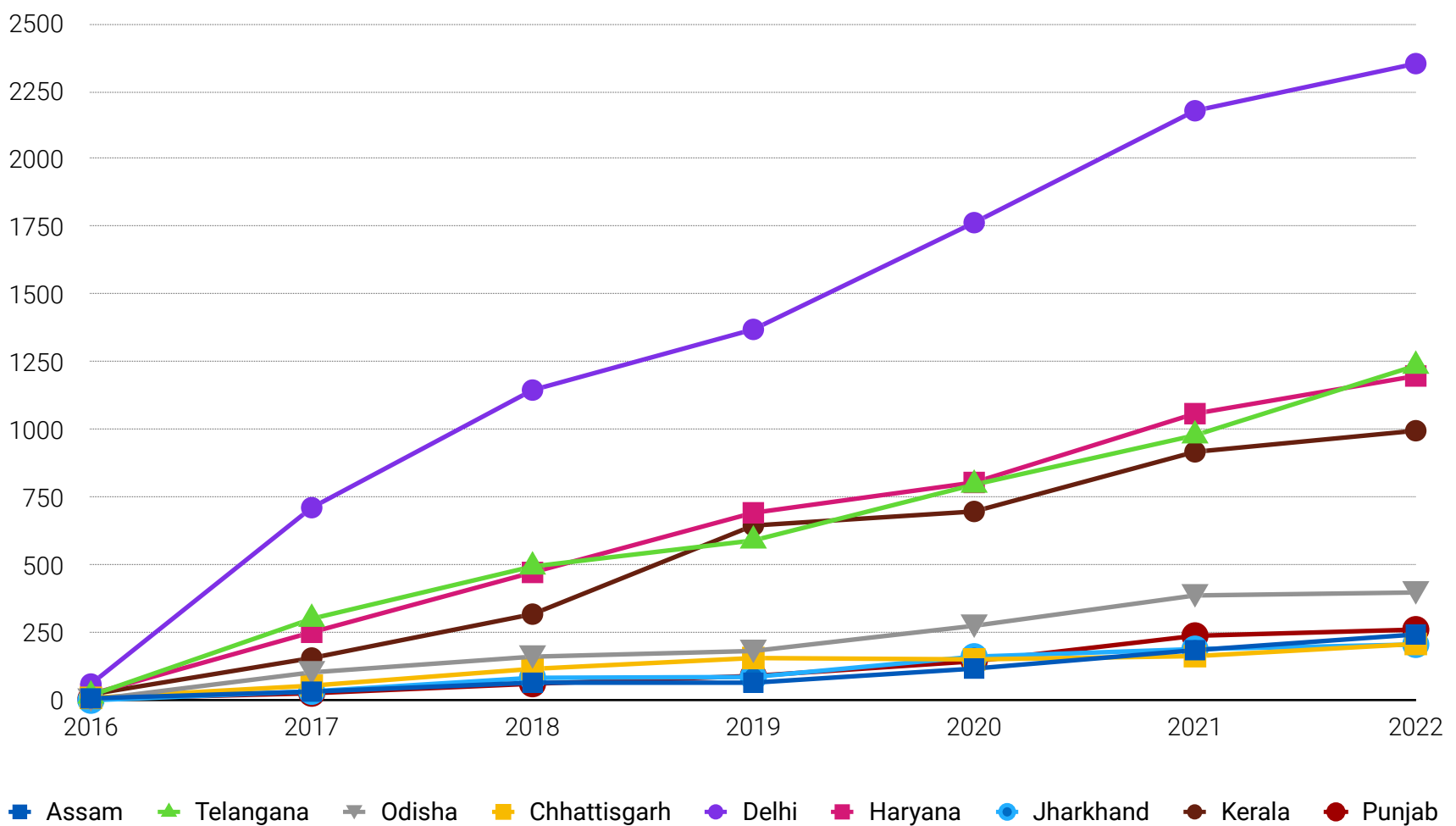
Founder & Managing Partner,  
Unicorn India Ventures



”

## State-Level Strength

India's startup scene is booming, featuring thousands of ventures across states. According to data from the Department for Promotion of Industry and Internal Trade (DPIIT), there were over 1,14,000 startups spread across all 36 States and UTs of the country.



Sources:

PIB, GOI, Ministry of Commerce & Industry, Invest India, Inc 42, BtMAG, The Economic Times, TICE



# Sectoral Strength



## Two-Wheeler Manufacturing

Leading global producer, 21M units/year

### Economic Contribution

7.1% of GDP, employment for 35M people

### Electric Vehicle Focus

Targeting 30% EV adoption by 2030

Automotive  
Sector



## Textile and Garment Production

2<sup>nd</sup> largest globally, 5% of global textile exports

### Employment Significance

45M employees, 2<sup>nd</sup> largest employer

### Material Leadership

Leading cotton, jute and silk producer

### Anticipated Growth

13.6% CAGR, aiming for USD 350B market by 2025

Textile  
Sector



## GDP Contribution

USD 191B in 2020 (7.7% of total GDP)

### Global Sourcing Hub

67% market share

### Employment Significance

4.4M people employed, 130K new jobs/year

### Industry Landscape

16K+ companies, global players like IBM, Microsoft and Google etc.

IT & Software  
Sector



## Sustainability Focus

Emphasis on a better future

### Impressive Growth

17.33% CAGR (2014-2020), 92.97GW capacity

### Ambitious Targets

175GW total capacity by 2022, 100GW solar power

### Global Recognition

Ranked 4<sup>th</sup> globally in installed renewable energy capacity

Renewable  
Energy Sector



## Fruits & Vegetables Production

2<sup>nd</sup> globally, 275M tones/year

### Spice Dominance

Leading producer of 63 spice varieties

### Pulse Production

25% of global production, major consumer

### Workforce Engagement

50%+ workforce (234M people)

Agriculture  
Sector



## Industry Size

3<sup>rd</sup> largest globally by volume

### Generics Dominance

20% of global generic medicine exports

### Projected Growth

USD 130B market by 2030, 15.92% CAGR

### Vaccine Production

Over 60% of global vaccines produced in India

Pharma  
Sector





# 02

## Fueling India's Future: Exploring the vibrant Innovation and Entrepreneurship Landscape in Tier 2 and Tier 3 Cities

Smaller cities in India hold tremendous potential for driving economic growth and development through innovation and entrepreneurship. According to recent data from the Ministry of Housing and Urban Affairs, around **45% of India's urban population resides in Tier 2 and Tier 3 cities**. These cities play a pivotal role in India's overall economic landscape.

171M

Population of India's Tier 2 and Tier 3 cities

Source: National Statistical Office (NSO)

45%

India's urban population residing in Tier 2 and Tier 3 cities

Source: Outlook

85%

Literacy Rate in Tier 2 cities

Source: National Statistical Office (NSO)

10

Unicorns in India's Tier 2 and Tier 3 cities

Source: NASSCOM, Inc42, Tracxn

75%

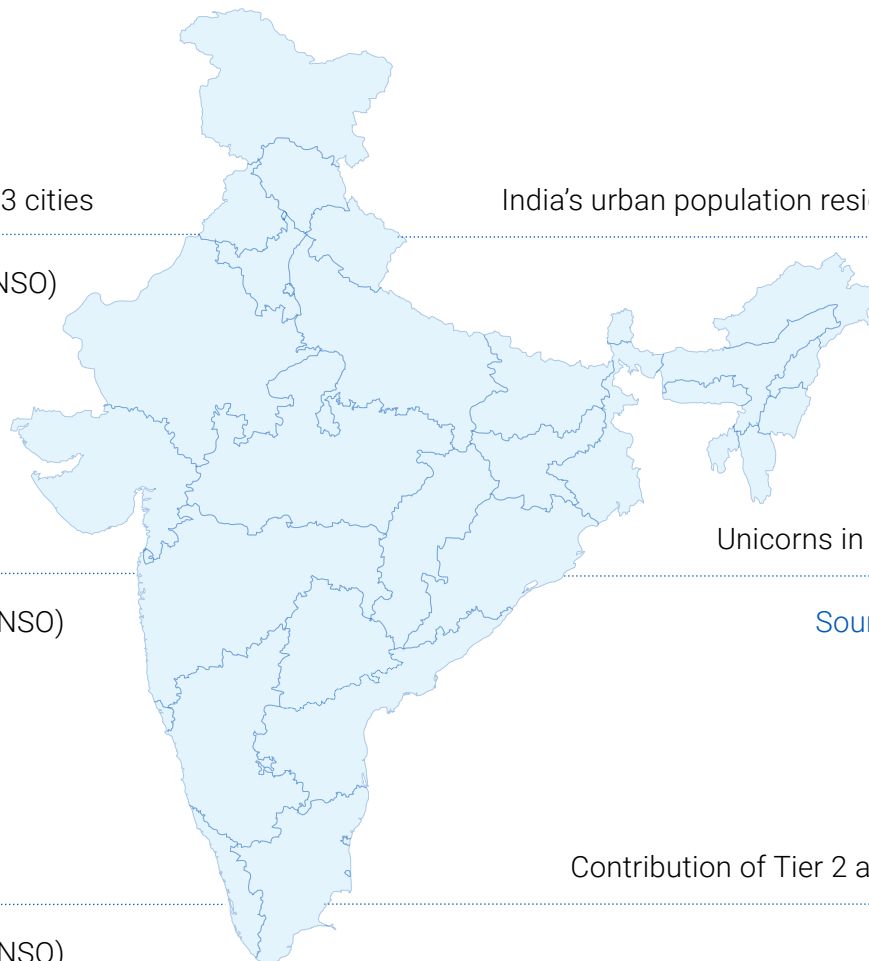
Literacy Rate in Tier 3 cities

Source: National Statistical Office (NSO)

37%

Contribution of Tier 2 and Tier 3 cities to India's GDP

Source: BFSI, from ET



The Tier 2 and Tier 3 cities of India are currently experiencing an extraordinary economic surge, catalyzed by a burgeoning demographic of youth, transformative economic dynamics, and a richly diverse social and cultural tapestry.

The favorable conditions make these cities excellent places for nurturing innovation and entrepreneurial ventures. Aspiring individuals who recognize and harness their potential within these cities stand poised to embrace a promising and prosperous future.

Some world-class startups hail from Indian Tier 2 and Tier 3 cities.



There is a lot of untapped potential for startups in Tier 2 and Tier 3 cities. Startups that are building a solution for a unique and genuine problem seem to be most promising. I am mostly fixated on the ones that focus on not just profit but purpose as well. The opportunity becomes bigger when the market size resonates with the need for the solution that the startup is offering. In the initial stages, the growth potential should be 100% year on year. As it matures, a steady 40-50% growth rate would indicate sustainable success. A startup, in my eyes, is only as strong as the visionaries who conceive it. Solid founders with a resolute vision are the keystones of success, crafting narratives that transcend challenges and propel the venture towards enduring prosperity. In the realms of investment, it is not just about placing bets; it is about co-navigating a journey where founders and investors share the same compass pointing towards a future where innovation meets impact. I am eager to be part of the journey of such entrepreneurs and companies.

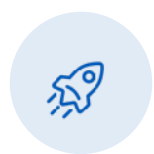


Akhil Gupta

Co-Founder & CTO,  
NoBroker



## Stimulating Economic Growth and Job Creation in Tier 2 & 3 Cities



50%

of India's acknowledged startups hail from Tier 2 and Tier 3 cities

Source: TICE



50%

of India's total employment is generated by Tier 2 and Tier 3 cities small businesses and startups

Source: NSSO



2.5M

Jobs created by service sector in Tier 2 and Tier 3 cities in India in 2022

Source: Randstad India



\$27B

About 22% of the USD 27B in funding received by Indian start-ups in 2022 went to firms in Tier 2 and Tier 3 cities

Source: Business Standard



## Need for Innovation and Entrepreneurship

According to recent reports by organizations like NASSCOM and the Indian government's Department for Promotion of Industry and Internal Trade (DPIIT), there is a burgeoning innovation and entrepreneurship ecosystem in Tier 2 and Tier 3 cities across India.

These reports highlight the increasing number of startups emerging from these cities, driven by factors such as lower operating costs, availability of local talent, and govt. initiatives aimed at promoting entrepreneurship in non-metro areas.

Incubators, accelerators, and local networking events are actively contributing to the growth of these ecosystems, providing crucial support and resources to startups.

As access to technology and digital connectivity improves in these regions, they are becoming attractive hubs for startups focused on sectors such as Agri-Tech, Healthcare, and Education Technology. This trend underscores the potential for inclusive and widespread economic growth driven by innovation beyond the traditional metropolitan centres.



# 45%

Contribution of Tier 2 and Tier 3 cities to India's GDP in the future

Source: McKinsey Global



# 1.5M

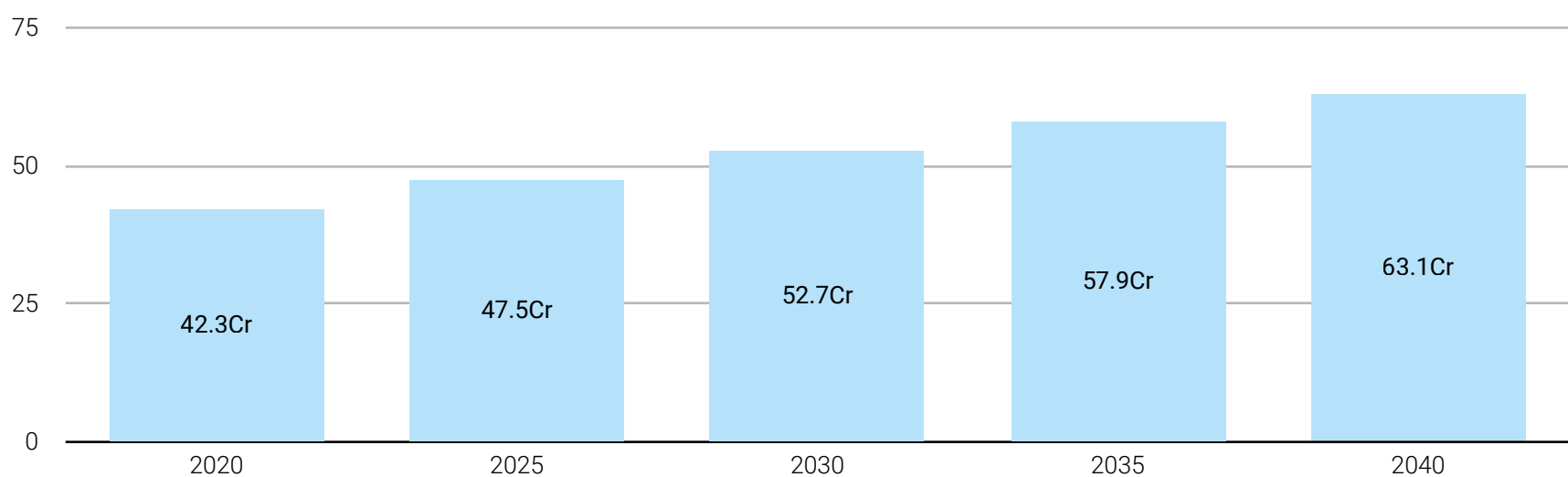
Jobs can be created by promoting innovation in smaller cities by 2030

Source: NASSCOM

## Population Trends and Forecast

The graph provides a visual representation of the present and anticipated population trends spanning from 2020 to 2040 in Tier 2 and Tier 3 cities. It shows the existing and predicted population dynamics in Tier 2 and Tier 3 cities over a two-decade timeframe. The substantial population growth in Tier 2 and Tier 3 cities in India, reaching 63.1 crores by 2040, suggests a burgeoning market and a potential pool of talent. This demographic expansion may foster a conducive environment for startups, presenting significant opportunities for innovation, economic development, and entrepreneurial ventures.


Projection of Population Growth in Tier 2 and Tier 3 cities (in Crores)



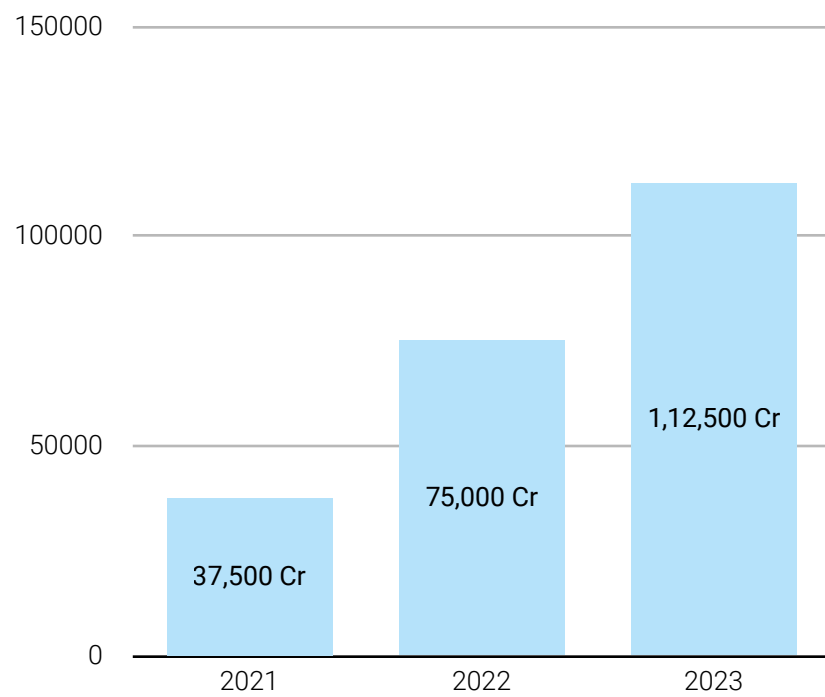
Source: National Institute of Urban Affairs (NIUA)



## Startup Fundraising Trends

 Total Funding Raised by Tier 2 and Tier 3 Startups (in INR Crores)

Source: tracxn



This graph shows cumulative funding secured by startups in Tier 2 and Tier 3 cities for the years 2021, 2022, and 2023.

