A Critical Evaluation of Institutional Financial Services in India: Assessing Their Accessibility, Outreach, And Effectiveness in Supporting Emerging Startups

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***Abstract*—In this article, the author will critically review the availability and reach of the institutional financial services as well as their effectiveness in facilitating the development of young and emerging startups in India. With the advancing growth of startup ecosystem as a crucial agent of economic growth, the deployment of financial institutions (public and private), Non-Banking Finance Companies (NBFCs) and state sponsored funding mechanism has recently been under the scanner. The research will establish the impact of institutional finance in terms of entrepreneurial momentum and whether the services offered are in accordance with the needs and demands of the early-stage and growth-emerged entrepreneurs. The study employs the mixed-methods approach to draw empirical data based on 200 entrepreneurs of startups working in different industries and geographies. The analysis of quantitative data was conducted on the basis of the descriptive statistics and hypothesis testing carried out by the application of the Chi-square test in order to evaluate the dependence of the types of institutions accessed on the perceived effectiveness of financial services. Other barriers, which are studied, include long approval procedures, inability to provide collateral, and ignorance about government schemes, which tend to prevent the possibility of getting the appropriate and timely finance. The results indicate that although institutional finance is in place as a key foundation to the venture survivability of start-ups, there is a huge problem of bottlenecks in the processes, lack of equal regional coverage of start-ups as well as poor satisfaction levels among the entrepreneurs. The results call for strategic policy improvements, enhanced financial literacy, and more agile, sector-specific funding models to better serve India's evolving startup landscape.**

***Index Terms*—Institutional Finance, Startup Ecosystem, Accessibility, Public Sector Banks, Government Schemes, Venture Capital, Financial Services Effectiveness, Funding Barriers, Startup Support, Chi-Square Analysis.**

I. INTRODUCTION

The nation of India has made an impressive change in terms of their startup ecosystem throughout the last ten years, which makes it one of the rapid growth centers in regard to innovation, entrepreneurship and digital business. The situation has been evolving in favor of new endeavors with government-engineered campaigns such as Startup India, improvement of business environment through simplification, and expansion of digital infrastructure. Nevertheless, in tandem with this expansion there has been the increased significance of financial institutions (especially formal and institutional based sources of finance) on the survival and expansion of such startups.

It is believed that institutional financial services that encompass those provided by state and private banks, non-banking financial companies (NBFCs) and other governmental funding bodies like SIDBI and MUDRA would fill the much-needed gap between the potential of startups and its feasibility based on finances. "Besides offering capital, these parties also determine confidence, path, and future toughness of new businesses." However, the reality of startups on how to access these services and engage them with their operations is ambiguous and has been characterized with inconsistencies in accessing them, implementation of policies and institutional flexibility. It is the objective of this research to give a critical analysis of the accessibility, inclusivity, and effectiveness of the institutional financial services in India to the needs of the new startups. With the help of trends in funding access, satisfaction rates, and systematic impediments, the study aims to reveal how

institutional finance works in the real world within the startup setting and to inform the current policy and ecosystem-related deliberation.

II. REVIEW OF LITERATURE

Aron (2018) conducted an empirical study of mobile money and established the fact that there was indication of the role of mobile money in increasing risk-sharing. Among other remarkable works, one may pick Mbiti and Weil (2013) and Wieser et al. (2019) who show that the intensive utilization of fintech results in the decreasing of informal savings practices and an augmentation of the volume of remittance transactions. These results confirm the ones provided by Jack and Suri, (2014). The other research on the same area has examined the impact of the digitalization of social support programs to the less fortunate.

Asif, M., Khan, et al. (2023). The financial inclusion in India has improved by far in the recent past years. The use of bank accounts has increased in numbers of Indians lately and it is estimated to be nearly 80 percent currently. The businesses in India are increasingly gaining visibility with the Government of India (GoI) still making attempts at expanding financial services to so far underbanked population of the country. In order to access the underbanked population groups on the one hand and offer the stable working environment to the fintech firms on the other hand, India needs to aim at increasing the financial inclusion. To understand this influence, regression and correlation was used in the research coupled with the secondary data that was collected using RBI. This was to establish how the fintech as well as digital financial services has influenced financial inclusion in India. The results also indicated that fintech businesses have gone a long way in helping financial inclusion in this country and the middle classes too. The findings will be useful to the policy-makers who are toiling to integrate all people in this country to an orderly financial system.

