

Investment Landscape and Ecosystem Climate in Sri Lanka: Mapping the Angel Investment, Venture Capital, and Crowdfunding Climate

A.M.D.D.K. Abeysinghe, Dr. Swapan Kumar Majumdar, Dr Rozaini Binti Rosli

School of Business and Management Lincoln University College, Petaling Jaya, Selangor, Malaysia

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ABSTRACT

Since its 2022 sovereign default, Sri Lanka has recorded a strong macroeconomic recovery, marked by record foreign direct investment, an improved credit rating, and record highs on the Colombo Stock Exchange. However, it remains unclear whether this recovery has been matched by growth in the early-stage risk-capital instruments — angel investment, venture capital, and equity crowdfunding — that are needed to finance high-growth domestic startups. This review study examines the current state of these three instruments using primary data from Sri Lanka's Securities and Exchange Commission, the Lankan Angel Network, venture capital tracking platforms, and direct fund disclosures, covering developments through August 2026, and applies an explicit, tiered source-quality appraisal framework to grade the evidentiary strength of each finding; because two of the three instruments were in active transition at the time of writing, the findings should be read as a snapshot rather than a fixed characterization. The findings reveal a three-tier structure of institutional maturity. Angel investment is the most developed instrument but depends heavily on a single, self-reporting network. Venture capital activity is growing, yet its most active fund is foreign-domiciled rather than locally capitalized. Equity crowdfunding remains stalled, with a 2022 regulatory proposal still unfinalized due to an unresolved conflict with existing company law. Mapping these findings onto the startup funding life cycle further shows that Sri Lanka's ecosystem is not evenly weak but discontinuously weak, with reasonable support at the seed stage giving way to a clear gap at the Series A stage — a pattern that a preliminary comparison with Bangladesh's early-stage finance ecosystem suggests may be a regional rather than a purely Sri Lankan phenomenon. The study concludes that Sri Lanka's macroeconomic recovery has not yet produced a matching early-stage finance ecosystem, and that finalizing the crowdfunding regulatory framework, alongside targeted support for Series A financing and primary-data validation of the documentary findings reported here, represents the most practical and high-impact reform and research opportunity for policymakers and scholars alike.

Keywords: angel investment; venture capital; equity crowdfunding; entrepreneurial finance ecosystem; investment climate; source-quality appraisal; Sri Lanka

INTRODUCTION

A recurring theme in emerging-market entrepreneurial finance research is that macroeconomic stabilization and capital-market recovery do not automatically translate into a deepened supply of early-stage risk capital (Mason & Harrison, 2015; World Bank, 2013). Sri Lanka's trajectory since its 2022 sovereign default illustrates this dynamic sharply. By 2025–2026, the country had recorded a historic run on the Colombo Stock Exchange, a sovereign credit rating upgrade out of selective default, and record annual foreign direct investment (FDI) inflows exceeding USD 1 billion (Reuters, 2025; Xinhua, 2026). Yet these aggregate indicators say little about whether the specific financing instruments that fund high-growth domestic entrepreneurship — angel investment, venture capital (VC), and crowdfunding — have developed at a comparable pace.

This distinction matters because angel investors, venture capitalists, and crowdfunding platforms perform a categorically different function from the FDI and portfolio flows that dominate most investment-climate assessments. Where FDI typically finances physical infrastructure, manufacturing capacity, or the acquisition of existing assets, early-stage risk capital finances unproven ventures under conditions of extreme information asymmetry, and is correspondingly more sensitive to exactly the institutional frictions — regulatory ambiguity, weak minority-investor protection, uncertain exit pathways — that can persist even after sovereign-level indicators recover (Mason & Harrison, 2015).

This study asks three questions specific to this segment of Sri Lanka's investment climate. RQ1: What is the current scale and institutional structure of angel investment activity in Sri Lanka? RQ2: How mature is the domestic venture capital market, and to what extent is its recent growth driven by domestic versus foreign-domiciled capital? RQ3: What is the regulatory status of equity crowdfunding in Sri Lanka, and what does the trajectory of its regulatory development reveal about the broader alternative-finance climate? The analysis draws on primary disclosures from the SEC, LAN, and active VC funds, triangulated against independent transaction-tracking platforms, covering developments through August 2026, and is explicit throughout about the evidentiary tier underlying each finding and about the boundaries of what a single-country documentary study of this kind can and cannot establish.