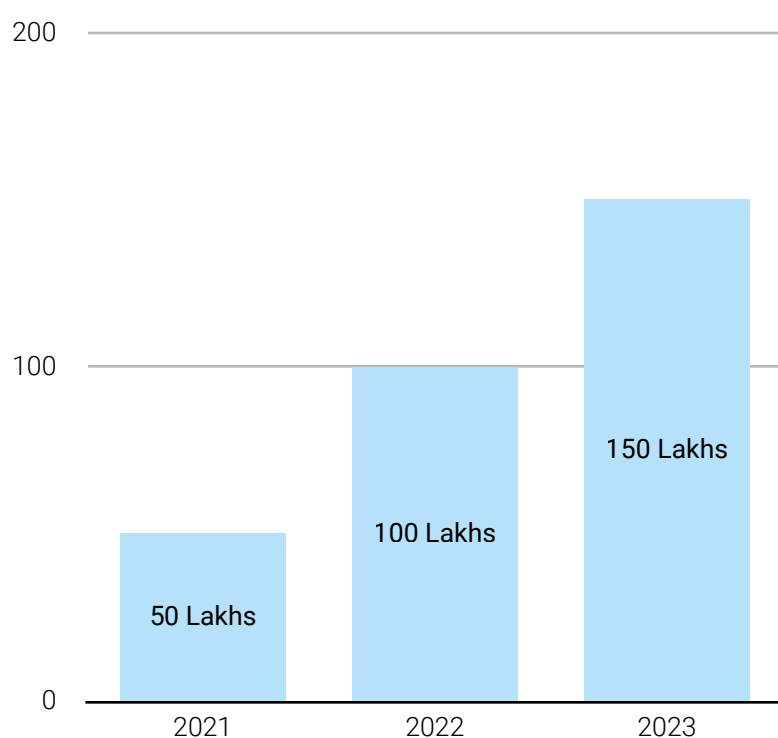
The data depicted in the graph highlights the financial support garnered by startups within these tiers, offering insights into their funding trajectories over this three-year period.

The escalating trend in startup funding across Tier 2 and Tier 3 cities in India, soaring from 37,500 crores in 2021 to 112,500 crores in 2023, reflects a robust investment landscape. This surge underscores the growing recognition of these regions as lucrative investment hubs, potentially catalyzing entrepreneurial growth and economic development.

## Startup Job Creation Trends

 Total Number of Jobs created by Tier 2 and Tier 3 Startups (in Lakhs)

Source: tracxn



This graph provides a comprehensive depiction of the job creation landscape between 2021 and 2023, specifically within Tier 2 and Tier 3 startups.

The data showcases that these startups have collectively contributed to the generation of a significant number of job opportunities, reaching into the lakhs during this time period.

Between 2021 and 2023, job creation by startups in Tier 2 and Tier 3 cities of India surged from 50 lakhs to 150 lakhs. The data underscores a remarkable growth trend, highlighting the substantial role these startups played in generating employment opportunities. This signifies a positive impact on the economic landscape of non-metro areas, reflecting the potential for inclusive growth and development.



# Key Drivers Contributing to Startup Growth in Tier 2 and Tier 3 Cities



## Enhanced Connectivity

The widespread availability of internet and mobile connectivity has emerged as a catalyst, facilitating seamless business consumer interactions, and offering a conducive environment for startups to initiate and expand their operations.



## Economic Advantage - Lower Cost of Living

The comparatively lower cost of living prevalent in Tier 2 and Tier 3 cities compared to their Tier 1 counterparts provides startups with an advantageous foundation to commence operations and achieve profitability more efficiently.



## Government Backing

The government's robust support infrastructure for startups within Tier 2 and Tier 3 cities serves as a stabilizing force, diminishing obstacles and uncertainties startups commonly confront during their journey to establishment and growth.



## Expansive and Flourishing Market

The substantial and steadily expanding populace in Tier 2 and Tier 3 cities presents a significant market potential, offering startups a compelling avenue for growth and market penetration.



## Abundance of Skilled Talent

These cities harbor a considerable reservoir to adapt talent, a resource that startups can tap into to formulate, refine, and launch their products and services with dexterity.

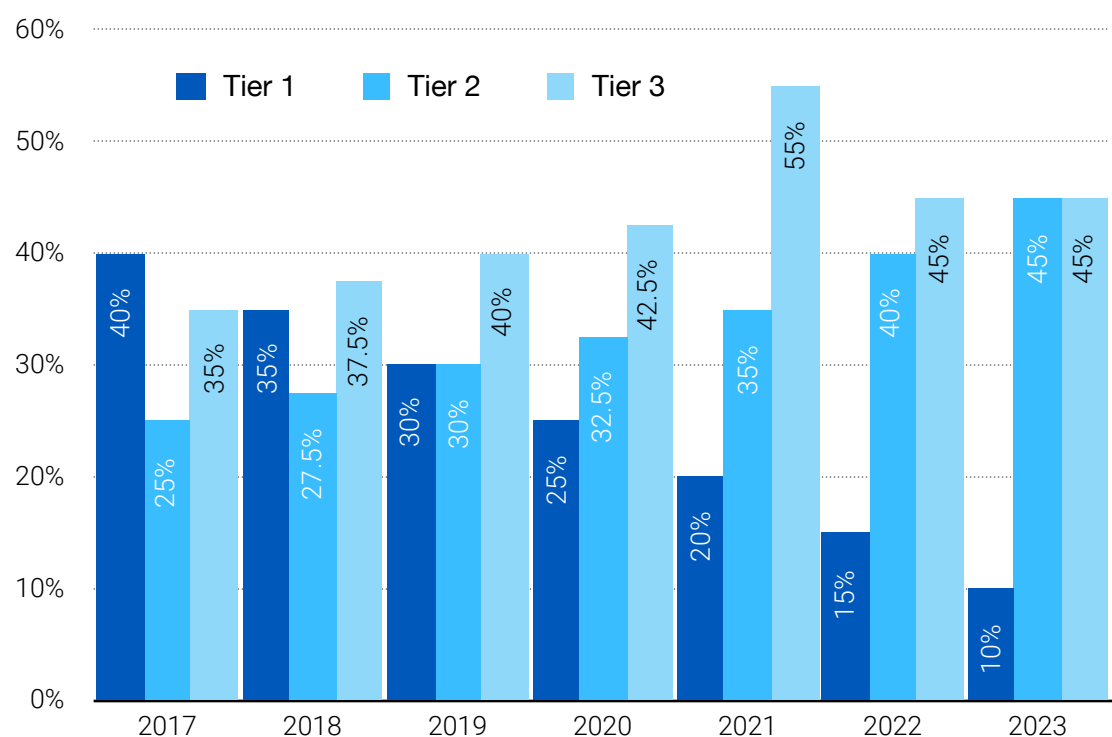
# Comparison on Growth of Startups in Tier 1 vs Tier 2 and Tier 3 cities

Traditionally, India's startup epicenter lay in Tier 1 cities. Yet, a new dawn emerges as Tier 2 and Tier 3 cities foster startups, propelled by improved infrastructure, burgeoning talent, and receptive markets.

This uprising in smaller cities now outpaces the startup growth in Tier 1 cities, marking a transformative shift in India's entrepreneurial landscape.

### Sources:

NASSCOM (National Association of Software and Services Companies), YourStory, The Times of India



# 03

## Challenges and Opportunities for Innovation and Entrepreneurship in Tier 2 and Tier 3 Cities

Tier 2 cities such as Chandigarh, Surat, Jaipur, Kochi, Indore, and Lucknow have seen considerable traction and contribute significantly to this growth. The boom in these cities can be attributed to factors such as the availability of talent, lower operation costs, supportive government policies, and improving infrastructure - despite the challenges they face such as lack of proper infrastructure, difficulty in accessing funds and unskilled labour.

“

Gone are the days when entrepreneurship was confined to metro cities. Currently, nearly 50% of recognized startups thrive in Tier 2 and Tier 3 cities, with places like Ahmedabad, Jaipur and Kochi emerging as vibrant hubs for well-funded ventures. The business landscape can be broadly categorized into two cohorts: one focuses on capitalizing on local issues and catering to the unique needs of the diverse demographic in these regions, while the other consists of global players originating from Tier 2 and Tier 3 cities that address universal challenges while leveraging the inherent advantages offered by these markets. Moreover, these areas have become untapped gold mines of talent, offering a wealth of skilled professionals. The surge in engineering and technology institutes by 40% in the last five years alone has provided youth with promising career opportunities. This talent boom is actively cultivating a workforce poised to drive innovation and shape a more dynamic tomorrow. Additionally, there is a rapid evolution in customer behavior, with an estimated 139 million Indians aged 15 to 55 now residing in Tier 2 and Tier 3 towns. This demographic, along with its distinct consumption patterns, opens up significant opportunities for brands to strategically expand into these markets. Looking into the future, I am certain that the new era of entrepreneurship belongs to Tier 2 and Tier 3 cities, and the rising talents from these hinterlands will be at the forefront, driving the upcoming technology revolution with unparalleled innovation and dynamism.



Anurag Jain

Founder  
CarDekho



”



# Challenges and how they can be addressed



## Limited Local Market

### E-Commerce / Digital Market:

Start-ups can target geographically dispersed markets using e-commerce and digital marketing



## Unstructured Business Environment

### Improvement in Business Environment:

Implementing clear processes, effective leadership, nurturing a culture of innovation and strong organizational culture.



## High Cost of Logistics

### Improvement in Infrastructure:

Government should undertake initiatives to improve public transport, highway connectivity, frequency of trains, etc



## Lack of Availability of Talent

### Skilled Manpower Base:

The availability of skilled manpower has been instrumental in establishing and scaling up various regional businesses and startups.



## Lack of Entrepreneurial Community

### Creation of Entrepreneurial Hubs:

Governments and local bodies should promote the creation of entrepreneurial hubs in these cities to stimulate interactions between different stakeholders



## Difficulties in getting the Right Talent

### Specialized Courses:

Government and institutions could offer specialized courses, finishing Schools etc. that equip Talent in emerging domains.



## Limited Incubators and Co-working Space

### Incentivization:

Governments can provide incentives to existing companies and institutions to set up incubation centres or could repurpose vacant government buildings into co-working spaces



## Lack of Awareness about Government Policies

### Creating Public Awareness:

Government as well as other related institutions should conduct seminars, workshops, & roadshows to create awareness about the benefits and government schemes targeting startups



## Insufficient Regulatory Systems

### Single-Window Clearance Systems:

Government can ease regulatory structures by introducing single-window clearance systems for startups and making the processes more transparent and user-friendly.



## Lack of Government Initiatives

### Targeted Governmental Initiatives:

The absence of government initiatives for improving infrastructure, providing tax breaks, and investing in entrepreneurial ecosystem impedes innovation and technological advancements.



## Lack of Access to Capital

### Funding & Support Ecosystem:

Creating a supportive ecosystem that includes angel investors, venture capital, and government initiatives to provide financial resources and mentorship opportunities will help startups to survive and grow.



## Low Internet Penetration

### Growth of Digital Infrastructure:

Investments in digital infrastructure, digital literacy programs, and affordable access to technology to enable these businesses to effectively reach their customers and support the growth of e-commerce and online ventures.

Sources: Business Insider, The Times of India



# Addressing Challenges and Driving Local Development



## Robust Startup Ecosystem

It is very essential to establish a nurturing environment that facilitates the growth and expansion of startup ventures in Tier 2 and Tier 3 cities.



## Fund Raising

Encouraging venture capital firms, banks, and financial institutions to invest in Tier 2 and Tier 3 cities can provide the necessary capital for business expansion and innovation.



## Infrastructure Facility

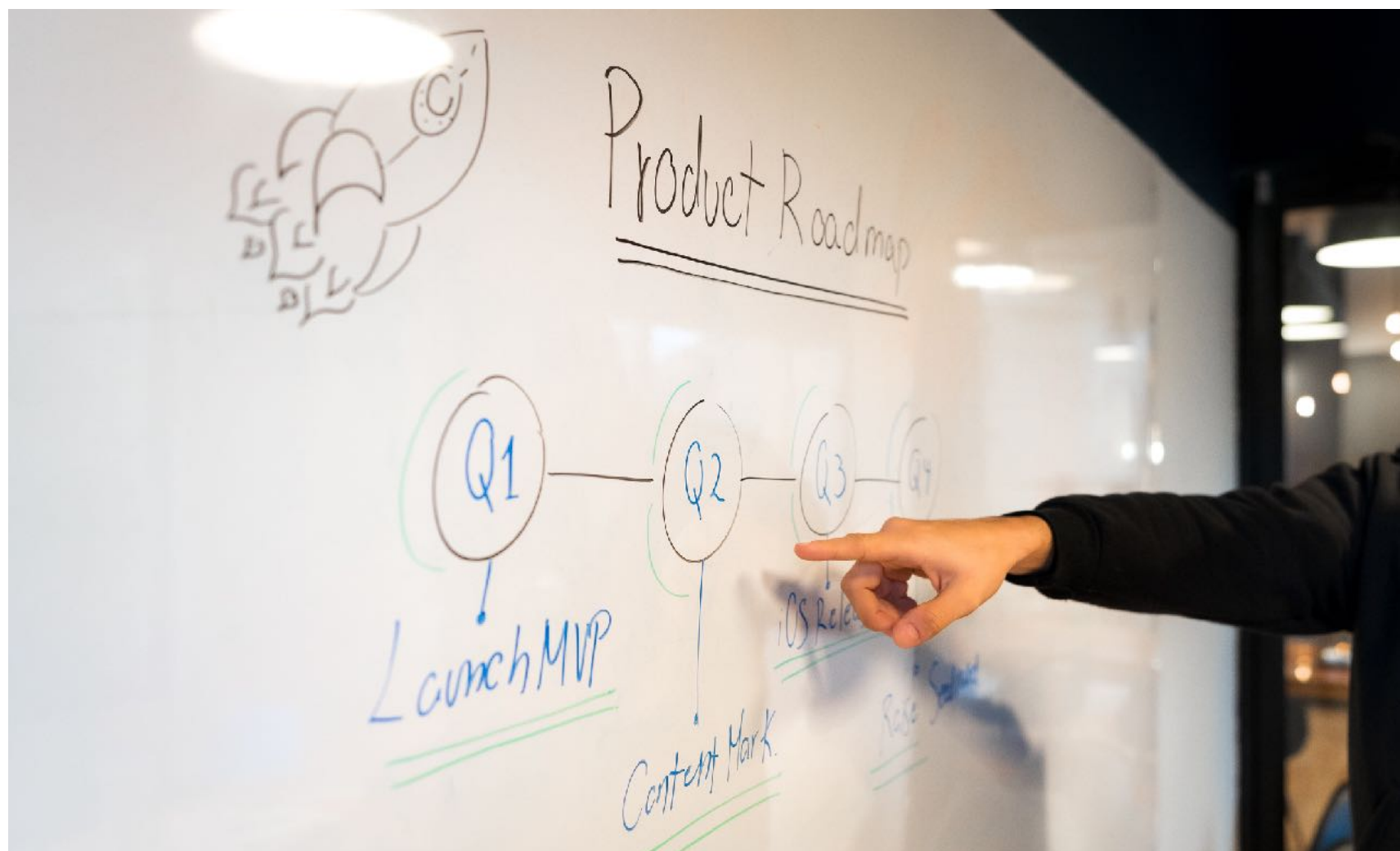
Tier 2 and Tier 3 cities often face infrastructural challenges in providing state-of-the-art facilities and availability of coworking spaces. It is therefore crucial to facilitate collaboration between the government and the private sector, focusing on the development of coworking spaces, technology hubs, and ensuring reliable internet connectivity.



## Networking Opportunities

Limited networking opportunities in Tier 2 and Tier 3 cities can hinder the growth prospects of startups. Facilitating regular industry events, seminars, and networking sessions can foster collaboration and knowledge-sharing among entrepreneurs.

Despite these challenges, the ongoing tech revolution witnessed in Tier 2 and Tier 3 cities is fueling the country's economic growth and driving socioeconomic transformation on a global scale. Lately, the evolution in technology has changed how businesses operate by giving them chances in areas like affordability, brand recognition, data accessibility, and accessibility.





# Opportunities

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## Unique Resources

India's rich biodiversity and cultural heritage provide opportunities for startups in sectors like IT, Automotive, Pharmaceutical, Food Processing, Agri-Tech, Handicrafts, Handloom, E-commerce, and so on.



## Government Initiatives

The Government of India and various State Governments have launched various initiatives to support startups, such as providing financial incentives, incubation facilities, and mentorship programs.



## Innovation

Startups fuel the flames of innovation, igniting new ideas and pushing the boundaries of what's possible. They embody the spirit of experimentation and resilience, driving transformative changes across industries.



## Low Competition

As compared to metropolitan cities, Tier 2 and Tier 3 cities may face less competition, providing startups with a chance to establish themselves more easily.



## Rising Middle Class

Tier 2 and Tier 3 cities growing middle-class population presents a significant consumer base for startups offering innovative products and services.



## Focused Sectors

Startups could focus on sectors where Tier 2 and Tier 3 have a competitive advantage, such as Agriculture, Tea, Handloom, Ed-Tech etc.



## Eco-Friendly Initiatives

With increasing awareness about environmental and climate change issues, startups that are focused on sustainable practices and green technologies, like Eco-Tourism and Renewables, have great potential to thrive in Tier 2 and Tier 3 Cities.



## Local and Regional Markets

India can serve as a gateway to explore markets in other countries as well, which offer a vast population and untapped potential.

## Resources and References:

This information is based on various reports, E-Journals and papers published by different government resources.