Nwoke, Judith. (2024). The study explores the revolutionizing effect of digital innovations in the financial service industry especially in the context of the technology shaping digital banking and FinTech. The research seeks to discuss the use of digital banking products in developing the knowledge on financial literacy and the creation of financial inclusion among the various populations. The study involves the extensive analysis of the existing trends and technologies with the application of the case studies and the fact-based insights to evaluate the contribution of blockchain, artificial intelligence (AI), and machine learning to the transformation of banking and financial services. This paper looks at the consequences of the technologies with small business loans and wealth distribution. The results portray that there have been major developments in digital banking products which show higher accessibility and efficiency of developments. The new technologies have shown the ability to enhance financial literacy and inclusive finance, especially with those helping to better credit scoring and more democratization of economic resources. The paper emphasizes on the central people of AI in the customer service improvement due to the individualized experience and predictive analytic processes.

Mishra, D., Kandpal, V., Agarwal, N., & Srivastava, B. (2024). This paper presents the literature review of how various aspects of financial inclusion affect social economic development of the society with regards to future research agenda. The first step was the search of the studies (620 were revealed with the help of Scopus and other databases and keywords such as financial literacy, financial inclusion, financial capability, women economic empowerment, fintech, artificial intelligence, financial accessibility, sustainable development goals, and economic growth). Out of the refinement based on focus and relevance, 325 papers were reviewed in details, out of which most were done regarding India and other emergent economies. As noted in this review, sustainable and socio-economic development in developing economies is not sustainable without provision of financing to untapped sectors of society. An attempt by the government to help the financially deprived can integrate the poor into an organized financial system using campaigns and reforming the credit systems which are carried out through the official banking system. The socioeconomic programs complement each other and promote growth of children and women and families as well as society. The research paper presented in the form of the systematic literature review is based largely on the articles devoted to the major fields of financial inclusion and the analysis of its impact and help to provide an appropriate agenda of future research.

III. OBJECTIVES OF THE STUDY

1. To analyze the availability of institutional finance to the startups in India, taking into consideration, the public sector banks, the private financial institutions, the non-banking financial institutions, and government funded schemes.
2. To test the perceived effectiveness and satisfaction of the startup founders towards the amount of financial support they get by institutional sources.
3. To determine the key obstacles and difficulties experienced by the startups when seeking institutional finance like delay in approval, the need to have collateral, and lack of awareness.
4. In order to assess the dependence between the kind of financial institution each of the migrants has approached to and the perceived influence of financial services on the growth of startups, by testing the hypothesis and carrying out the statistical analysis.

IV. RESEARCH METHODOLOGY

4.1 Research Design

The research design of the study is descriptive and analytical in nature and depends on the assessment of role, availability, outreach, and effectiveness of institutional financial services related to the emerging startups in India. In the study, the author concentrates on the experience of startup founders in working with institutional financing and their idea of its sufficiency and availability.

4.2 Population and Sampling

The sample population of the research would be startup founders, co-founders, and financial decision-makers working in different sectors i.e. technology, services, manufacturing, and green startups based in India. The study sample was selected using purposive sampling method because the sample was not selected by probability selection method due to the researcher selecting respondents based on pre-determined criteria i.e., they have had prior experience in seeking funds through institutional financial bodies.

It has collected a total of 200 valid responses across the various locations of India so that it is able to achieve geographical diversity by having the representation of the metro, tier-II and semi-urban/rural regions.

4.3 Data Collection Methods

Primary data was used in the study and this was obtained by use of a structured questionnaire that contained both closed ended and Likert scale questions. The questionnaire contained information on the demographic, the nature of the start-up, the nature of the financial institutions looked upon, purpose and use of funds, the perceived ease of access, the level of satisfaction, and obstacles encountered when accessing the institutional finance.

Other sources used to validate background and literature review sections included secondary data, which were policy documents, government reports (SIDBI, RBI publications), and any other applicable academic source to achieve the objective of the research.

4.4 Tools for Data Analysis

The data were input in Microsoft excel and analyzed through SPSS and other statistical tools. Demographic as well as categorical variables was summarized in descriptive statistics of frequency and percentage.