THEORETICAL FRAMEWORK

The Entrepreneurial Finance Escalator

Entrepreneurial finance theory conceptualizes early-stage capital as an 'escalator' of sequential instruments — founder/family capital, angel investment, seed-stage venture capital, growth-stage venture capital, and public markets — each addressing the information and risk profile of a successive company stage (Mason & Harrison, 2015). A well-functioning ecosystem requires depth at each step; a gap at any stage (commonly the 'seed gap' or 'Series A chasm') constrains ventures from progressing regardless of downstream capital availability. Crowdfunding is theorized as a parallel, non-sequential instrument that can substitute for or complement angel and seed VC financing, particularly where formal risk-capital institutions remain thin (Ahlers et al., 2015).

Institutional Voids and Foreign Intermediation

Where formal domestic financial institutions are underdeveloped, foreign or diaspora-linked intermediaries often step in to fill 'institutional voids' (Khanna & Palepu, 2010), a pattern visible in Sri Lanka's reliance on a Singapore-domiciled, MAS-licensed VC fund as its most active early-stage investor. This substitution can accelerate capital deployment in the short term but does not, by itself, indicate the emergence of durable domestic venture-capital institutions, since the fund's regulatory home, fund-of-funds relationships, and follow-on capital remain anchored outside the jurisdiction being invested in.

Regulatory Lag Theory

Regulatory lag — the gap between the emergence of a financial innovation and the promulgation of rules governing it — is a well-documented constraint on crowdfunding market development internationally (World Bank, 2013). Sri Lanka's equity crowdfunding framework, discussed in Section 4.4, provides an unusually clean illustration of this dynamic: a formal regulatory consultation process began in 2022 but had not concluded in a finalized rule as of this study's most recent data point, more than four years later.

The Startup Funding Life Cycle and the 'Missing Middle'

A complementary and more granular lens than the escalator metaphor introduced in Section 2.1 is Berger and Udell's (1998) financial growth cycle model, which maps specific financing instruments onto a venture's sequential stages of development: an idea/pre-seed stage financed by founder capital and the '3Fs' (founders, family, and friends); a seed stage financed by angel investment and, increasingly, equity crowdfunding; an

early-growth stage financed by seed- and Series A-stage venture capital; an expansion stage financed by later-round venture capital and private equity; and an exit stage realized through acquisition or public listing. A well-documented pathology in emerging and even mature markets is the 'equity gap' or 'Series A chasm' — a discontinuity at the early-growth stage where ventures that have exhausted seed capital cannot yet meet the risk-adjusted return thresholds of later-stage investors (Mason & Harrison, 2015). Section 4.5 uses this framework to map Sri Lanka's specific instruments, documented in Sections 4.2–4.4, onto each life-cycle stage, in order to identify where in the sequence — rather than simply how much in aggregate — Sri Lanka's early-stage finance ecosystem is thin.

METHODOLOGY

Research Design and Data Sources

This study uses a documentary analysis and data-triangulation design, consistent with the nature of the evidence base: primary regulatory documents, direct fund and network disclosures, and independent transaction-tracking platforms, rather than peer-reviewed academic literature. Primary sources comprised the Securities and Exchange Commission of Sri Lanka's public consultation documents and strategic-plan releases; direct disclosures from the Lankan Angel Network and nVentures; and Sri Lankan capital-market and macroeconomic data from the Central Bank of Sri Lanka, the Colombo Stock Exchange, and UNCTAD. These were triangulated against independent transaction-tracking and investor-database platforms (Tracxn, PitchBook, Crunchbase, Dealroom, StartupBlink) and financial media reporting directly on primary disclosures (Daily FT, LNW). The search and inclusion process covered developments from 2012 (LAN's founding, used as the earliest relevant institutional baseline) through August 2026, with priority given to the most recent primary-source figure for each indicator.

Source Quality Appraisal Framework

Because this study synthesizes documentary and disclosure-based evidence rather than peer-reviewed literature, a conventional systematic-review risk-of-bias instrument (e.g., Cochrane RoB, GRADE) does not directly apply. To provide an equivalent, transparent basis for judging the evidentiary weight of each finding, this study developed a four-tier source-quality appraisal framework, applied to every figure reported in Section 4. Table 1 defines the four tiers; Table 2 classifies the principal data points used in this study against them.