# 04

## Nurturing Innovation Beyond Metropolises: Decoding Government's Catalytic Role in Tier 2 and Tier 3 Entrepreneurship

Amidst the India's burgeoning startup landscape, a narrative of profound transformation unfolds in the overlooked corners of Tier 2 and Tier 3 cities. The Government of India has introduced a comprehensive array of initiatives, distinctly tailored to foster, and nurture entrepreneurship within the realms of Tier 2 and Tier 3 cities. These initiatives include:



National Entrepreneurship Policy (NEP)



Startup India Seed Fund Scheme (SISFS)



India Innovation Growth Programme (IIGP)



Startup India Initiative



Skill India Program



Startup Leadership Program



Global Innovation Platform (GIP)



Atal Tinkering Labs (ATLs)



A Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship (ASPIRE)



Atal Innovation Mission's AIM-iCREST

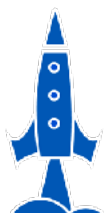


Programme for Researchers in Innovation & Entrepreneurship (AIM-PRIME)



Standup India Initiative

The strategic orchestration of these initiatives has created an environment conducive to the flourishing of startups within Tier 2 and Tier 3 cities, thereby inducing a discernible impetus in economic growth.



“ A wave of innovation and entrepreneurship is rewriting the story in the heart of Tier 2 and Tier 3 cities of India. More than just about business, this surge is turning these cities into lively hubs of opportunity. The thriving startup scene is an investment in unlocking local talent, creating jobs and enjoying lower costs. With government backing, and support of enablers such as STPI through programs such as Next Generation Incubation Scheme (NGIS), we're witnessing a powerful movement shaping the future of these cities with promise and prosperity.

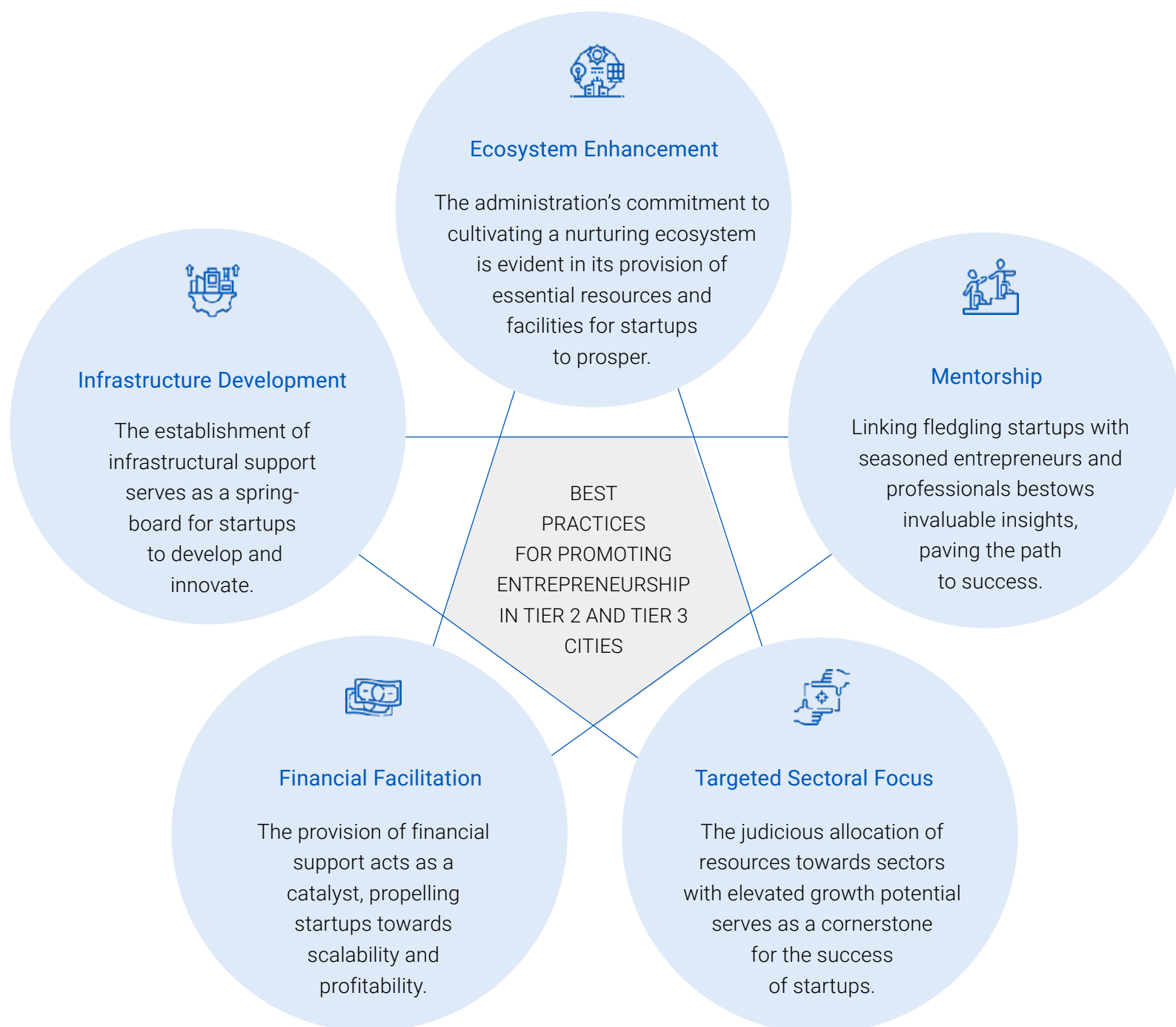


Arjun Sarode  
COO,  
IMAGE Centre of  
Entrepreneurship  
by STPI



”

## Best Practices for Promoting Entrepreneurship in Tier 2 and Tier 3 Cities



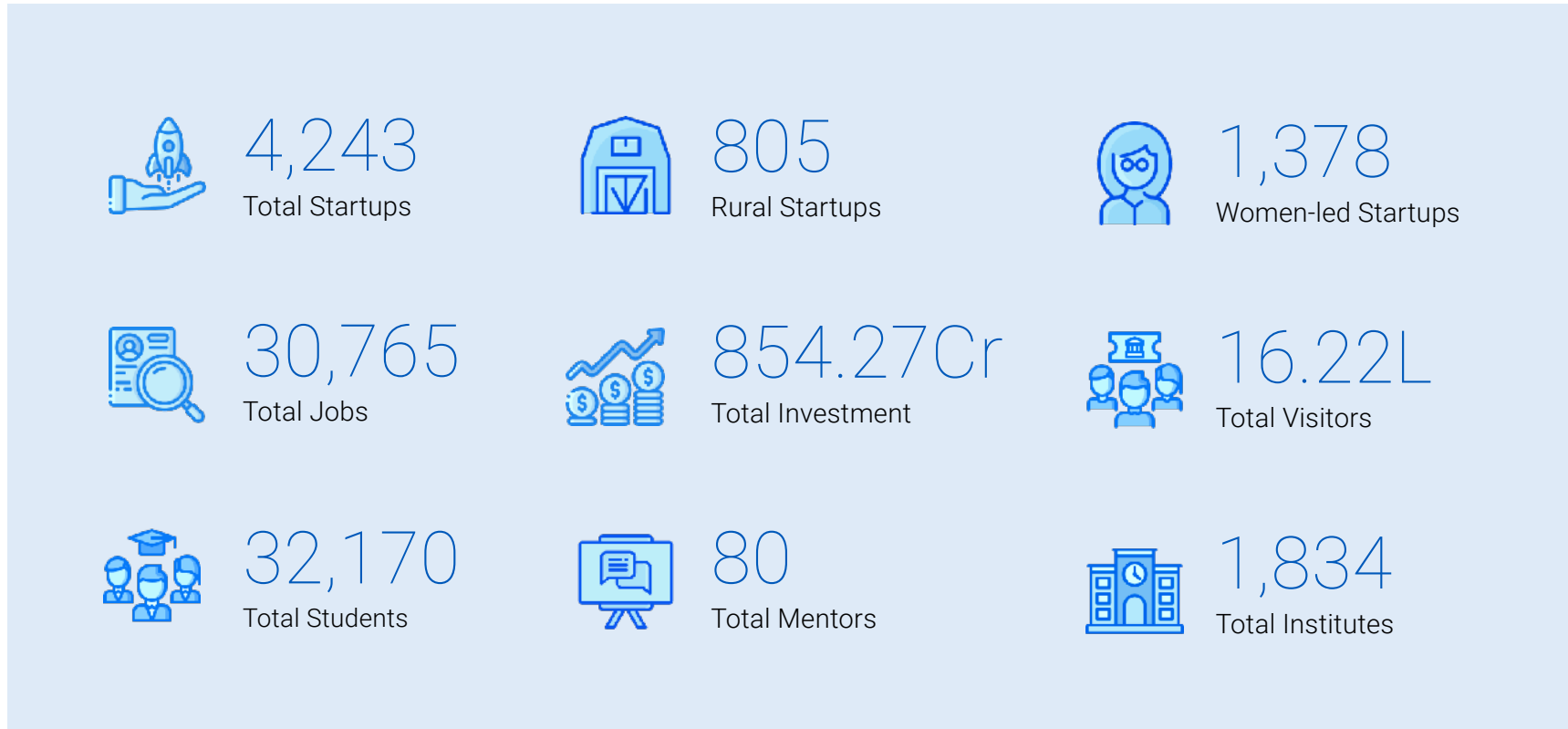
These are just a few of the best practices that can be drawn from these policies. These policies have helped to create a more conducive environment for entrepreneurship in India, and such policies have played a crucial role in promoting innovation and job creation.

**Resources and References:** This information is based on various published government sources and resources.



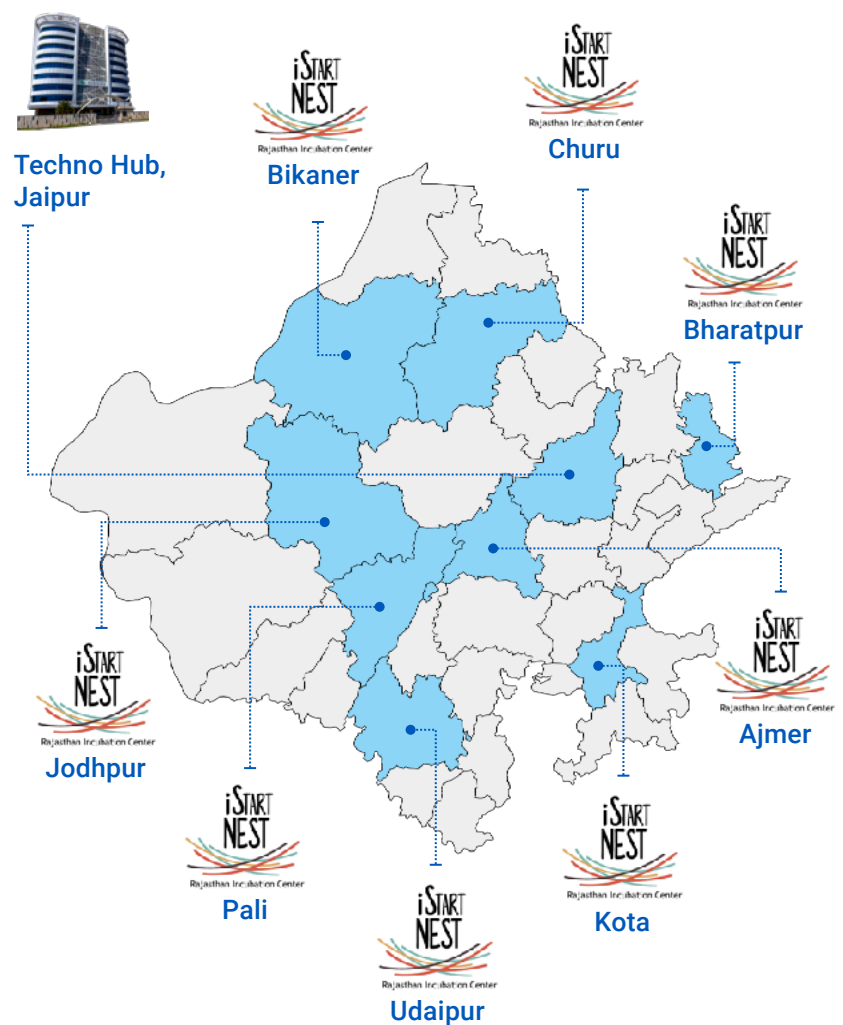
## Current Startup Landscape at a Glance

Source: iStart Portal | Source Date: 23-01-2024



## State-owned Incubation Centres - Techno Hub (Jaipur) and dispersed iStart Nest branches

- Dedicated subject matter experts/mentors providing support to startups
- End-to-end support, ranging from infrastructure, technology, learning, Connecting to VC and Angel Investors etc.
- Promote emerging technological and knowledge based innovative ventures that seek the nurturing of ideas from professionals
- Partnership with professional service providers such legal services, compliance etc.
- Tinkering lab for fostering innovation and engineering-based projects
- Techno Hub, Jaipur is home to Digital Museum



Source: iStart Rajasthan



# iStart Rajasthan: Government Support Redefining Startup Success (contd.)



## Facilities being offered by iStart:

- |  |   |  |   |  |   |
|--|---|--|---|--|---|
|  | Online Registration for Startups                                      |  | Rajiv Gandhi Innovation Award   |  | E-Bazaar  |
|  | Apply for Allowances  |  | Operating mesh of iStart Nest incubators - offering resources and mentoring |  | Centralized Call Centre - to facilitate queries               |
|  | Techno Hub - offering support services to Startups                    |  | Academic Partners - education institutes and universities                   |  | iStart Digest - Monthly Newsletter                            |
|  | Financial Benefits to Startups  |  | Non-Academic Partners - Tech, Banks, Telecom etc.                           |  | Rajasthan Stack - Bridging Gap between Startup and Government |
|  | QRate - Startup Score card, Skill Building, Fund Raising & assistance |  | School Startup Program  |  | Rural Startup Program   |
|  | Mentorship for Startups (Virtual and physical)                        |  | Assistance in Providing Funding to Startups                                 |  | Networking Events and Investor Connects                       |

Source: iStart Rajasthan



“

In the heartlands of India, a transformative revolution is underway as Tier 2 and Tier 3 cities evolve into thriving hubs of innovation and entrepreneurship. With 50% of recognized startups originating from these regions (as per The Ministry of Commerce and Industry report 2022), the startup wave has unmistakably transcended traditional tech hotspots.

The surge in digital advancements, coupled with improved internet accessibility, has empowered talent in smaller cities, exemplified by the success of one-third of the 2022 National Startup Awards winners. It's truly remarkable to witness the support for founders' innovation and drive through initiatives by the Indian government.

One notable example is iStart Rajasthan, a flagship project by the Government of Rajasthan, designed to foster innovation, generate employment, and attract investment to the state, boasting more than 3,700 DPIIT-registered startups. It's beyond commendable and inspiring to see such programs playing a pivotal role in shaping the future of India's startup landscape, especially in regions like Jaipur, Ahmedabad, and Indore, providing a platform for founders to reach global audiences in this era of digital dominance, where innovation flourishes without boundaries; it thrives wherever talent and opportunity converge.



Nakul Saxena

President,  
LetsVenture



”

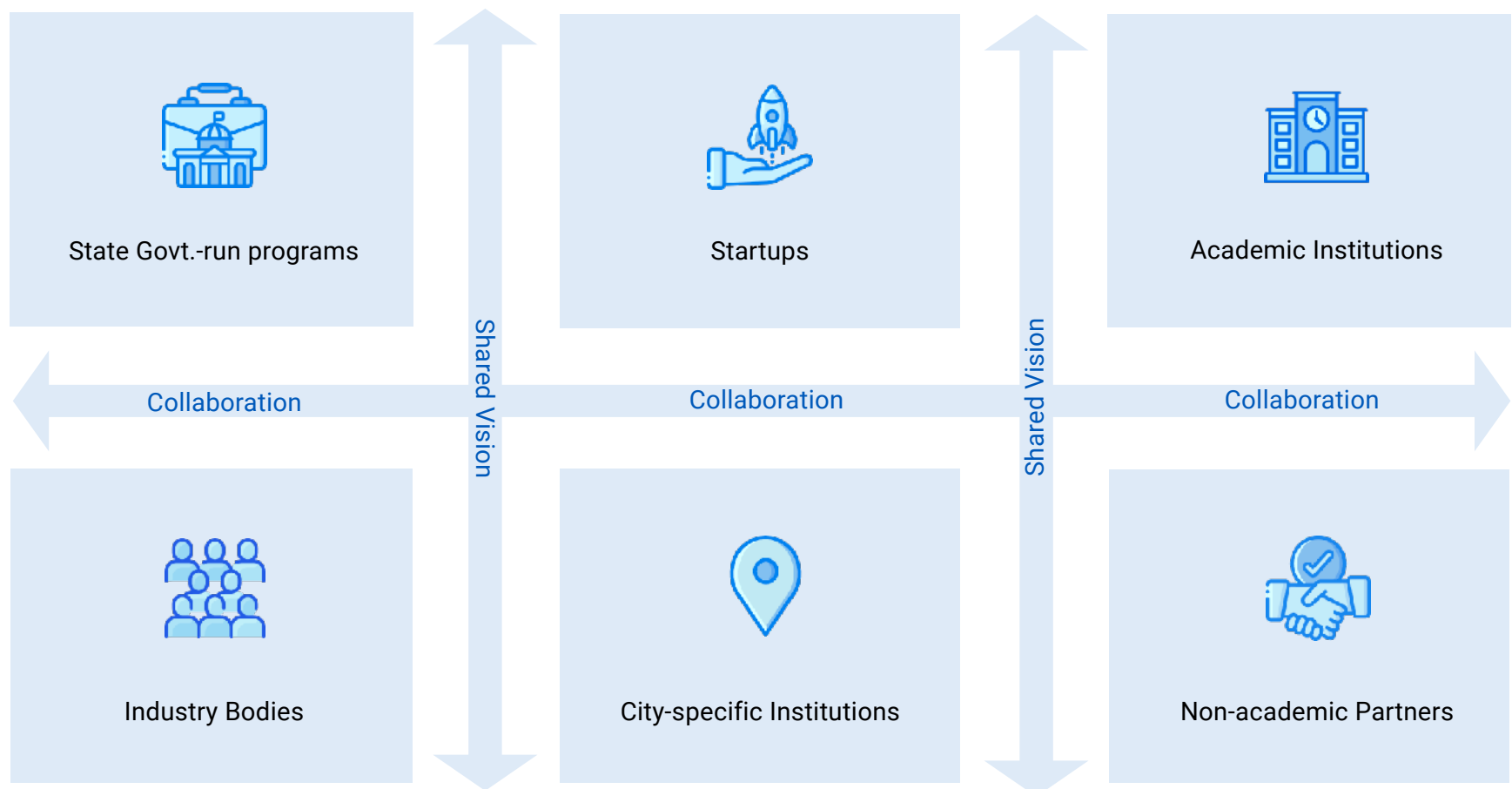


# 05

## The Role of Stakeholders in Promoting Innovation and Entrepreneurship in Tier 2 and Tier 3 Cities

Stakeholders in Tier 2 and Tier 3 cities play a pivotal role in fostering innovation and entrepreneurship. The stakeholders in this context include start-ups, state government-run programs, academic institutions, non-academic partners, industry bodies and city-specific institutions. Through collaboration and a shared vision, these stakeholders can create an environment that encourages innovation, fosters economic growth, and creates job opportunities.