In order to test the hypothesis, a Chi-square test of independence was utilized to prove how the type of an institutional financial service accessed was linked with the perceived effectiveness of supporting the growth of startups. The variable relationships were visualized by use of cross-tabulation tables.

V. ANALYSIS AND INTERPRETATION

Table 1: Demographic Profile of Respondents

Demographic Variable	Category	Frequency (n)	Percentage (%)
Gender	Male	124	62.0%
	Female	76	38.0%
Age Group (in years)	20–30	78	39.0%
	31–40	84	42.0%

	41–50	26	13.0%
	Above 50	12	6.0%
Educational Qualification	Undergraduate	36	18.0%
	Postgraduate	102	51.0%
	Professional (MBA, CA, etc.)	38	19.0%
	Doctorate/Research Degree	24	12.0%
Type of Startup	Technology-Based	86	43.0%
	Service-Oriented	64	32.0%
	Product Manufacturing	34	17.0%
	Agri/Green/Environmental Sector	16	8.0%
Years of Operation	Less than 1 year	32	16.0%
	1–3 years	94	47.0%
	4–6 years	48	24.0%
	More than 6 years	26	13.0%
Region of Operation	Metro City (Tier I)	106	53.0%
	Tier II City	62	31.0%
	Rural/Semi-urban Area	32	16.0%

Demographic representation of the 200 respondents shows that mostly men are participating (62 %) but there is a high venture inclusiveness (38 %) of women in the startup ecosystem. Most of the respondents are in the 31-40 age category (42%) followed by those who are in the range of 20-30 (39%) thereby implying a young entrepreneur demographic. Educationally 51 percent of the participants are post graduates, and 31 percent have professional/doctoral qualifications, and that has pointed out to a highly educated pool of startup base. Regarding the type of start-up, there are more technology based (43%) than service based (32%) or product manufactures based (17%) and even less based on green and agri-sectors (8%). The majority of startups are at early stages of operation and 47 percent of them have been operating 1-3 years and 16 percent below one year. Geographically, only 53 per cent of startups have the Tier I metro cities, 31 per cent Tier II cities and 16 per cent the rural and semi-urban locations, signs of concentration on urban centres and new regional ones entering the game.

Table 2: Type of Financial Institution Approached for Funding

Institution Type	Frequency (n)	Percentage (%)
Public Sector Banks	78	39.0%
Private Sector Banks	42	21.0%
Non-Banking Financial Companies (NBFCs)	28	14.0%
Government Schemes (SIDBI, MUDRA, etc.)	34	17.0%
Venture Capital / Angel Investors	18	9.0%

The statistics reveal that the most prevalently used source of institutional finances to startups is the public sector banks where 39 percent of the respondents reported. The share of the private sector banks amounts to 21% and governmental schemes like SIDBI and MUDRA (17%) and NBFCs (14%). Venture capital and angel investors have only been accessed by 9 percent of the startups which means that the traditional banking-based ways of receiving funds is still the predominant versus reliance on the form of financing that is entirely privately oriented and venture-based.

Table 3: Perceived Accessibility of Institutional Financial Services

Accessibility Rating	Frequency (n)	Percentage (%)
Very Easy	14	7.0%
Easy	38	19.0%
Moderate	70	35.0%
Difficult	52	26.0%
Very Difficult	26	13.0%

There are mixed impressions among the population being reached by the institutional financial services. Most of the respondents ranked access as moderate (35.0 percent), a significant number found it difficult (26.0 percent), and a small number of respondents rated it as very difficult (13.0 percent), implying

procedural or eligibility barriers. This is the case with only a small part of the respondents reporting access to be easy (19%) or very easy (7%). This implies that there are financial institutions in place whose reach is usually hindered by the structural issues that startups face.

Table 4: Purpose of Institutional Funding Utilized

Funding Purpose	Frequency (n)	Percentage (%)
Working Capital	64	32.0%
Technology/Infrastructure Setup	48	24.0%
Product Development	38	19.0%
Marketing & Outreach	28	14.0%
Research and Innovation	22	11.0%

The working capital (32%), technology and infrastructure setup (24%) and product development (19%), defined the major uses of the institutional funds. The budget allocation to marketing and outreach was 14 percent while only 11 percent of the funds were allocated to research and innovation. "It can be seen that there is a strong role in keeping businesses going and building up the infrastructure but not so much on activities where there is high risk involved, which may mean that there are strained budgets in the short-term."