Tier	Definition	Verification standard	Example sources in this study
Tier 1 – Audited/Regulatory	Figures published by a statutory regulator or derived from an audited financial statement	Independently verifiable; subject to regulatory or audit oversight	SEC consultation papers and strategic plans; Central Bank and CSE market data
Tier 2 – Independent platform-tracked	Figures compiled by a third-party platform using a documented, repeatable transaction-tracking methodology	Repeatable methodology; publicly documented; not self-reported by the entity being measured	Tracxn, PitchBook, Crunchbase, Dealroom, StartupBlink deal-tracking counts
Tier 3 – Self-reported, single-organization	Figures disclosed directly by the entity being described, with no independent audit or third-party verification identified	Best available disclosure, but unverified; treated as institutional claim, not confirmed fact	LAN cumulative deployment and startup count; nVentures fund-performance metrics (MOIC, IRR)
Tier 4 – Model-based estimate / dated secondary figure	Figures generated by a forecasting model, or point estimates that have not been updated by any subsequent primary or platform source	Lowest confidence; reported with explicit caveats and, where possible, alongside competing figure	Statista VC market-size forecast; 2015 crowdfunding market-size estimate (Wardrop et al., cited in Daily FT, 2017)

Table 1. Four-Tier Source Quality Appraisal Framework

Finding (Section)	Headline figure	Tier	Implication for interpretation
LAN cumulative deployment (4.2)	LKR 2bn+ since 2012; 40–50+ startups	3	Reported as institutional claim; independent audit not identified
nVentures Fund I performance (4.3)	1.81x MOIC; 30% IRR	3	Only public performance data for an active SL-focused VC fund; single-source
VC funds tracked (4.3)	22 funds; 159 portfolio companies	2	Repeatable platform methodology; cross-checked against StartupBlink
VC market size – Statista (4.3)	USD 27.93M (2025)	4	Model-based; reported alongside the divergent Tier 2 estimate, not in place of it
VC market size – Tracxn/StartupBlink (4.3)	USD 3–4.5M/yr tracked	2	Independently tracked; the ~6–9x divergence from the Tier 4 estimate is itself treated as a finding
Crowdfunding market size (4.4)	USD 100K–500K (2015 estimate)	4	Undated for over a decade; reported as a historical reference point only, not a current estimate
SEC consultation and strategic-plan disclosures (4.1, 4.4)	2022 consultation; 2025 '12 Pillars' plan	1	Highest-confidence tier in this study; used to anchor the regulatory-lag finding

Table 2. Source Quality Classification of Principal Findings

Two interpretive rules follow from this framework and are applied consistently in Section 4 and Section 5. First, Tier 3 findings (self-reported, single-organization disclosures) are explicitly flagged as institutional claims rather than independently confirmed facts at every point they are used substantively — this affects the angel-investment findings (Section 4.2) and the venture-capital performance findings (Section 4.3) most directly, since both rest on the disclosing organization's own figures. Second, where a Tier 4 estimate conflicts with a Tier 2 estimate for the same metric (as with VC market sizing in Section 4.3), this study reports both rather than selecting one, on the grounds that resolving the divergence by silent selection would overstate this study's ability to adjudicate between two different measurement methodologies.

Inclusion and Exclusion Criteria

Sources were included if they met one of three criteria: (i) they were a primary regulatory or institutional disclosure (SEC filings, LAN and nVentures fund reports, Central Bank and CSE data); (ii) they were an independent transaction-tracking platform with a documented, repeatable methodology (Tracxn, PitchBook, Crunchbase, Dealroom, StartupBlink); or (iii) they were financial media reporting that directly cited a primary disclosure rather than a secondary estimate. Sources were excluded where a figure could not be traced to one of these three categories, or where a platform's methodology for classifying “active” funds or “tracked” deals was not publicly documented.

Adjudication Procedure for Conflicting Figures

As in the broader investment-climate literature this study draws on, where sources reported materially different figures for the same metric, the study reports the divergence explicitly rather than resolving it by selection, treating it as a substantive finding about ecosystem-data transparency rather than a measurement artifact. Where two or more sources reported materially different figures for the same metric, the adjudication procedure was as follows: (a) primary (Tier 1) disclosures were given precedence over platform (Tier 2) or

modeled (Tier 4) estimates; (b) where two primary disclosures conflicted, the more recent was reported as the primary figure with the earlier retained for comparison; and (c) where no primary disclosure existed and independent platforms diverged (as with VC market sizing in Section 4.3), both figures were reported alongside their respective methodologies and source-quality tier (Table 2), and the divergence itself was treated as a substantive finding rather than resolved by selection.