### Stakeholder Ecosystem





**Start-ups act as the primary source of innovation**, bringing innovative ideas, products, and services to the market. They also encourage local talent and create job opportunities, fostering economic growth. Start-ups can collaborate with other stakeholders such as academic institutions and non-academic partners to enhance their business and bring innovation to the city.



**In Tier 2 cities, state government-run programs such as iStart, Startup Odisha, Tamil Nādu, Startup Haryana** etc. provides a platform for start-ups to highlight their ideas and get access to funding. These programs also provide mentorship and guidance to start-ups to help them grow and scale their business, creating a supportive ecosystem for start-ups. In Rajasthan, the government has provided a mesh of co-working spaces that has spurred the startup activities.



**Academic institutions such as IIT's, IIM's , NIT's, local colleges and universities** etc. can provide a platform for start-ups to access research and development facilities. They can also provide mentorship and guidance to start-ups on technology, business development and innovation. Academic institutions, therefore, play a crucial role in nurturing entrepreneurial talent and creating a culture of innovation in Tier 2 and Tier 3 cities.



**Non-academic partners such as Startup India, NASSCOM, Startup Oasis, Tie-India** and more can provide networking opportunities for start-ups to connect with investors, mentors, and other entrepreneurs. They can also provide access to funding and mentorship programs to help start-ups grow and scale their business. Non-academic partners play a crucial role in connecting start-ups with the wider entrepreneurial ecosystem, creating a supportive environment for innovation and entrepreneurship in Tier 2 and Tier 3 cities.



**In Tier 3 cities, stakeholders can leverage the strong presence of educational institutions** to foster a culture of innovation. For example, in Ahmedabad, a start-up called Encyclopedia collaborated with the Entrepreneurship Development Institute of India (EDII) and the Gujarat government's iCreate program. EDII provided the start-up with mentorship and guidance, while iCreate provided funding and infrastructure. This collaboration helped Encyclopedia develop its product, raise funding, and scale up operations.



**Diverse cities offer distinct advantages for startups**, with each location fostering unique sector-focused opportunities. For example in cities like Surat and Kochi, stakeholders can focus on sectors like textiles and seafood, respectively, to stimulate niche start-ups. In Guwahati, stakeholders can promote start-ups addressing the unique socio-economic challenges of the northeastern region. In cities like Kota and Patna, stakeholders can focus on edtech start-ups, leveraging the existing strong coaching and education sector.

“

The report was very good and informative. I am very optimistic on investment opportunities in Tier 2 and Tier 3 cities in India. Half of my current portfolio and the fund portfolio about to be launched will be supporting Bharat and not just the metros.



**Mahavir Pratap Sharma**

Chairman,  
RAIN (Jaipur)



”

## Conclusion

All stakeholders play a crucial role in promoting innovation and entrepreneurship in Tier 2 and Tier 3 cities. Collaboration and coordination among these stakeholders can create a supportive ecosystem for start-ups, attract investment, and contribute to the economic growth of the city.

By working collaboratively, stakeholders can create an environment that encourages innovation and entrepreneurship, fostering economic growth and creating job opportunities in Tier 2 and Tier 3 cities.

### Resources and References:

This information is based on various reports, articles, and research papers published by industry experts and academic institutes.





# 06

## The Role of Digitalization for Entrepreneurs in smaller areas in Tier 2 and Tier 3 Cities

According to reports by McKinsey and the World Bank, digitalization plays a pivotal role for entrepreneurs in smaller Tier 2 and Tier 3 cities. It facilitates access to markets, connects them with suppliers and customers, and enables online marketing and sales. This digital leap also enhances operational efficiency, enables remote work, and provides valuable data insights, leveling the playing field and offering growth opportunities comparable to those in larger urban centres.

Some of the Government initiatives which has facilitated the digitalization are as follows:



## Impact of Government Initiatives

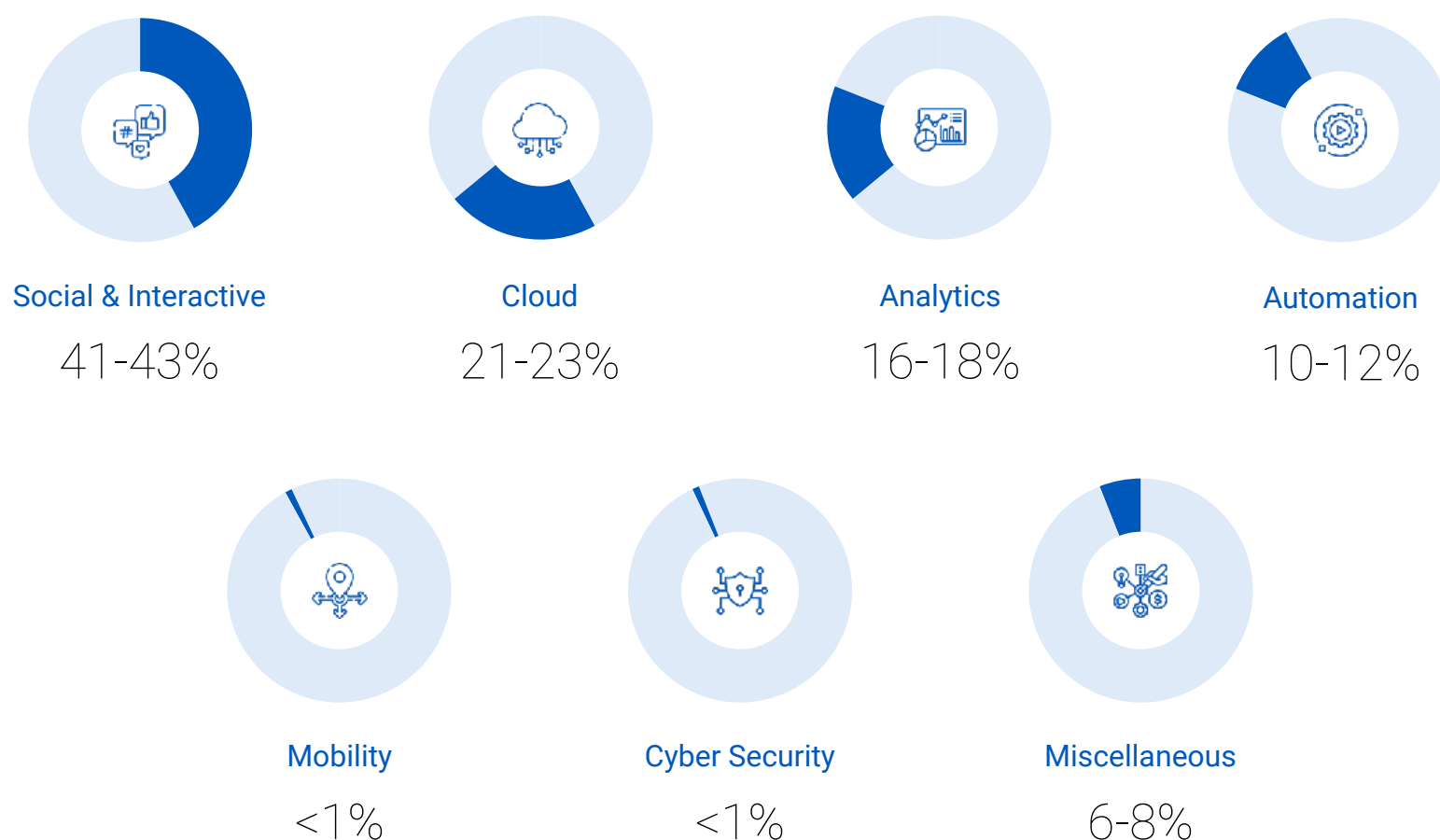
- 1 Government initiatives have significantly catalyzed innovation and entrepreneurship across India.
- 2 Digital India's push for digital infrastructure and connectivity has expanded market reach for entrepreneurs in remote areas, enabling them to tap into broader consumer bases.
- 3 Through programs such as Startup India and Atmanirbhar Bharat, the government has fostered an environment that supports emerging startups and small businesses.
- 4 Initiatives like "Make in India" have spurred innovation by encouraging domestic manufacturing and product development.
- 5 These combined efforts have not only boosted economic growth but have also empowered a new wave of entrepreneurs, fostering a vibrant ecosystem of innovation across the country.

## Technology Driven Solutions in Tier 2 and Tier 3 cities

### Major Digital Services delivered from Tier 2 and Tier 3 Indian cities

% of Total FTEs

Reference: Google Images



The use of technology has grown significantly during the past 20 years in many facets of India's growth. Several important industries, including manufacturing, transportation, defense, and space technology, have used modern technology in various aspects of their development and functioning. Further technological inclusion in the smaller cities have been encouraged by the rapid expansion of the country's technological enablers, which include telecom and smartphone penetration, quick and affordable internet access, technology-enabled credit access, and effective and inclusive payment systems.

Source: The Times of India



# 07

## Unstoppable Aspirations: Tale of Entrepreneurs from the India's Tier 2 and Tier 3 Cities

The following are tales of select entrepreneurs and their ambitions and successes, from India's Tier 2 and Tier 3 cities:

### Breaking Barriers, Igniting Minds The eSara! Story of Affordable Education and Empowerment



**Sector:** EdTech

**Location:** Kota, Rajasthan

**Co-Founders:**

- NK Gupta
- Saransh Gupta
- Prateek Gupta



In Kota, Rajasthan, where expensive coaching hindered dreams, eSara!'s founders defied the odds. They created an affordable online platform for JEE and NEET exams, offering quality education and personalized mentoring. With passion and perseverance, eSara! has impacted 10L+ students through 4000+ video lectures, transforming lives nationwide. Their inspiring journey proves that dedication and untapped talent in Tier 2 and Tier 3 cities can create remarkable success. Supported by platforms like iStart incubation, workshops, and networking events, eSara!'s vision illuminates a path of hope for aspiring learners, highlighting the power of education to overcome barriers.

Source: Data from Primary Sources



## Spreading Happiness through #HappyNews The Knocksense Media Story



**Sector:** Media

**Location:** Lucknow, Uttar Pradesh

**Co-Founders:** • Varul Mayank  
• Vibhore Mayank



cFounded in 2016 by the visionary brothers Varul and Vibhore Mayank, Knocksense Media, a content driven commerce platform, has revolutionized journalism with its visually appealing, non-political, and via unique hyperlocal content they are empowering local business and enabling commerce for them. Their journey embodies the true essence of identifying a pressing problem and pursuing it with unwavering passion and purpose. By providing relevant content to hyperlocal communities and embracing adaptability, they have achieved remarkable success and created a positive impact. Across 6 cities, they celebrate the uniqueness of each location, empowering communities and supporting local businesses. With a focus on spreading positivity, their refreshing news platform ignites minds and inspires change, one uplifting story at a time. Their journey has been supported by individual players, and in 2023 they have secured funding of 5Cr, further fueling their mission to redefine journalism.

## Pioneering Pet Care with Compassion Zoivane Pets' Journey of Love and Innovation



**Sector:** Pet Care

**Location:** Surat, Gujarat

**Co-Founders:** • Nishma Singhal



Zoivane Pets, founded by Mrs. Nishma Singhal in 2019, is on a mission to improve pet care. Inspired by her niece and her pet Oreo, Mrs. Singhal wanted to help pet parents with grooming and training. They created special products with natural ingredients like tea tree oil & vitamins and have proven that startups can succeed in smaller cities too. They got a big funding of 5.54 crore from GVFL and WFC, which helped them grow even more. With support from TIE, D2C Insider, and, Viridhan, they have built a network of like-minded people. They train their team from scratch, which has helped them be more dedicated and passionate. Zoivane Pets' love and innovation are making a difference for pets and pet parents everywhere.

Source: Data from Primary Sources



## Elevating Smaller Cities with Innovative Assessments Testntrack leads the way!



**Sector:** EdTech

**Location:** Jaipur, Rajasthan

**Co-Founders:** • Priya Soni  
• Vinay Kamal Sharma



Testntrack, a groundbreaking AI-driven Subjective and Objective Assessments platform, is leaving a significant impact in the education sector from its base in Jaipur. Co-founded by Vinay Kamal Sharma and Priya Soni, Testntrack's strategic decision to operate in Tier 2 and Tier 3 cities has unlocked a wealth of untapped talent in these regions. With a relentless focus on innovation and aggressive execution, Testntrack has achieved impressive success, generating employment for 38 individuals, and boasting a revenue of 48 Lakhs. Their journey has been fueled by dedicated support from the startup ecosystem, including pre-seed funding and backing from a leading Angel Investors Network and seasoned entrepreneurs. Recognizing their potential, the Govt. of Rajasthan provided Techno fund support, adding to Testntrack's resources. Vinay and Priya's inspiring advice encourages aspiring entrepreneurs to embrace a "start fast, fail fast" mindset and pursue entrepreneurship as a primary path. As Testntrack continues to make strides in empowering education in smaller cities, their passion for innovation is reshaping the tech landscape and inspiring others to follow suit.

Source: Data from Primary Sources



# 08

## Insights from Comprehensive Survey: Decoding Data for Startups, Academic Institutions & Investors



### Sampling Approach

The sampling strategy encompassed Academic Institutions and startups operating in Tier 2 and Tier 3 cities within selected five Indian states. The perspective of investors was solicited nationwide. The selection of states was based on the ease of data gathering.



### Sample Size

Responses were collected from 280 startups, 53 Academic Institutions operating in Tier 2 and Tier 3 cities in Rajasthan, Haryana, Uttar Pradesh, Odisha, and Gujarat. Furthermore, insights were received from 46 investors located across India.



### Survey Methodology

The questionnaires were drafted to unearth the factors driving the expansion of entrepreneurial ecosystems in Tier 2 and Tier 3 Cities of India. The survey covered startups, academic institutes, and investors. These questionnaires employed closed-ended questions, designed to collect valuable insights encompassing startup demographics, operational traits, funding, marketing, technology integration, and government support. In relation to academic institutions, the questionnaire aimed to unravel their role in fostering entrepreneurial growth. Additionally, the investor survey provided perspective on investment preferences within Tier 2 and Tier 3 cities.



### Data Collection

The data was collected using Google Forms.



### Data Interpretation

Collected data was analyzed using descriptive statistical methods, encompassing frequency distributions & percentages.



## Selected States for Survey

- 1 The State Startup Ranking 2022 framework is a comprehensive assessment that evaluates and ranks Indian states and Union Territories based on their efforts to promote and support startup ecosystems. This framework considers factors such as policy implementation, infrastructure development, access to funding, and the overall environment for entrepreneurship to provide valuable insights into each region's startup readiness and growth potential.
- 2 We have selected 5 states for our study. These states have been chosen for ease of collecting data.
- 3 Data presented is the percentile score, which is the relative performance of the State in each Reform Area as compared to other participating States/UTs.
- 4 The following representation details the status of select 5 states on each of the 7 pillars of assessment used in State Startup Ranking Framework 2022.

Pillars of Assessment	Rajasthan	Gujarat	Uttar Pradesh	Haryana	Odisha
State Startup Ranking 2022 - Category	Top Performer	Best Performer	Leader	Aspiring Leader	Top Performer
State Startup Ranking 2021 - Category	Aspiring Leader	Best Performer	Leader	Not Applicable	Top Performer
Institutional Support	72%	100%	75%	75%	89%
Fostering Innovation & Entrepreneurship	71%	100%	71%	71%	71%
Access to Market	64%	100%	27%	27%	73%
Incubation & Mentorship Support	44%	100%	38%	38%	44%
Funding Support	100%	100%	15%	15%	100%
Capacity Building of Enablers	100%	100%	0%	0%	89%
RoadMap to Sustainable Future	37%	100%	25%	25%	25%

Source: State Startup Ranking 2022 ([www.startupindia.gov.in/srf-2022/](http://www.startupindia.gov.in/srf-2022/))

In the 2022 Startup India State Startup Ranking Framework, notable states such as Gujarat, Rajasthan, and Odisha showcased commendable performance across various assessment parameters, while several other states have significant potential for improvement in fostering innovation, facilitating market entry, providing incubation, financial support, and delivering impactful mentoring guidance, as revealed in the results of the 4th edition where Rajasthan improved to be among the "Top Performer" states and Gujarat was adjudged as the "Best Performer".

### Responses were collected from 23 Tier 3 cities from the selected 5 states

Name of the State	Tier 3 Cities from where responses were collected
Rajasthan	Kota, Udaipur, Jodhpur, Bharatpur, Bikaner
Odisha	Rourkela, Cuttack, Baripada, Jharsuguda, Sambalpur
Uttar Pradesh	Kanpur, Prayag Raj, Kushinagar, Banaras
Gujarat	Vadodara, Jamnagar, Rajkot, Surat
Haryana	Rohtak, Ambala, Panipat, Bhiwani, Karnal

Resources and References: This information is based on various reports, articles, and research papers published by industry experts, government <https://www.startupblink.com/startup-ecosystem>



## Selected Tier 2 and Tier 3 Cities: Unveiling Key Insights through Strategic Study Sampling

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### Surat

Surat's startup ecosystem is rapidly gaining prominence. With over 2,530 startups in the city, it is emerging as a hub for SaaS startups, contributing to India's growing tech landscape. The city's ecosystem has brought forth innovative startups in various domains, including technology and marketing. Surat's achievements are demonstrated by its ranking as the 15th startup ecosystem in India and the 458th in the world. Initiatives like AIC SURAT iLAB Foundation are working to unite the scattered ecosystem under one umbrella and foster the growth of startups. Events like Surat's startup summit provide a platform for networking and knowledge sharing, further fueling the growth of the city's entrepreneurial landscape.