Table 5: Satisfaction Level with Institutional Financial Services

Satisfaction Level	Frequency (n)	Percentage (%)
Highly Satisfied	16	8.0%
Satisfied	48	24.0%
Neutral	64	32.0%
Dissatisfied	50	25.0%
Highly Dissatisfied	22	11.0%

The results of the level of satisfaction with the institutional financial services are neutral (32%) and not satisfied (25%), which indicates the average experience of startups. The percentage of satisfaction and highly satisfied was 24 followed by 8 respectively, whereas 11 expressed highly dissatisfied. These retired members indicate that most startups feel that institutional financial services are not providing them as fully enough to their needs and this speaks of the need to improve the services provided and specify the policy.

Table 6: Barriers Faced in Accessing Institutional Finance

Barrier	Frequency (n)	Percentage (%)
Lengthy Approval Process	78	39.0%
Lack of Collateral	64	32.0%
Insufficient Loan Amount	28	14.0%
Inadequate Knowledge of Schemes	18	9.0%
Poor Support from Officials	12	6.0%

The lengthy approval process was cited by the most respondents (39%) as the barrier of institutional finance accessibility, and the majority of respondents attributed the issue of access to structural and procedural inefficiencies (32%). Short supply of loan (14%) and poor awareness of funding schemes (9%) also presented a big setback. A minor yet significant proportion (6%) of the respondents also mentioned poor support of authorities. All these barriers can be used to explain why there is need to have simplified, transparent, and startup friendly financing processes.

Hypothesis Testing:

H_0: There is no significant relationship between the type of institutional financial service accessed and the perceived effectiveness in supporting startup growth.

H_1: There is a significant relationship between the type of institutional financial service accessed and the perceived effectiveness in supporting startup growth.

Table 7: Chi-Square Test of Independence

Institution Type	Highly Effective	Effective	Neutral	Ineffective	Highly Ineffective	Total
Public Banks	6	22	28	16	6	78
Private Banks	2	12	16	8	4	42
NBFCs	1	6	12	6	3	28
Govt Schemes	4	12	10	6	2	34
VC/Angel Investors	3	6	4	3	2	18
Total	16	58	70	39	17	200

Calculated χ^2 value = 24.18
Degrees of Freedom (df) = 16
Critical χ^2 value ($\alpha = 0.05$) = 26.30.
The null hypothesis is not rejected as the value of 24.18, which is got by computing the values against the 26.30 that represents the critical value.
No substantial interconnection exists between the nature of institutional financial service obtained and perceived capability to encourage the growth of startups.

VI. CONCLUSION

The study provides a comprehensive evaluation of institutional financial services in India and their role in supporting the country's dynamic startup ecosystem. It is informed in the findings that although institutional finance, consisting of public and private banks, non-bank finance companies and government schemes, is the core funding capability of startups, its effectiveness is curtailed by high barriers to access and operation. High percentage of startups are still left with delays in procedures, collateral shortages, and insufficient knowledge of the existing schemes, while failing to be satisfied and make wide use of the resources of institutions.
Despite the government's emphasis on inclusive financing and the increasing number of financial products aimed at startups, accessibility remains skewed toward metro-based and technology-driven ventures. Startups in the rural and sector-diversified world usually fail to access institutional funding because of the strict eligibility criteria and geographic restrictions. In addition, based on the results of the hypothesis testing, it is possible to see that the relationship between the type of institution accessed, and the perceived effectiveness, is not statistically significant, which is indicative of a larger problem of one-size-fits-all approach to the provision of the financial services.
In order to make institutional financial services more productive, it is necessary to apply more tailored and start-up-oriented strategy. This comprises easy loan processing system, providing financing with no collateral security, more outreaches to Tier II and rural locations, and better financial literacy of the entrepreneur. Enhanced co-ordination between policy framework, institutional practices shall play a significant role in seeing that the dream of institutional finance turns into concrete support to the forth coming generation of economically empowered entrepreneurs in India.

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