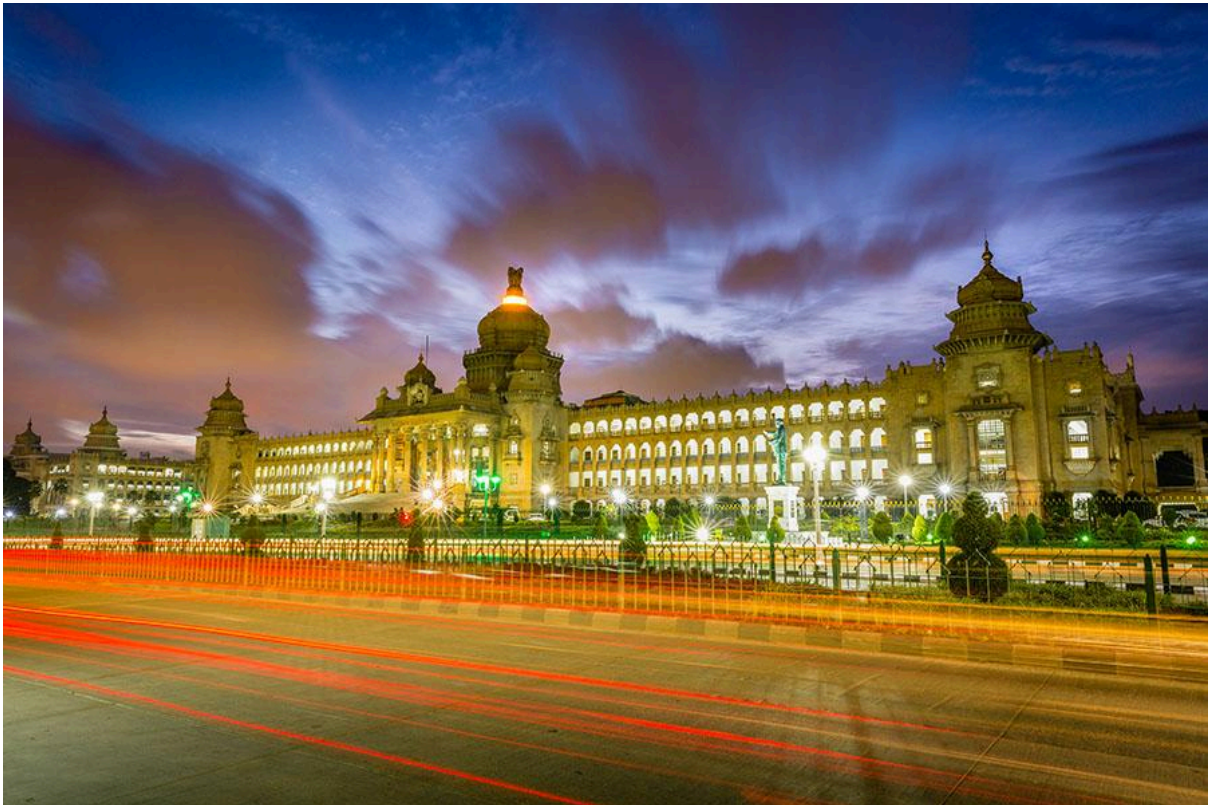


## Where does Bengaluru stand in the global ranking of startup funding ecosystems

By G.Sabarinathan | Apr 26, 2024

Rankings of this kind may not be the sole or ultimate arbiter of a city's success as a startup destination, but they may count for something



One possible reason for the rank Bengaluru has is the recency of the growth of VC in India. However, the study draws on data from 2017 to 2023. Image: Shutterstock

So, for all the excitement about being India's Silicon Valley and so on, Bengaluru seems to be ranked 33rd among startup cities in the world. That is what I noticed from PitchBook's (PB) survey of October 2023.

### **The scoring methodology**

PB's list identifies the top fifty cities in terms of Venture Capital (VC) financing activity. And its survey ranks cities on two top-level dimensions: development and growth. The development itself is measured in terms of size and maturity. Size comprises value and number of deals done, exits, investment funds and a number of unicorns. Maturity comprises a variety of measures of how well-developed the funding system is in terms of mega exits, the ratio of late to early-stage deals, late

and growth stage pre-money valuations and deal value. Their growth score measures the growth rate momentum of their size score over one, two, three and five-year periods.