### Jaipur

Jaipur ranks 7th nationally and 181 globally in the startup ecosystem. The city's diverse industries provide a unique market for startups, backed by flourishing incubators and co-working spaces. Government and educational support foster innovation and collaboration. With policies like the Rajasthan Startup Policy 2022 and a dedicated startup fund, Jaipur aims to become an IT & startup hub. The city's pivotal role contributes to the state's rising tech & startup landscape.



### Bhubaneswar

The startup ecosystem in Bhubaneswar is flourishing and dynamic, securing the 22nd position in India and 560th globally. The city's fusion of indigenous culture and technological progress offers a diverse arena for startups to venture into. It provides advanced incubation facilities, laboratory access, and equipment for product innovation, all reinforced by mentorship. The government's Startup Odisha initiative drives entrepreneurship and aids more than 1550 startups in fields such as Agritech and IT. This inclusive ecosystem has contributed to significant job creation and robust incubator backing, underscoring its upward trajectory in the startup arena.



### Lucknow

Lucknow's startup ecosystem is currently ranked 21st in India and 559th in the world. The city's historical significance and modern aspirations provide a unique backdrop for startups to thrive. Incubators, accelerators, and co-working spaces are emerging, providing essential support and collaboration opportunities. Local government and educational institutions are actively promoting entrepreneurship and innovation, contributing to the growth of a vibrant startup culture. As a result, Lucknow is becoming a hub for innovative startups, showcasing its potential across diverse industries. Lucknow's startup ecosystem holds promise, with startups primarily operating in industries like Software and Data.



### Panchkula

The startup ecosystem in Panchkula is developing, presenting a promising landscape for emerging enterprises. The city's strategic location and proximity to major urban centres contribute to its appeal for startups. Initiatives such as co-working spaces, incubators, and mentorship programs are beginning to take root, offering essential resources for startups. Local authorities and educational institutions are playing a role in fostering entrepreneurship and innovation, contributing to the growth of Panchkula's startup community. As a result, Panchkula is becoming an attractive destination for startups to establish and scale their ventures.

**Resources and References:** This information is based on various reports, articles, and research papers published by industry experts, government <https://www.startupblink.com/startup-ecosystem>





# DECODING DATA FOR STARTUPS

## Startup Domains

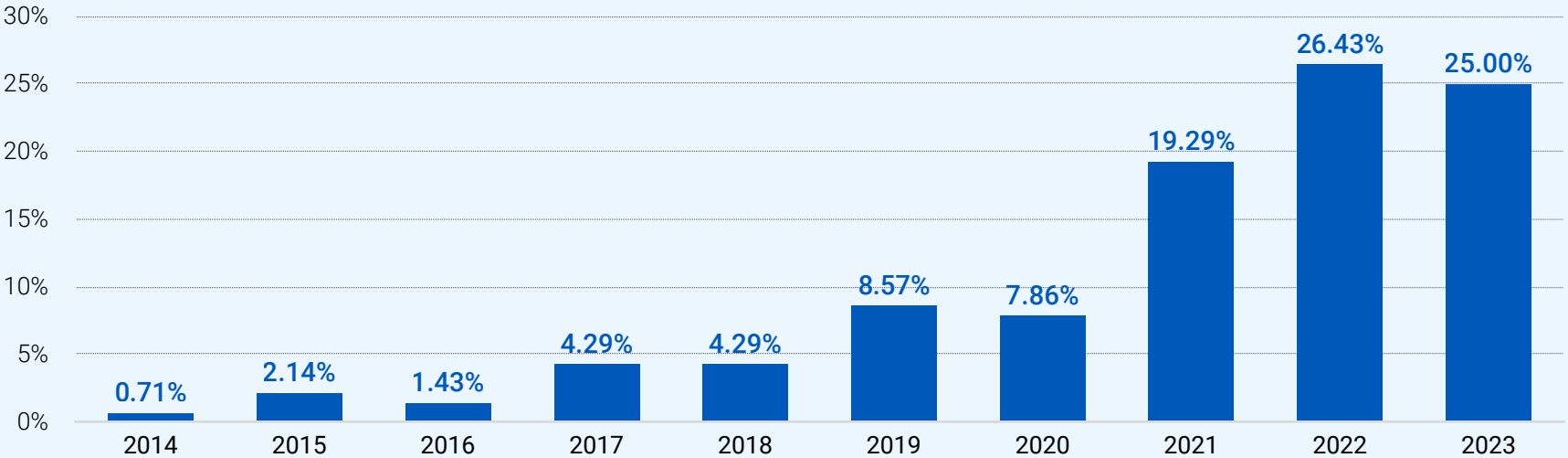
The surveyed startups span over 30 domains, encompassing sectors from Food and Agriculture to Information Technology and Deep/Emerging Technologies.

## Cities Surveyed

The survey collected responses from over 5 Tier 2 and 23 Tier 3 from across select 5 states - Rajasthan, Odisha, Uttar Pradesh, Gujarat, and Haryana.

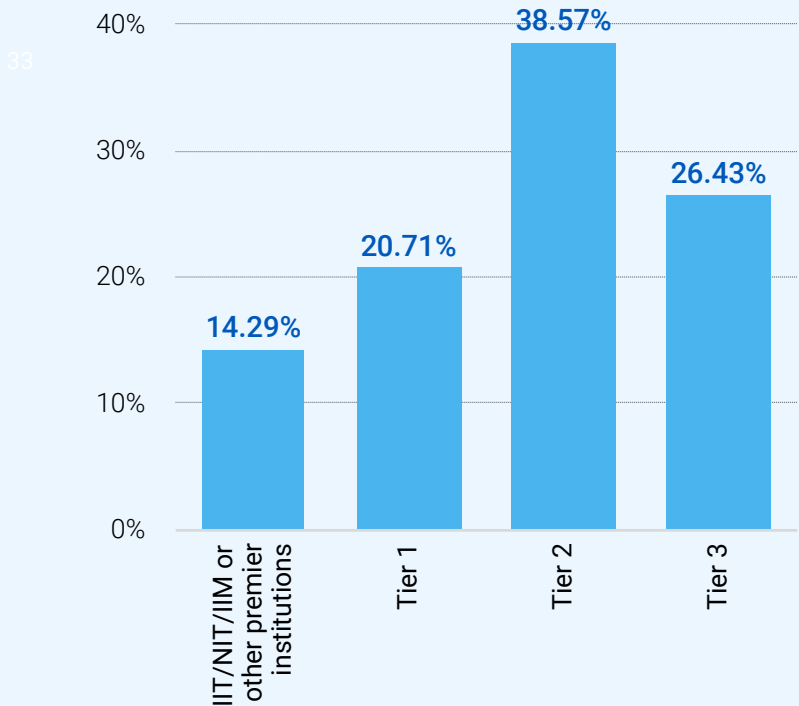
## Year of Founding

- **86% of surveyed startups were founded after 2020**, with incorporations gaining momentum after 2016. This trend reflects rising dynamism and activity in the ecosystem, particularly in Tier 2 and Tier 3 cities.
- Less than **5% of respondents started before 2017**.



## College Education of Founders

- The data reveals that **14.3% of startup founders have graduated from prestigious institutions such as IIT, NIT, and IIM**. This illustrates that talented individuals are embracing entrepreneurship earnestly and returning to smaller cities with innovative offerings.
- **65% of surveyed startup founders completed their college education in Tier 2 and Tier 3 Cities**, highlighting a strong correlation between their educational background and the locations where they embarked on their entrepreneurial endeavors.
- Furthermore, **20.7% of founders received their college education in Tier 1 cities**, yet they have chosen to return to Tier 2 and Tier 3 cities to establish their own ventures.

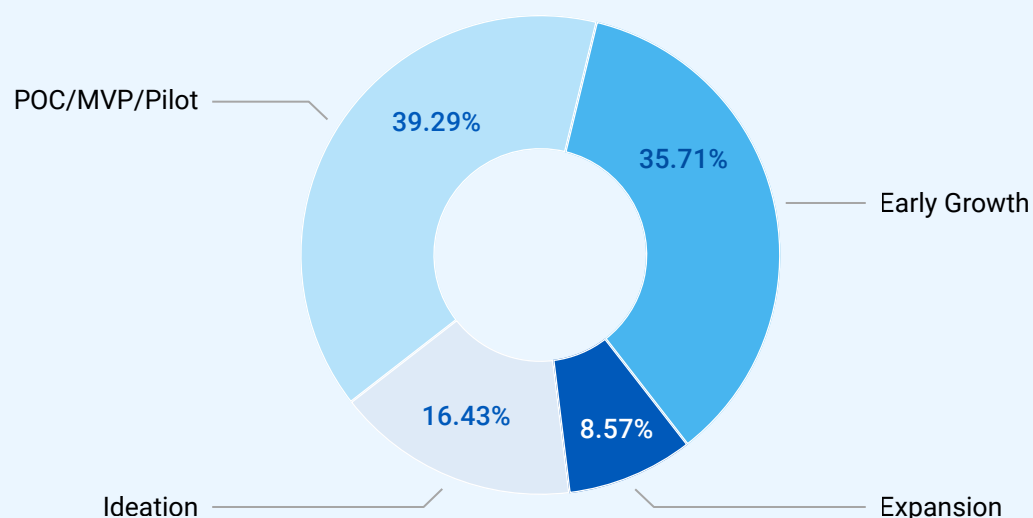


Source: Data from Primary Sources



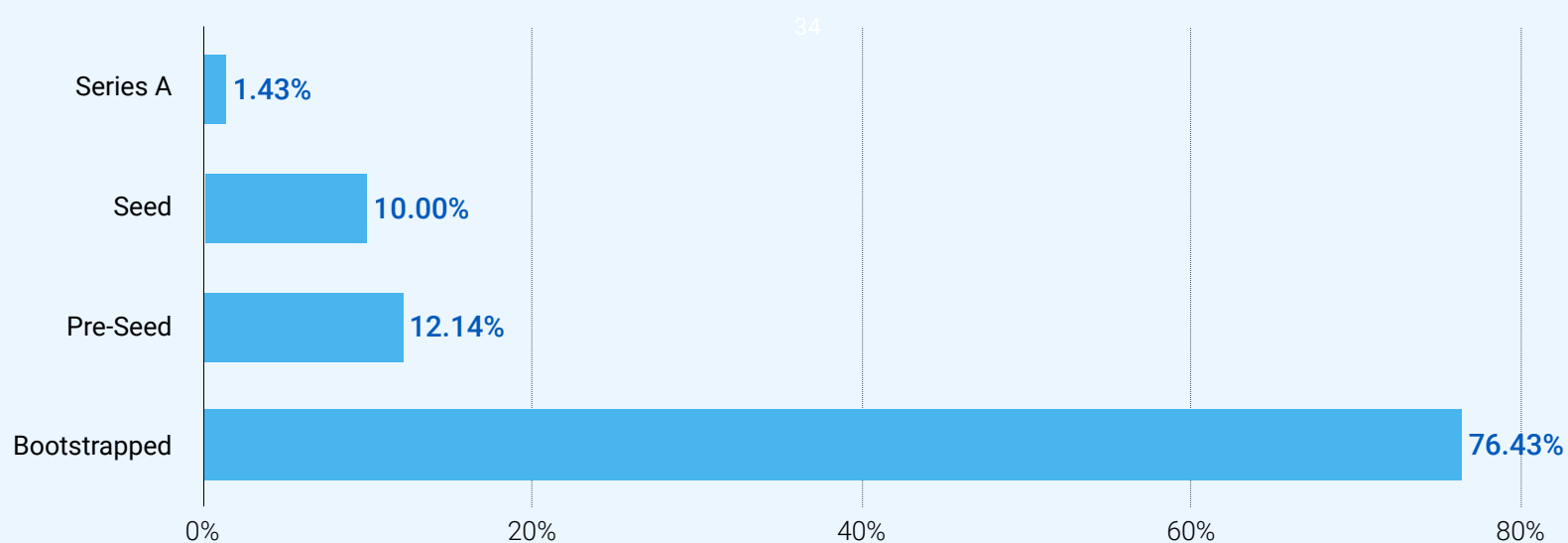
## Stage of Startup

- The survey reveals that **16.4% of respondents are in the initial ideation phase**, while the **majority (75%) have advanced to the MVP and Early Growth stages**.
- A smaller fraction, **8.6%, are currently in the expansion stage** of their startup journey.



## Type of Funding

- **More than two-thirds of startups have yet to secure any funding**, indicating a challenging funding landscape in Tier 2 and Tier 3 Cities.
- Among those surveyed, **12.1% received pre-seed funding, 10% secured seed funding, and a mere 2% managed to secure Series A funding. None of the respondents had raised Series B or above.**
- This distribution highlights the hurdles startups face in accessing necessary financial support for growth and development in smaller cities in India.

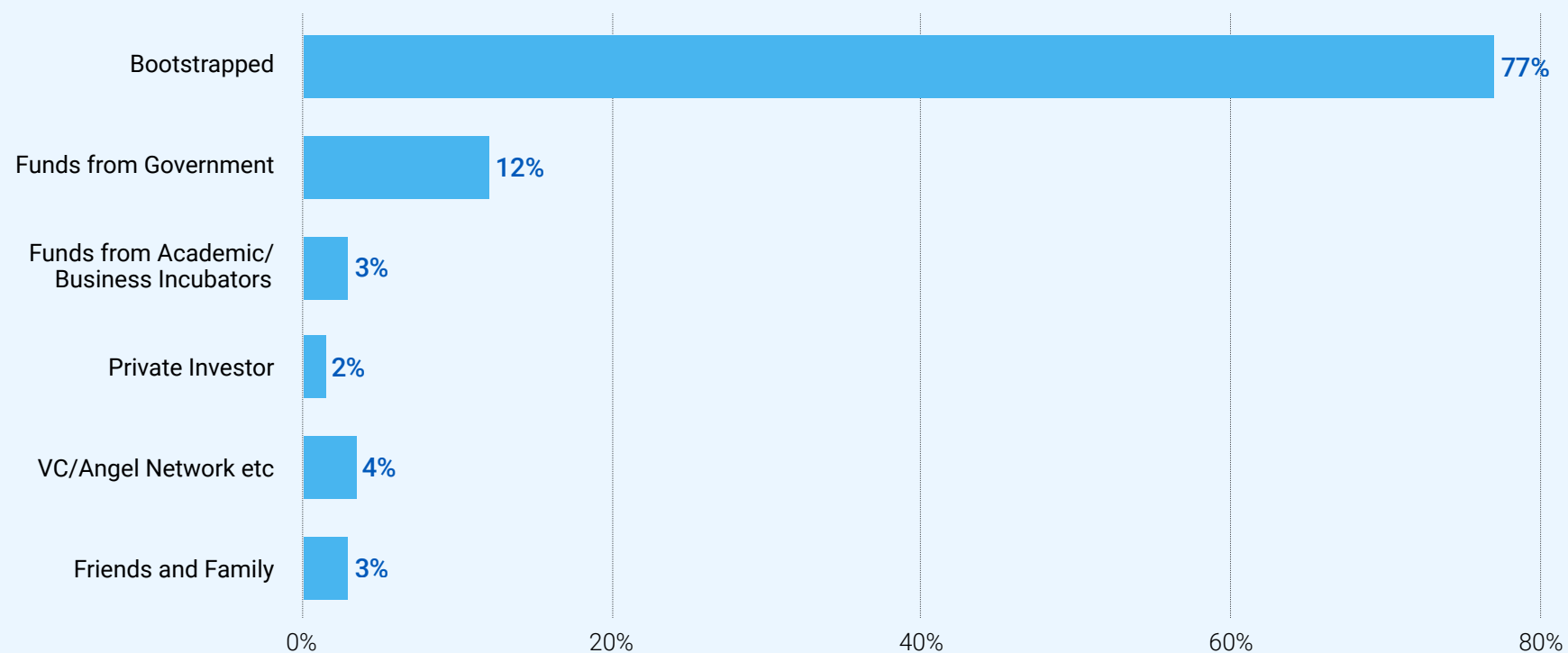


Source: Data from Primary Sources



## Source of Funds

- **Approximately 77%** of startups are **self-funded (bootstrapped)**.
- **3%** have raised **funds from friends and family**.
- A notable **12.1% of startups have obtained pre-seed funding**, primarily sourced from government funds and from academic/business incubators.
- **Private investor funding has been limited**, with less than 1.5% of startups benefiting.
- Interestingly, only about **3.5% of startups** in Tier 1 and Tier 2 cities secured **funding from reputable funding entities**.
- The data highlights a **preference for government and incubator support**, while funding from VC's, angel networks, and other funding bodies remains limited in Tier 2 and Tier 3 cities in comparison.