FINDINGS

Macroeconomic and Capital-Market Context

Sri Lanka's broader recovery provides essential context for the alternative-finance findings that follow. FDI inflows reached USD 1.04–1.06 billion in 2025, a record, up from USD 759 million in 2024 (Global Finance Magazine, 2026; Xinhua, 2026). S&P Global Ratings upgraded the sovereign rating out of selective default to 'CCC+/C' with a stable outlook, citing debt-restructuring progress and fiscal consolidation (Reuters, 2025). The Colombo Stock Exchange's All Share Price Index set repeated record highs through the period, briefly breaching 24,000 points in January 2026 (Gulf News, 2026). This recovery has been accompanied by a substantive capital-market governance initiative: in October 2025, the SEC launched its '12 Pillars One Vision' strategic plan, explicitly framing capital-market deepening as a growth engine and inviting continued stakeholder consultation on unresolved reforms (SEC of Sri Lanka, 2025) — a Tier 1 source in the appraisal framework of Section 3.2. It is against this backdrop of validated macro-level recovery that the comparatively underdeveloped state of angel, venture, and crowdfunding capital documented below becomes analytically significant: the gap is not explained by continued macroeconomic distress.

The Angel Investment Climate

Angel investment in Sri Lanka is structurally concentrated in a single dominant institution: the Lankan Angel Network (LAN), founded in 2012 as the country's first formal alliance of angel investors (Lankan Angel Network, 2026). As of 2025, LAN comprised a network of more than 100 angel investors and reported having backed over 40–50 startups with cumulative investment exceeding LKR 2 billion — approximately USD 6.7 million¹ — since inception (LAW, 2025; Lankan Angel Network, 2026). Consistent with the source-quality framework in Section 3.2, these figures are Tier 3 (self-reported, single-organization) and have not been independently audited or verified by a third party; they are presented here as the best available institutional disclosure rather than as independently validated statistics. LAN's structured vehicle, Fund I, deployed LKR 100 million (approximately USD 330,000, converted on the same basis), and the network announced plans for a successor Fund II at its 2025 annual kick-off event, alongside the appointment of a new chairman (Lankan Angel Network, 2026).

Beyond LAN, the angel landscape includes informal, platform-mediated deal flow through services such as the Sri Lanka Angel Investment Network, which connects entrepreneurs directly with individual investors on a deal-by-deal basis rather than through a structured fund vehicle (Angel Investment Network, 2026). This structure — one dominant formal network supplemented by informal, unaggregated deal flow — means that reliable, ecosystem-wide angel investment statistics do not exist independently of LAN's own self-reported figures, a transparency limitation this study treats as a finding in its own right: unlike more mature angel markets (e.g., the United States or United Kingdom, where angel activity is estimated through repeated national surveys), Sri Lanka has no independent, periodic angel-market sizing mechanism.

The Venture Capital Climate

Sri Lanka's venture capital market shows clearer institutional multiplication than the angel segment — Tracxn identifies 22 distinct venture capital funds active in the market with a combined tracked portfolio of 159 companies as of January 2026 (Tracxn, 2026a), a Tier 2 finding — but its most consequential recent development illustrates the institutional-void dynamic discussed in Section 2.2. nVentures, founded in 2020 and based in Singapore, became Sri Lanka's first foreign VC fund licensed by the Monetary Authority of Singapore (MAS) to invest actively in local startups, and by mid-2025 had channelled more than USD 1.5

million into seven Sri Lankan ventures including MintPay, Nanosoft, SimpleBooks, Shopbook, and WealthOS (LankaTalks, 2025). Fund I deployed under USD 3 million across 13 investments spanning Bangladesh, India, Sri Lanka, Singapore, and the UK, reporting a 1.81x multiple on invested capital, 30 percent IRR, and two realized exits including WealthOS's acquisition by JPMorgan Chase (Daily FT, 2026a). As with the angel-segment figures in Section 4.2, these fund-performance metrics are Tier 3 — self-reported by nVentures and not independently audited; they are the only publicly disclosed performance data for an active Sri Lanka-focused VC fund and are reported on that basis. nVentures has since launched a USD 10 million Fund II targeting pre-seed and seed-stage Enterprise AI startups founded by Sri Lankans building for global markets (Daily FT, 2026a).