## **The lay of the league table**

So, which locations rank higher than Bengaluru? Not surprisingly, San Francisco is at the top, followed by New York and then Beijing and Shanghai. If your schadenfreude appeals to you, you can draw some comfort from the fact that the corporate headquarters of the East India Company ranked seventh. Tiny Tel Aviv just made it to the top twenty.

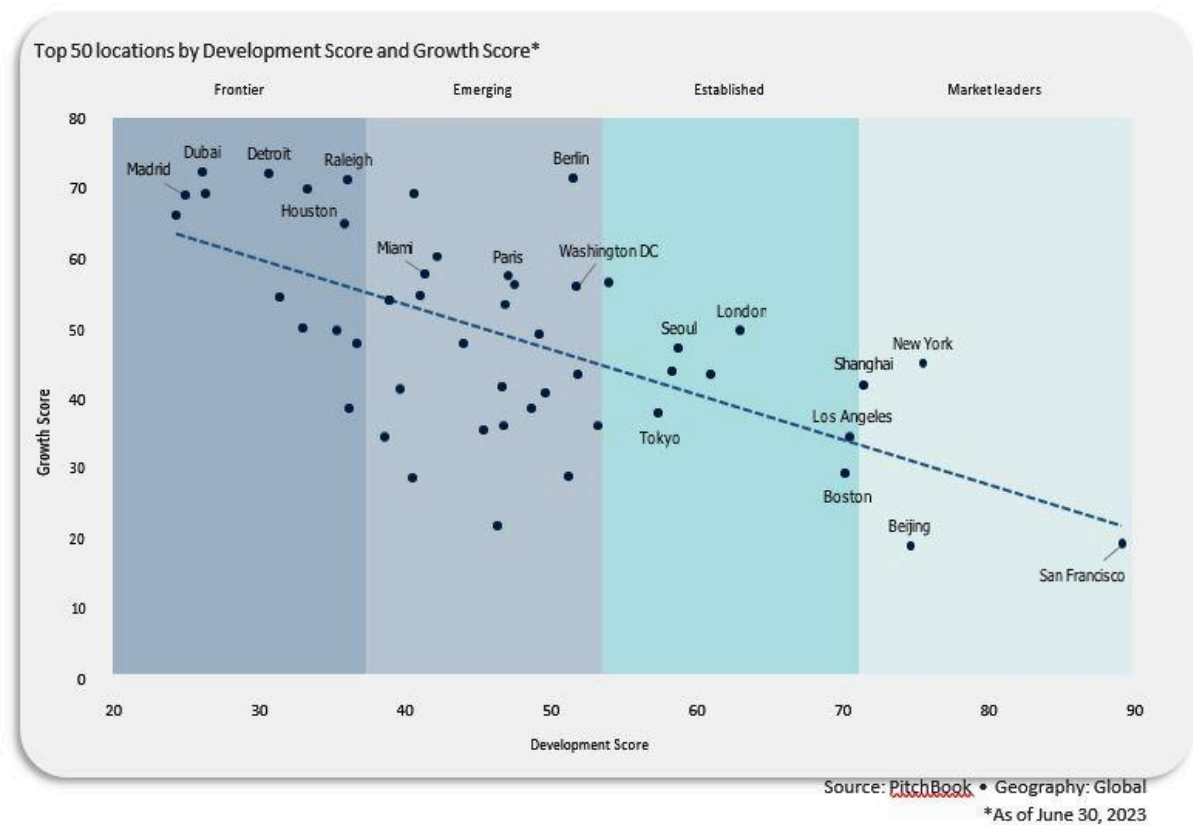
Nine of the top twenty places are in the US, while five are from China. The only European city to feature—now that the Brits have Brexited infamously—is Berlin. Apart from China's cities and Tel Aviv, the other Asian cities to feature are Tokyo at eleventh place and Singapore at fifteenth place.

The report further notes that of the top fifty places, 40 percent are in North America, 32 percent are in Asia, and 24 percent are in Europe. As the report suggests, the global spread of the cities across the various continents indicates the truly global nature of VC as an asset class.

Dubai is at the top of the growth scores. That should not quite surprise anyone who has visited Dubai in the past five years or so. The city-state is pulling all the stops to become an attractive entrepreneurial hotspot for the region. And it has many policy and socio-cultural aspects working in its favour in this regard. Bengaluru is the only Indian city that features among the top twenty in growth at seventeenth place. Seven cities from the US, five from Europe and five from Asia feature among the top twenty.