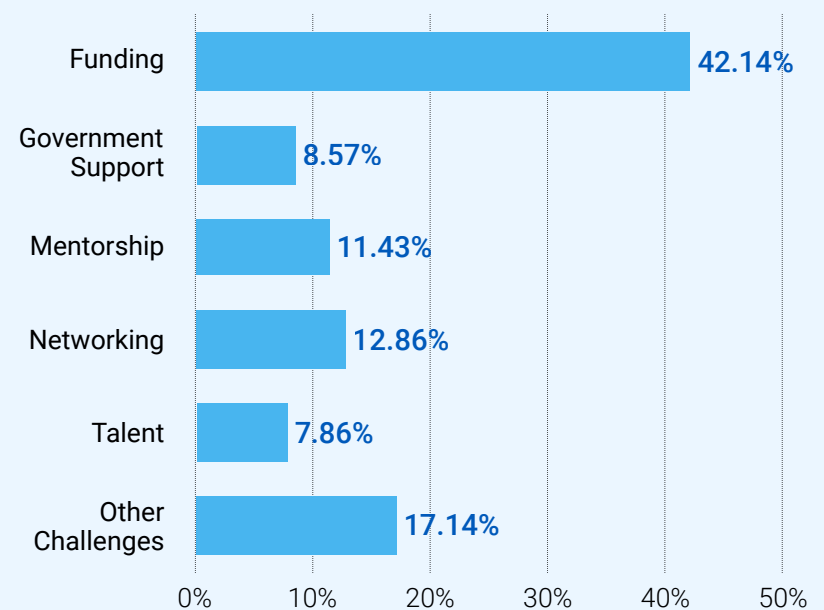
Source: Data from Primary Sources



## Challenges faced by Startups in Tier 2 and Tier 3 Cities

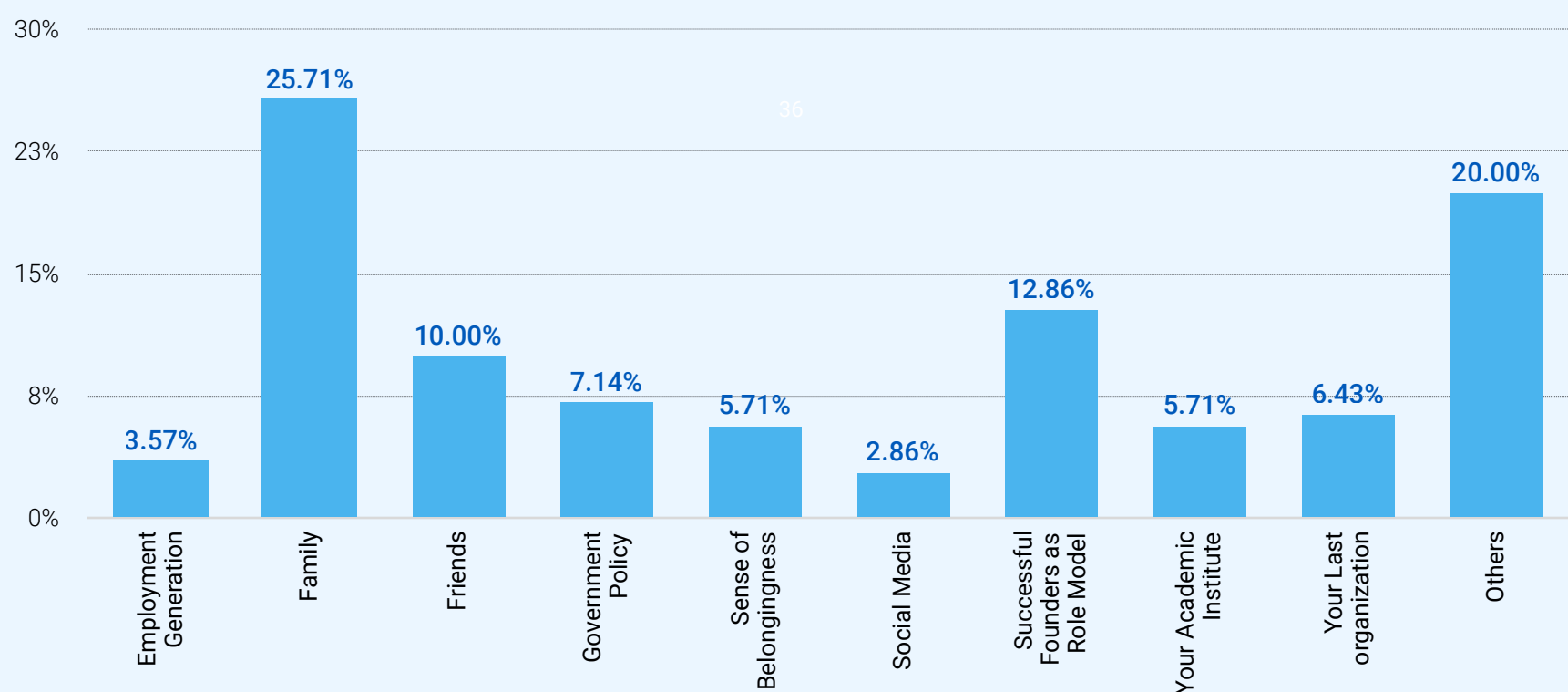
Startup founders in Tier 2 and Tier 3 cities encounter significant challenges.

- Over **40% identify funding as a major hurdle**, hampering their growth.
- Additionally, **17.1% cite a lack of available talent** in these regions, hindering their ability to find suitable co-founders, hires, and ecosystem enablers.
- **Lack of networking opportunities is noted by 12.3%** as a growth impediment.
- **12% lament a lack of accessible mentorship**, which could ease their entrepreneurial journey.



## Factors influencing Decision to start in Tier 2 and Tier 3 Cities

- Approximately **35% of startups initiate their ventures in their hometowns due to the influence of friends and family**, indicating their strong role in attracting startups to Tier 2 and Tier 3 cities.
- **12.9% of startups find inspiration from successful founders**, serving as role models.
- **Facilitative government policies drive 7.1%** of startups to begin, while **5.6% are motivated by a sense of belonging**, returning to start their businesses.
- Additionally, factors like social media, academic institutions, and past organizations play a role in influencing startup decisions.

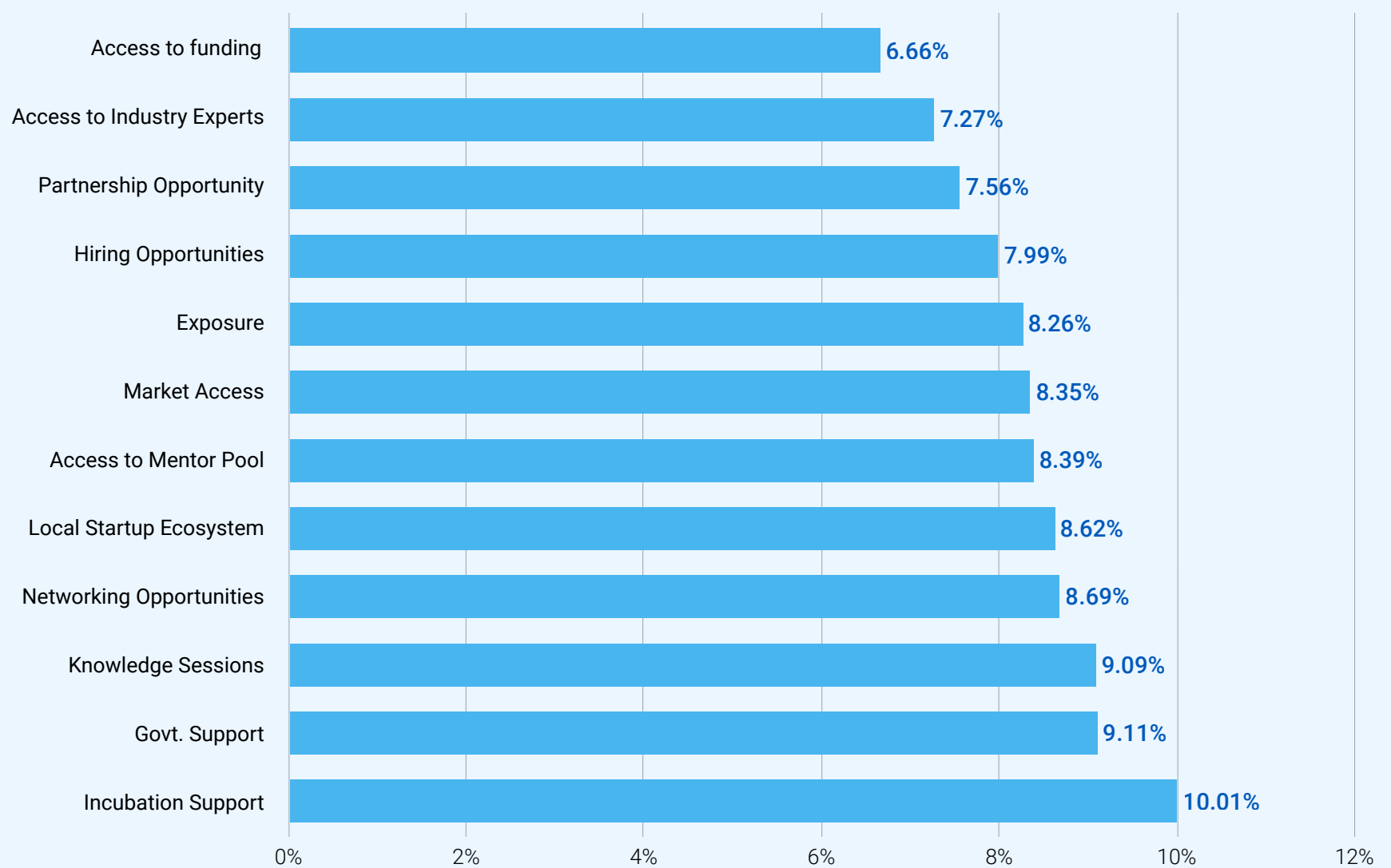


Source: Data from Primary Sources



## Factors influencing Decision to start in Tier 2 and Tier 3 Cities (contd.)

- **30% of startups find local startup support satisfactory.**
- **Government support evokes mixed feelings:** 37% are content, 42% dissatisfied, and the rest undecided.
- **Incubation support is deemed satisfactory by 44% of startups.** However, substantial improvements are sought in accessing funds, building a talent pool, mentoring, industry expertise, market access, networking, exposure, and knowledge sessions.



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Innovation and entrepreneurship are happening in Bharat and the next wave of growth is going to come from here. The drive, hunger and the self-belief of entrepreneurs from these small towns and cities will define the new innovation index of India. This report is a window to our imminent future.



**Shradha Sharma**

Founder,  
YourStory



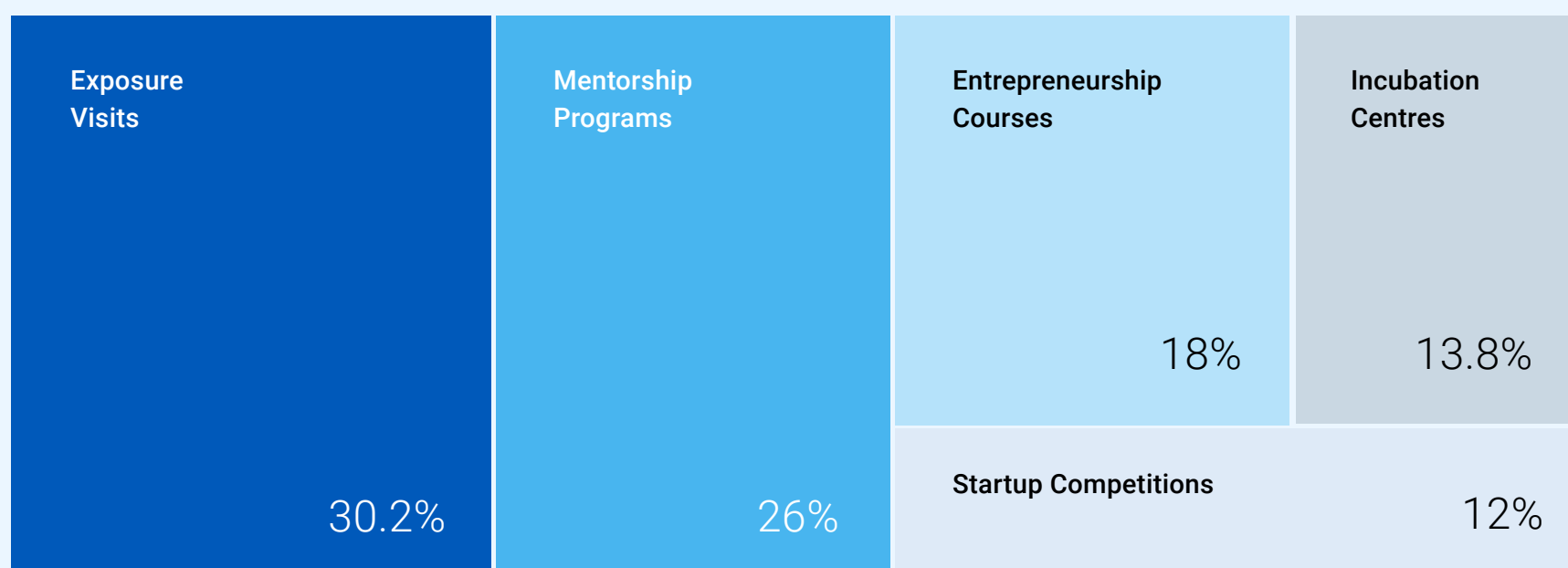
Source: Data from Primary Sources



# DECODING DATA FOR INSTITUTIONS

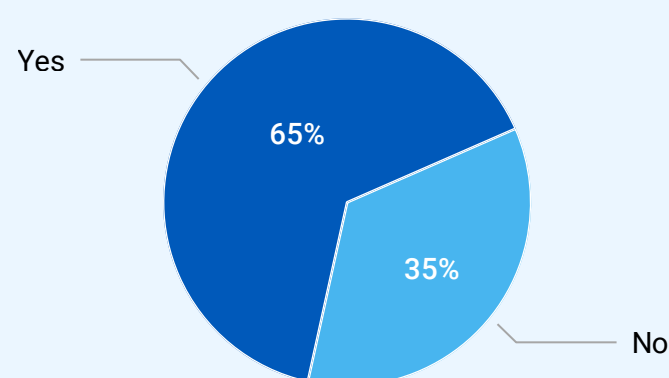
## Academic Institution Survey

- It is fascinating to see that **13.8% of the surveyed institutions have established Incubation Centres**, indicating a strong emphasis on fostering innovation and startups.
- Around **18% of these institutions offer formal entrepreneurship courses**, integrating business education into their curriculum.
- Likewise, around **30.2% arrange exposure visits**, providing students with real-world insights into the entrepreneurial landscape.
- A noteworthy **26% of the institutions have mentorship programs**, enabling students to benefit from experienced guidance on campus.
- Additionally, **12% of the surveyed institutions host startup competitions**, encouraging students to showcase their entrepreneurial ideas and skills."



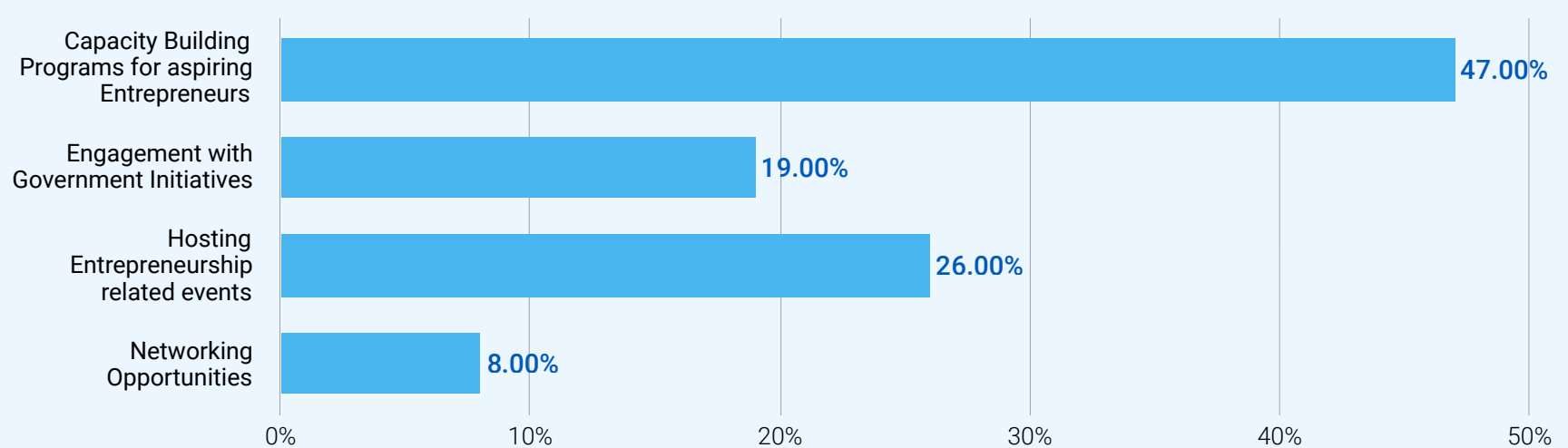
## Do you have any Incubation Center or E-cell in your premises?

- In Tier 2 and Tier 3 cities, **35% of educational institutions have established Entrepreneurship Cells (E-cells) or Incubation Centres** to encourage entrepreneurship and innovation.
- This trend underscores a growing awareness of the value of nurturing grassroots entrepreneurship for local economic growth.



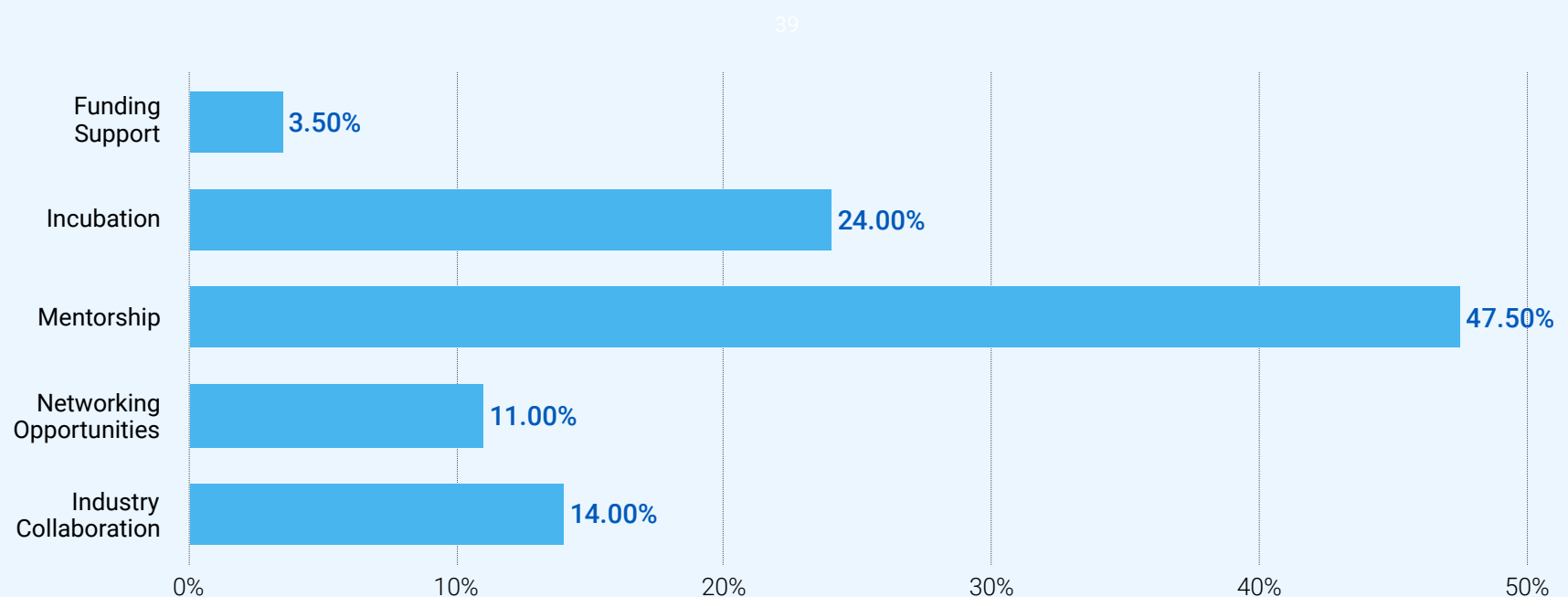
## How are you engaging with the local ecosystem in order to foster innovation and entrepreneurship?