Domestically anchored vehicles exist but remain comparatively small: the Digital Innovation Fund, backed by Dialog Axiata PLC (Sri Lanka's largest telecommunications operator) and managed by BOV Capital, focuses specifically on Sri Lankan digital startups (Shizune, 2026). However, market-sizing estimates for the VC segment diverge substantially depending on methodology. Statista's market-forecast model projects the Sri Lankan venture capital market to reach a volume of USD 27.93 million in 2025 (Statista, 2026) — a Tier 4 estimate — an order of magnitude larger than the roughly USD 3–4.5 million in annual deal flow independently tracked by Tracxn and StartupBlink (Tier 2) over the same period (StartupBlink, 2026; Tracxn, 2026b). Per the adjudication procedure in Section 3.4, both figures are reported rather than resolved by selection: this is consistent with, and reinforces, the broader ecosystem-value/risk-capital divergence problem identified elsewhere in Sri Lankan startup-ecosystem reporting — top-down market-sizing models and bottom-up transaction tracking are evidently measuring substantially different things, and neither has been reconciled against the other in any published methodology note available to this study.

The Crowdfunding Climate: A Case of Regulatory Lag

Equity crowdfunding presents the clearest case of regulatory stasis identified in this study. The Securities and Exchange Commission of Sri Lanka issued a formal Public Consultation Paper on Facilitating Equity Crowdfunding in April 2022, developed with technical assistance from the Asian Development Bank and explicitly referencing International Organization of Securities Commissions (IOSCO) principles as a benchmark (SEC of Sri Lanka, 2022) — a Tier 1 source. The consultation paper proposed a detailed operating framework — minimum capital requirements for platform operators, mandatory risk-warning disclosures, and Financial Intelligence Unit anti-money-laundering and know-your-customer compliance obligations — and invited public comment with a submission deadline of 23 May 2022 (SEC of Sri Lanka, 2022). As of this study's most recent search (August 2026), more than four years later, no finalized equity crowdfunding regulation has been identified in the public record, and the SEC's own October 2025 strategic plan, while addressing broader capital-market development, does not identify crowdfunding finalization as one of its explicit near-term deliverables (SEC of Sri Lanka, 2025).

This delay is compounded by an unresolved statutory conflict identified as early as 2017: equity crowdfunding requires a private company to solicit investment from the general public, which runs counter to restrictions in Sri Lanka's Companies Act on public solicitation by non-listed entities, while loan-based (debt) crowdfunding risks being classified as deposit-taking, which would require platform operators to obtain licensing from the Central Bank of Sri Lanka (Daily FT, 2017). The most recent published estimate of Sri Lanka's crowdfunding market size — USD 100,000 to 500,000, dating to 2015 (Wardrop et al., cited in Daily FT, 2017), a Tier 4 figure — has not, to this study's knowledge, been updated in any subsequent official or academic publication, meaning that Sri Lanka currently lacks both a finalized crowdfunding regulatory framework and any recent, reliable estimate of the market it would govern.

Mapping Sri Lanka's Startup Funding Life Cycle

Applying Berger and Udell's (1998) financial growth cycle framework (Section 2.4) to the instrument-level findings of Sections 4.2–4.4 makes visible a structural discontinuity that aggregate figures alone would obscure. Figure 1 and Table 3 map each stage of the conventional startup funding life cycle onto the specific Sri Lankan instrument, evidence source, and maturity status identified in this study.