## **The Development vs Growth Tradeoff**

As the diagram below from the report indicates, many cities with high Development scores appear to score lower on Growth. High growth centres "could be growing their VC activity faster than more established, expensive, and saturated locations" writes the PB author in the report. Although their VC systems are less developed than the better-developed centres, they could potentially have a more significant upside. "Locations with high Growth Scores may not have lofty headline figures. However, the rate at which they grow dictates their ranking", explains PB.



Cities evaluated in terms of Development and Growth. Figure sourced from PitchBook’s report Global VC Ecosystem Rankings.

The report classifies locations with high Growth Scores as "frontier" and "emerging", while those with high Development Scores are classified as "established" and "market leaders" ecosystems. A few, like New York, Shanghai, London, and Berlin, seem to have a balance between development and growth.

## Reflecting on the ranking

Scholars of innovation and economic geography have documented the importance of cities as geographical units of innovative activity for some time. Several academic articles and books have noted that urban agglomeration seems to lead to a clustering of innovation and startup activities.

The PB analysis primarily evaluates cities' effectiveness as startup hubs using venture financing data. It uses both the inflow of capital into the funding of enterprises as well as investment outcomes in terms of follow-on funding, which is a proxy for the survival of enterprises, and exits, which is a measure of investment success. The unstated assumption is that VC investors fund innovative startups with high growth potential with all the attendant beneficial economic outcomes. VCs also tend to commit capital to locations with the necessary economic and institutional environment to ensure the successful development of startups.

More generally, from a policy perspective, the report reinforced the findings of the academic literature: Initiatives to boost startup activity have to target creating centres of geographical concentration of entrepreneurial activity rather than following a carpet-bombing strategy of rolling out broad initiatives across a whole state or nation.

This does not mean supportive initiatives are confined to centres with a pre-existing critical mass, such as Bengaluru, the National Capital Region, Mumbai, or Pune. It implies that apart from improving the attractiveness of these cities, policy should attempt to replicate similar initiatives in cities or locations that have at least a few of the endowment conditions to help startups succeed and raise adequate and appropriate funding.

For example, in the state of Tamil Nadu, the city of Coimbatore possibly has such conditions: A sizable network of high-quality education, an existing industrial culture, albeit from the older economy—the city is sometimes referred to as the Manchester of India with its concentration of textile and engineering units—a culture of entrepreneurship, quality social infrastructure, well positioned in terms of logistical connectivity and so on.

## **The curious case of Bengaluru's rank**

A discussion on the report would be incomplete without circling back to the case of Bengaluru's rank, with which we started this story. On a partly lighter note, it appears as disappointing as the position of Bengaluru's own cricket team, Royal Challengers, known more popularly by their abbreviation, RCB, in the IPL league table, despite having star batters like Virat Kohli.

Given the numerous evaluation criteria, it would be difficult to understand the low ranking without a closer look at the data. Further, the ranking has been done on the basis of VC financing activity, where India has fared well in the past decade or so, making it all the more puzzling. India emerged as the second-largest market for VC financing in Asia after China and was home to the second-largest number of unicorns, again after China.

In the early 2000s, the Indian market was considered a largely Series A market. This changed after 2010. At the peak of investment activity in 2021, Indian startups raised nearly \$66 billion across around 1490 deals. According to data from Venture Intelligence, investors exited 269 companies, realising \$36 billion in cash.

One possible reason for the rank Bengaluru has is the recency of the growth of VC in India. However, the study draws on data from 2017 to 2023. This was when the Indian industry grew dramatically in all three dimensions: New funding to startups, follow-on funding, and exits. Startup valuations, one of the other criteria PB's methodology lists, also showed steady improvement during this period. The other possible explanation is that the numbers we note for India are scattered across India.

Bengaluru as a city accounts for around 40 percent or so of the various parameter values. A cursory examination of the data for the Top 20 locations suggests that despite the disaggregation, the data for Bengaluru alone could be higher than that for some of the cities in the Top 20.

Whatever the reason, the issue deserves a closer study. Rankings of this kind may not be the sole or ultimate arbiter of a city's success as a startup destination. But they may count for something. To the extent they do, Bengaluru deserves a better ranking, as does its cricket team RCB, for the sake of its loyal fans, if for no other reason.