- Primarily, the institutions are **collaborating with government initiatives and organizing events** centered around entrepreneurship. A notable **47% of institutions conduct capacity building programs** to support individuals aspiring to become entrepreneurs.
- Interestingly, **a relatively lower percentage of 8% are engaging in partnerships with other institutions** to cultivate innovation and entrepreneurship.



## What kind of support are you providing to the startups?

- 24% of institutions offer incubation centres**, demonstrating a commitment to nurturing startups.
- 3.5% provide funding support**, while a significant **47.5% offer mentorship**.
- However, **networking opportunities and industry collaborations are notably lacking** in their support ecosystem. Interestingly, **only 4%-5% of academic institutions have partnered with Government Initiatives** to promote entrepreneurship.



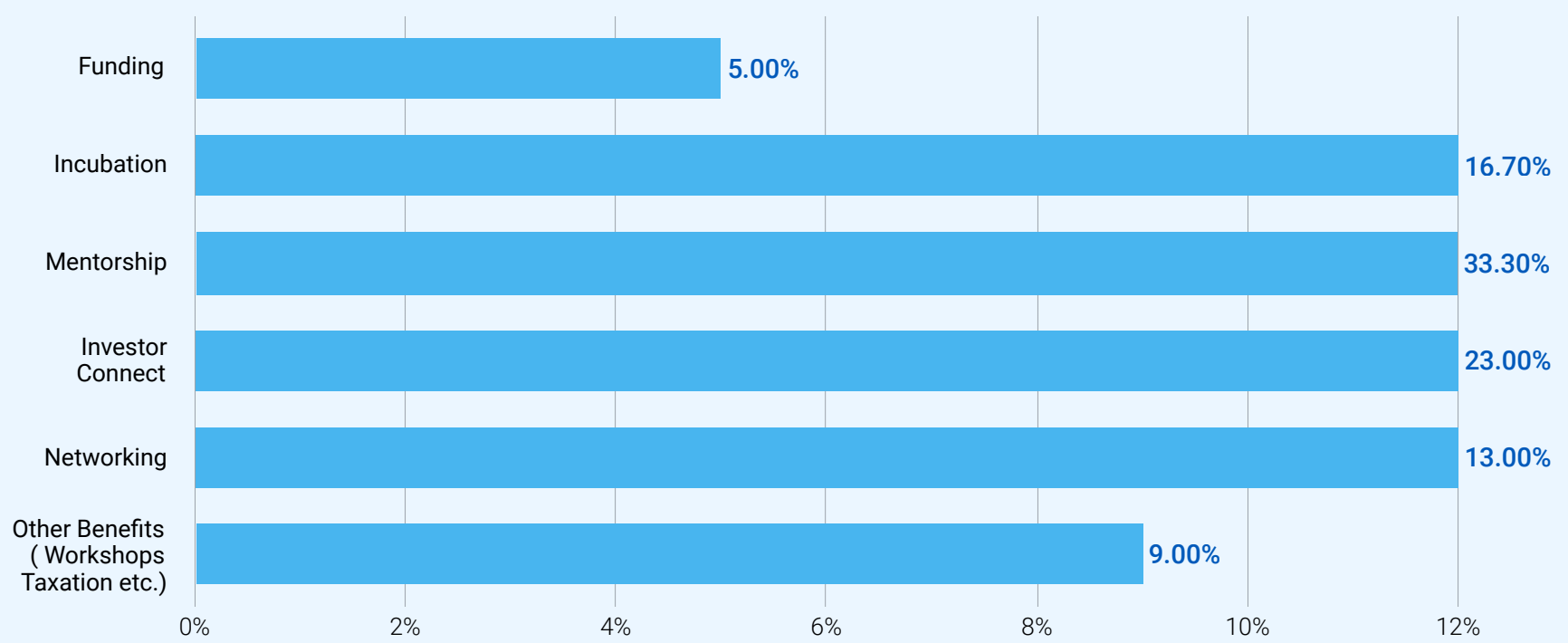
Source: Data from Primary Sources



## What kind of government aid have you received to promote entrepreneurship?

Government assistance has been instrumental in promoting entrepreneurship within institutions.

- Specifically, **16.7% of these institutions have been supported to establish E-cells or Incubators**, while **33.3% have received valuable mentoring**.
- Additionally, **13% have capitalized on networking events, and other forms of aid** such as workshops have also been facilitated through government backing.



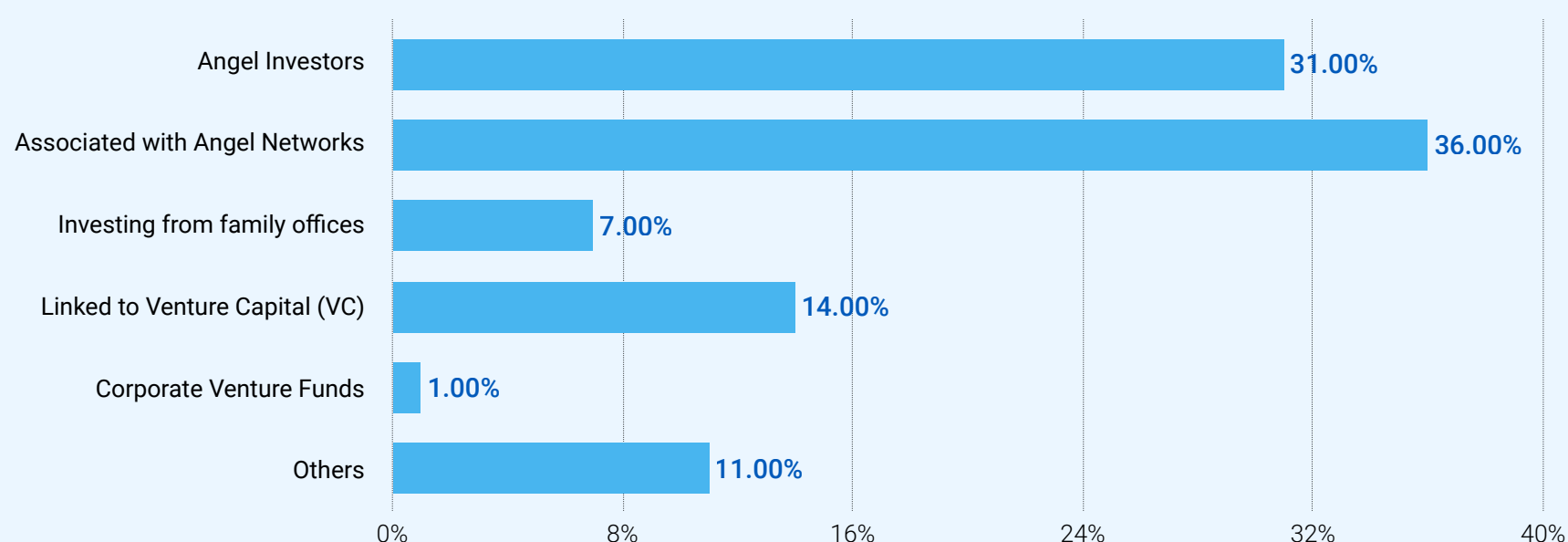
Source: Data from Primary Sources





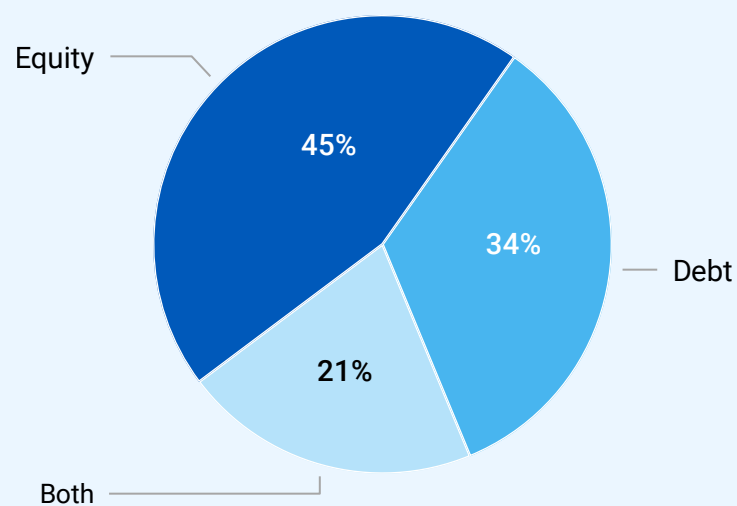
## Which Investor category best matches you?

- Within the context of funding opportunities for startups in Tier 2 and Tier 3 cities, the **data from 46 investor responses shows a diverse investment landscape**. Among the respondents, **31% identified as Angel Investors**, signifying individual backers providing initial capital.
- Another **36% were associated with Angel Networks**, which likely indicates a more organized approach to angel investing, often involving groups of investors pooling resources.
- Approximately **7% of investors were investing from family offices**, suggesting a familial approach to funding startups.
- Moreover, **14% were linked to Venture Capital (VC) funds**, showcasing institutional interest in providing capital for growth.
- Interestingly, **only 1% represented Corporate Venture Funds**, suggesting that corporate-backed investments were relatively limited. The remaining investors fell into the 'Others' category, which could encompass a range of investment types or sources. This distribution underscores the various avenues through which startups in Tier 2 and Tier 3 cities are accessing funding from diverse investor types.



## What types of funds you are providing to startups?

- Regarding the funding approaches for startups, the survey data indicates that investors employ a mix of strategies. Approximately **45% of investors opt for equity-based funding**, where they exchange funds for ownership shares in the startup.
- **34% of investors prefer debt funding**, offering loans that the startup must repay.
- Notably, **21% adopt a combined approach**, providing funds through a combination of both debt and equity, suggesting a more versatile financing structure that may align with the startup's specific needs and investor preferences.



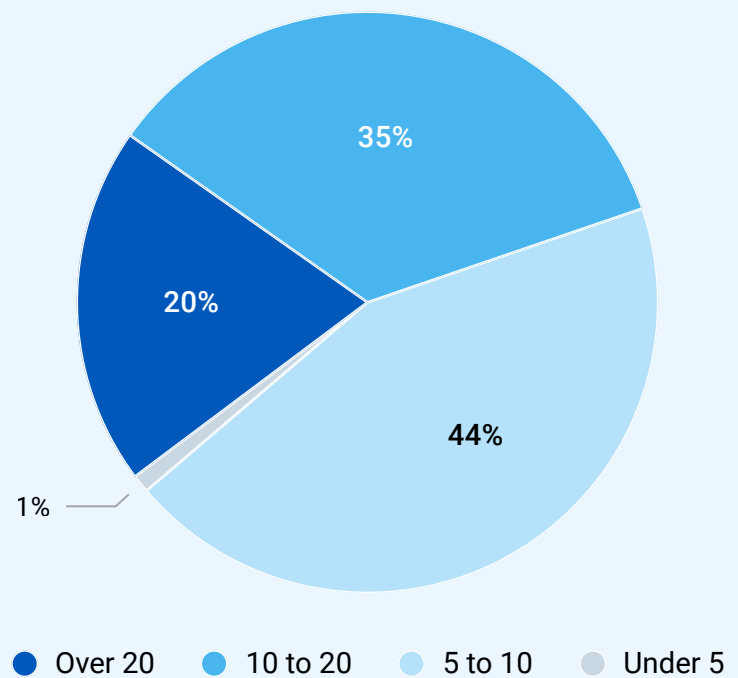
Source: Data from Primary Sources



## How many startups have you invested in?

In terms of investor engagement with startups, the data reveals diverse levels of portfolio involvement.

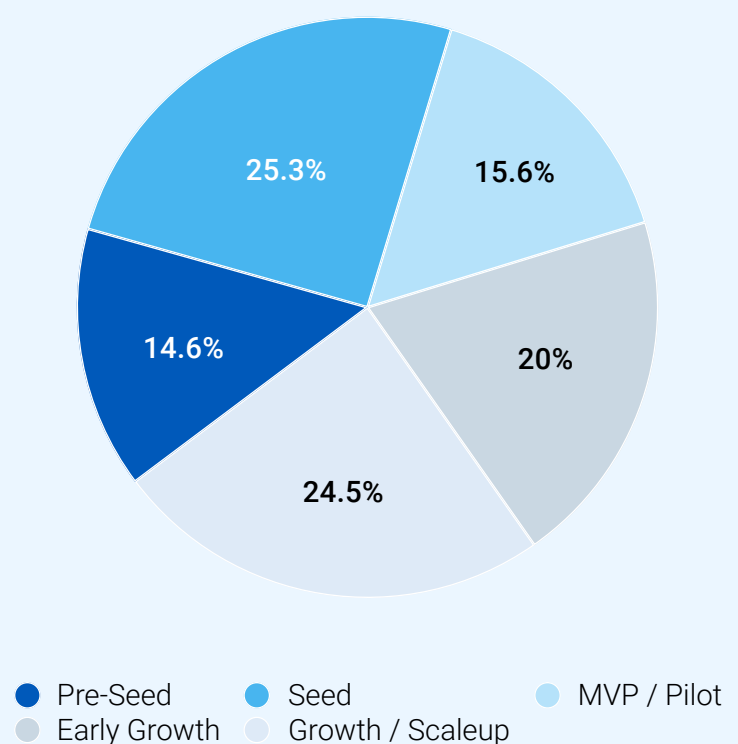
- **20% of investors have participated in over 20 startup portfolios**, indicating a substantial engagement with multiple ventures.
- Around **35% have invested in portfolios ranging from 10 to 20 startups**, showcasing a significant but slightly more focused approach.
- Additionally, **44% have invested in 5 to 10 startups**, suggesting a balanced portfolio strategy.
- The **remaining investors have engaged with fewer than 5 startup portfolios**, signifying a more selective or cautious investment approach.



## What stage do you prefer to invest at?

In terms of their investment focus, different stages of startup development attract varying levels of investor interest. The distribution underscores the diverse stages at which investors choose to engage with startups, catering to various levels of risk and growth potential.

- Approximately **14.6% of investors direct their investments towards pre-seed stage startups**, indicating a willingness to support ventures in their earliest phases.
- Around **25.3% of investors prefer the seed stage**, showcasing a commitment to startups in their initial growth period.
- A notable **15.6% target startups at the Minimum Viable Product (MVP) stage**, signifying confidence in ventures that have a developed product or service.
- **20% invest in early growth startups**, displaying a preference for ventures that have achieved initial traction.
- The remaining **24.5% of investors focus on startups in the growth and scaling-up stage**, indicating support for ventures poised for expansion.



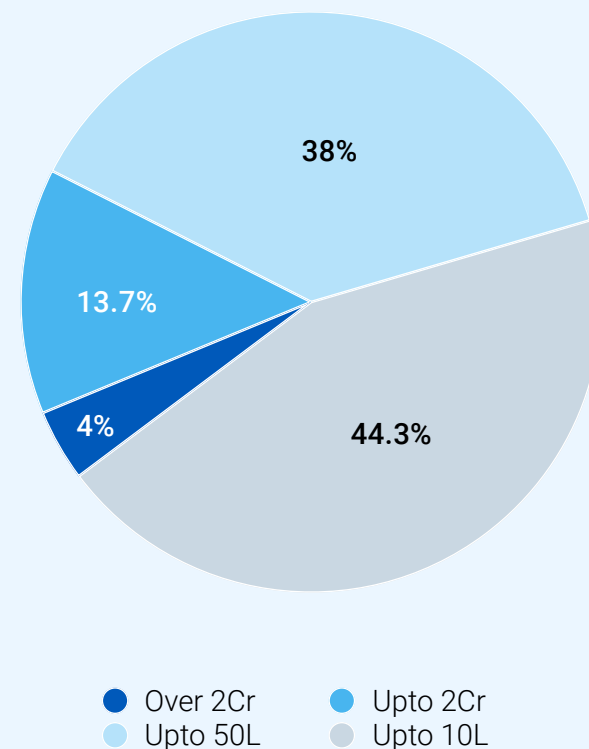
Source: Data from Primary Sources



## What is your preferred investment range?

In terms of the quantum of investment, investors demonstrate a diverse spectrum of commitment.

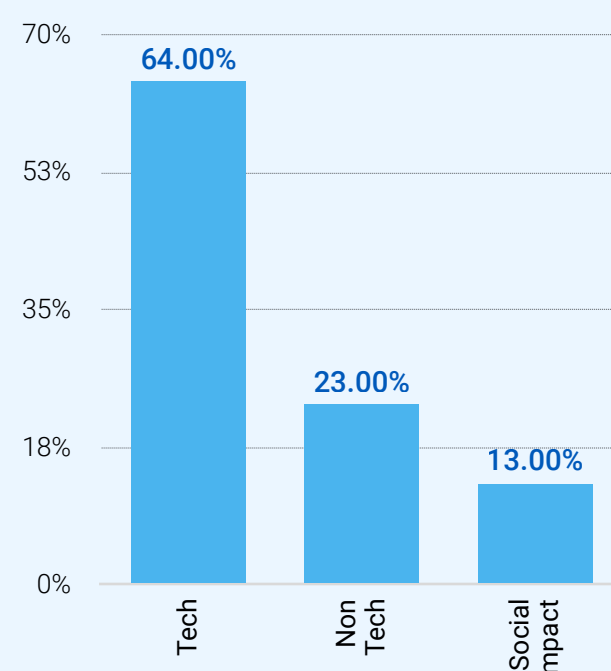
- **44.3% of investors allocate funds within the range of up to 10 lakhs**, showcasing involvement with startups at varying scales.
- Around **38% opt for a broader range, investing between 10 lakhs to 50 lakhs**, indicating a moderate investment appetite.
- Notably, **13.7% extend their support further, investing up to 2 crores**, highlighting a higher level of financial engagement.
- A smaller segment, constituting **4% of investors, commits substantial resources, investing more than 2 crores** in startups, signifying a notable confidence in larger ventures.



## What is your sectoral preference when investing in startups from Tier 2 and Tier 3 Cities?

There is diverse landscape of startup types that investors are supporting in Tier 2 and Tier 3 cities.

- Approximately **44% of the surveyed investors have invested in startups in Tier 2 and Tier 3 cities**.
- Among this segment, around **64% have chosen to invest in technology-based startups**, showcasing a substantial interest in tech-driven innovation.
- Moreover, **23% have invested in non-tech startups**, indicating a diverse range of sectors getting investor attention.
- A notable **13% have backed startups with a social impact focus**, underscoring a commitment to ventures that address societal challenges.

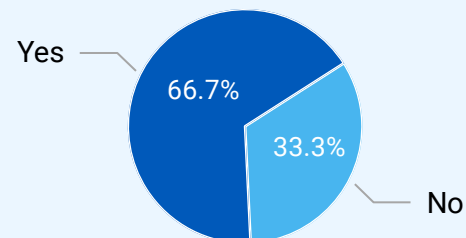


Source: Data from Primary Sources



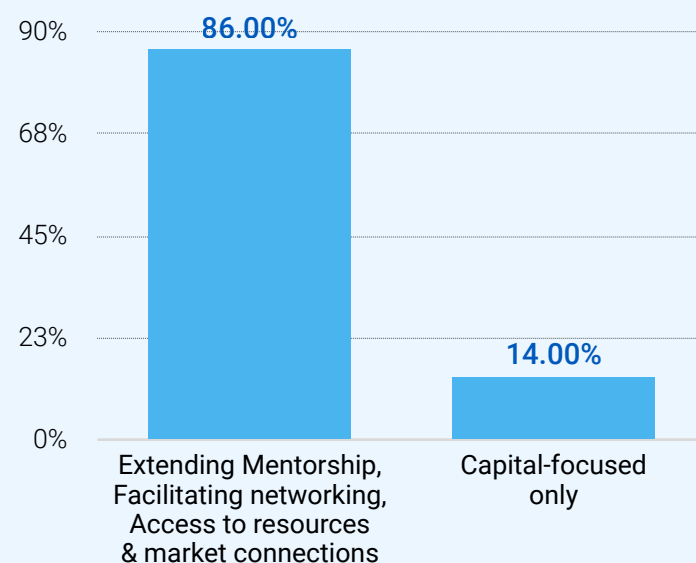
## Are you using State Govt. Networking Platforms to connect with local Startups?

- **66.7% of investors have received networking platform from state government** to connect to local startups.



## How do you support startups in Tier 2 and Tier 3 cities?

- Beyond the financial aspect, **a significant 86% of investors play an active role** by extending **mentorship, facilitating networking opportunities, granting access to essential resources, and establishing connections to markets for startups**. This comprehensive engagement contributes to nurturing the growth and development of startups.
- In contrast, the remaining **14% investors assume a passive role within the ecosystem, focusing solely on financial investment** without additional active involvement.



Tier 2 and Tier 3 cities in India are the new frontiers of innovation and entrepreneurship. They present diverse and complex problems that require novel and scalable solutions.

As India's first B2G strategic investor, helping startups in these regions isn't just a profession; it's a passion. It's empowering the next generation of founders who are building products and services that make a difference in the lives of millions of people.

It's shaping a future where innovation and entrepreneurship are not limited by geography, but driven by vision and ambition.



**Kailash Golechha**

National Vice Chairman,  
JITO CFE APEX



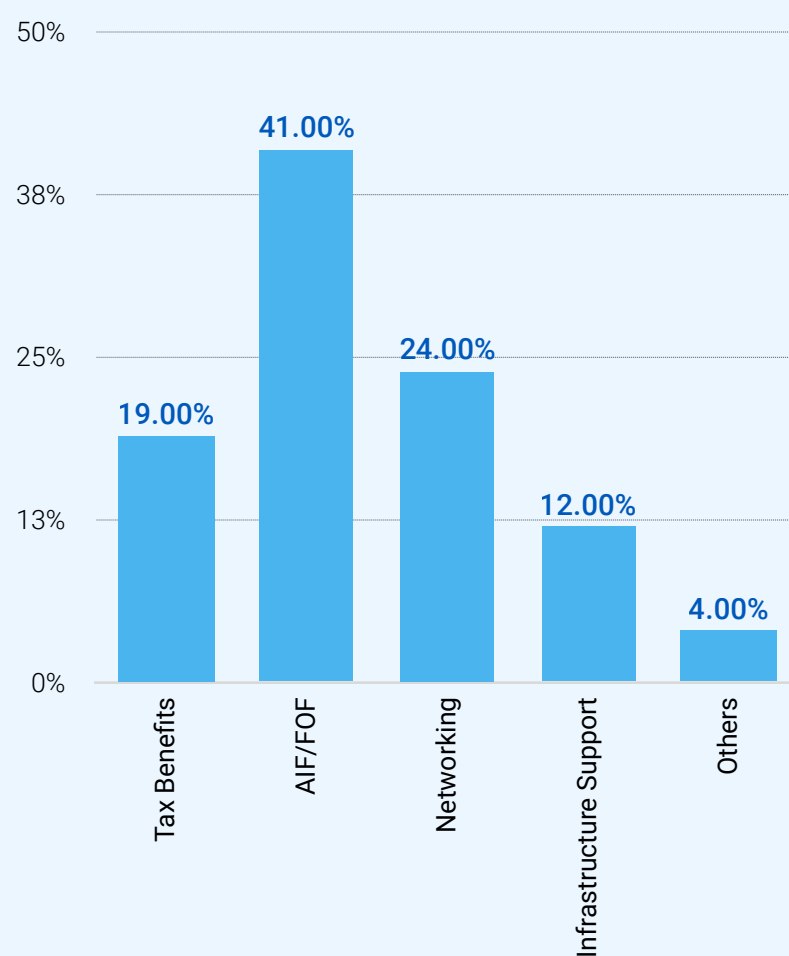
Source: Data from Primary Sources



## What support/benefits are you getting from State Government to invest in Tier 2 and Tier 3 Startups?

Within the investing community, various forms of support from state central and state governments play a role in facilitating their activities.

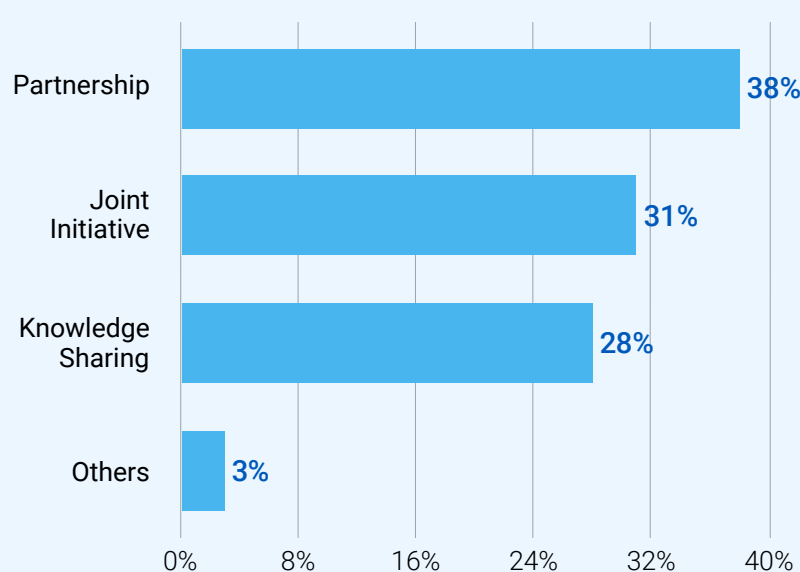
- **12%** of these investment entities have been **recipients of infrastructure assistance from both central and state governments.**
- An additional **24%** have benefited from **networking support**, underscoring the significance of connections in the investment landscape.
- A substantial **41%** are **affiliated with Alternative Investment Fund (AIF) or Fund of Funds (FOF) syndicates**, demonstrating the collaborative nature of their involvement.
- Furthermore, **19%** are **enjoying tax benefits because of their investments in startups**, highlighting favorable fiscal incentives.
- The rest have experienced additional advantages, such as enhanced visibility, among other perks.



## How do you collaborate with other stakeholders to foster a conducive environment for innovation?

Given the heightened risks inherent in the investor landscape, collaboration and partnership emerge as pivotal strategies.

- Among investors, **38%** prioritize **forging partnerships**, while **31%** opt for **joint initiatives**.
- Additionally, **28%** engage in **knowledge and resource sharing** to bolster the ecosystem.
- The remaining investors focus on establishing both national and international collaborations with industry bodies, aiming to cultivate an environment conducive to innovation and entrepreneurship.



Source: Data from Primary Sources

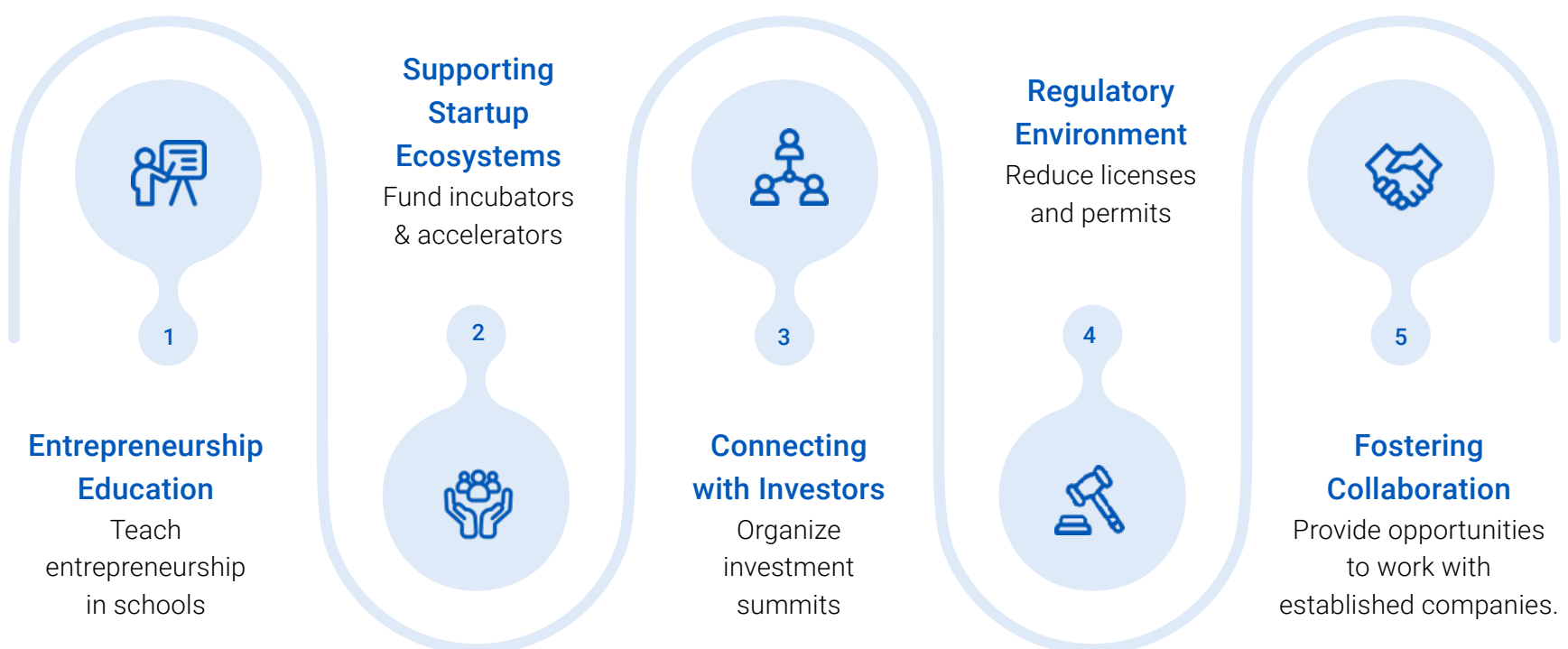


# 09

## Policy Recommendations

### Policy Recommendations for the Government's Consideration

The cumulative impact of these strategic directives can be discerned in the remarkable transformation of India's entrepreneurial landscape, instilling innovation, fostering economic vibrancy, and igniting the flames of job creation.



**References:** [https://www.niti.gov.in/sites/default/files/2022-02/Annual\\_Report\\_2021\\_2022\\_%28English%29\\_22022022.pdf](https://www.niti.gov.in/sites/default/files/2022-02/Annual_Report_2021_2022_%28English%29_22022022.pdf), The National Entrepreneurship Policy (NEP), Startup India Seed Fund Scheme (SISFS), India Innovation Growth Programme (IIGP), National Startup Ranking (NSR), Atal Tinkering Labs (ATLs), Startup India Seed Grant Programme (SIGP), Transformational India Hubs (TIHs), A Scheme for Promotion of Innovation, Rural Industries, and Entrepreneurship (ASPIRE), AIM-iCREST, AIM-PRIME (Programme for Researchers in Innovation and Entrepreneurship), Global Innovation Platform (GIP)



# Data-Driven Strategies and Recommendations for Empowering Tier 2 and Tier 3 Cities in India



Based on the extensive data analysis for entrepreneurship in Tier 2 and Tier 3 cities of India, the following recommendations can be made to the government:



## 01 Enhance Funding Ecosystem

Recognizing the significant funding challenges, the government should establish more accessible and diverse funding mechanisms tailored to the needs of startups in Tier 2 and Tier 3 cities. This could include setting up dedicated funds, providing grants, and facilitating partnerships with financial institutions to encourage investment.



## 02 Strengthen Entrepreneurial Education

Encourage educational institutions to further develop entrepreneurship cells, incubation centres, and entrepreneurship-focused courses, fostering a culture of innovation from an early stage. The government should work with academic institutions to enhance entrepreneurship education. This can involve curriculum integration, workshops, and exposure visits to provide students with real world insights.



## 03 Mentorship and Incubation

Expand the network of incubators and accelerators in Tier 2 and Tier 3 cities, providing startups with mentorship, resources, and networking opportunities critical for growth.

**Resources and References:** This information is based on various reports, articles, and research papers published by industry experts, government <https://www.startupblink.com/startup-ecosystem>





## 04 Government Initiatives

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Building on the trend of Startups being influenced by facilitative government policies, the government should continue to introduce policies that support startups in Tier 2 and Tier 3 Cities. These policies could include tax incentives, simplified regulations, and infrastructure development.



## 05 Government-Industry Partnerships

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To address the challenges identified by startups, the government can collaborate with industry experts to provide knowledge sessions, workshops, and training programs that focus on areas such market access, industry insights, and skill development expertise that can accelerate their growth.



## 06 Promote Local Impact

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Acknowledging that startups find local support satisfactory, the government should work closely with local organizations, chambers of commerce, and industry associations to strengthen the startup ecosystem. Collaborate with educational institutions to develop programs that bridge the gap between academia and industry, ensuring a steady supply of skilled talent for startups. Highlight the positive impact of startups in Tier 2 and Tier 3 cities on local economies, job creation, and innovation through targeted communication campaigns.



## 07 Strengthening Government-Startup Collaboration

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Since a lower percentage of academic institutions have partnered with Government Initiatives, the government should actively collaborate with institutions to provide resources, expertise, and guidance to promote entrepreneurship. Expand government-funded pre-seed funding initiatives to provide startups with the initial capital needed to develop their ideas into viable products or services.



## 08 Market Exposure and Support Ecosystem

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The government should facilitate platforms for startups in Tier 2 and Tier 3 cities to showcase their products and services, thereby enhancing their market exposure. Moreover, improving the overall support ecosystem, including building a talent pool, providing mentorship, organize more networking events, workshops, and industry-focused conferences will contribute to startup success.

Resources and References: This information is based on various reports, articles, and research papers published by industry experts, government <https://www.startupblink.com/startup-ecosystem>







## 09 Startup Support and Funding

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Expanding government-funded pre-seed support startups require for initial capital needed to develop their ideas into viable products or services. Launch awareness campaigns to address misconceptions around funding sources, highlighting success stories, and showcasing the value of diverse funding sources. Establish a continuous feedback loop by collecting data on the progress of startups and the challenges they face. This data can be used to adapt policies and strategies for greater effectiveness.



## 10 Economic Policies for Growth

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Advocate for simplified regulatory processes to facilitate business establishment and operation. Encourage policies that attract and retain startups in Tier 2 and Tier 3 cities.



## 11 Investor Engagement

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Facilitate platforms that connect investors with startups in these cities, promoting active engagement, mentorship, and funding opportunities.

By implementing these recommendations, a more conducive environment that empowers startups in Tier 2 and Tier 3 cities can be created, driving economic growth, fostering innovation, and enhancing overall entrepreneurship activity in these regions.

**Resources and References:** This information is based on various reports, articles, and research papers published by industry experts, government <https://www.startupblink.com/startup-ecosystem>





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