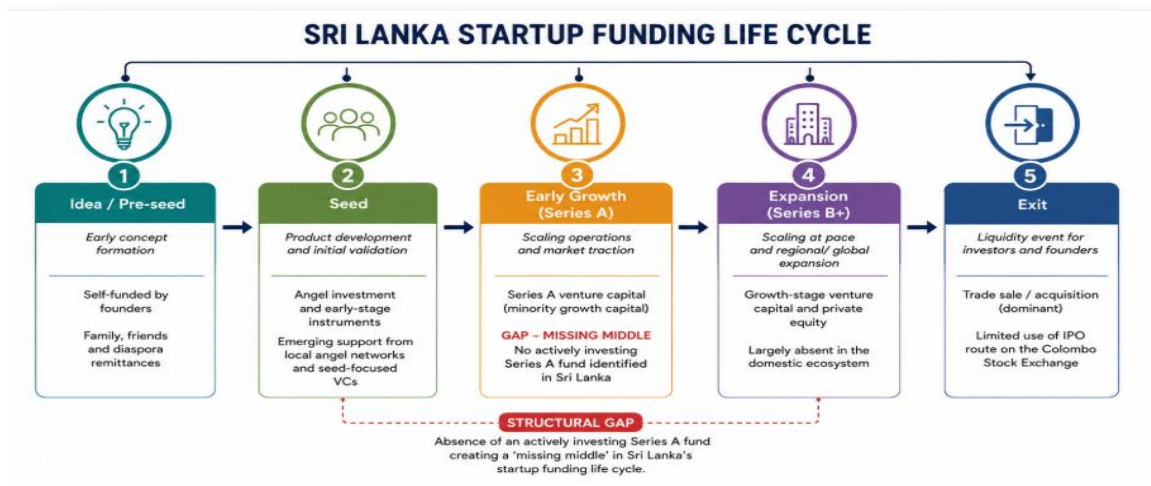


Figure 1. Author's own synthesis based on Berger and Udell's (1998) financial growth cycle framework and the empirical evidence reviewed in this study

Life-cycle stage	Typical global instrument	Sri Lankan equivalent (this study)	Maturity status
1. Idea / Pre-seed	Founder capital; '3Fs' (founders, family, friends)	Informal savings and diaspora remittances (not systematically tracked)	Unmeasured — no data source identified
2. Seed	Angel investment; equity crowdfunding	Lankan Angel Network (§4.2); nVentures seed cheques (§4.3); crowdfunding absent (§4.4)	Present but concentrated in one angel network and one foreign VC
3. Early growth (Series A)	Series A venture capital	No actively investing Series A-stage fund identified in this study's evidence base	Gap — the 'missing middle'
4. Expansion (Series B+)	Growth-stage VC; private equity	Not identified; Digital Innovation Fund (BOV Capital/Dialog Axiata) remains the largest domestically anchored vehicle but is seed-focused (§4.3)	Largely absent domestically
5. Exit	Trade sale / acquisition; IPO on public exchange	Acquisition-led (e.g., WealthOS—JPMorgan, §4.3); no tech-startup IPO on the CSE identified	Acquisition dominant; public-listing exit path underused

Table 3. Sri Lanka's Startup Funding Life Cycle Mapped to Available Instruments

The resulting picture qualifies the three-tier account developed in Sections 4.2–4.4: Sri Lanka's early-stage finance ecosystem is not uniformly thin but discontinuously thin, with reasonable (if concentrated) coverage at the pre-seed and seed stages giving way to an apparent absence of dedicated Series A and growth-stage capital. This is consistent with the classic 'equity gap' pattern documented in more mature markets (Mason & Harrison, 2015), but is potentially more consequential in Sri Lanka's case because it means ventures that successfully clear the seed stage — the stage this study finds best served, via LAN and nVentures — have no identified domestic pathway to the next stage of financing, and are consequently more likely to seek acquisition (as WealthOS and, in a different segment, WSO2 did) or foreign re-domiciliation before reaching a scale at which a Sri Lankan public listing becomes viable.

Summary: A Three-Tier Structure of Instrument Maturity

Table 4 summarizes the comparative institutional maturity of the three instruments examined, together with the source-quality tier (Section 3.2) underlying each maturity assessment.

Instrument	Institutional anchor	Scale (most recent data)	Source tier	Key constraint
Angel investment	Single dominant network (LAN, est. 2012)	LKR 2bn+ (~USD 6.7M) cumulative since 2012; 40–50+ startups	3	Single-organization concentration; no independent market sizing
Venture capital	22 tracked funds; most active is Singapore-domiciled (nVentures)	USD 3–4.5M/yr tracked deal flow vs. USD 27.93M modeled market size	2 / 4 (divergent)	Foreign intermediation; large divergence between model and tracked data
Equity crowdfunding	SEC (regulator); no licensed platforms operating	USD 100K–500K (2015 estimate; not updated since)	1 (regulatory status) / 4 (market size)	Regulation stalled since 2022 consultation; unresolved Companies Act conflict

Table 4. Three-Tier Structure of Instrument Maturity, with Source-Quality Tier

DISCUSSION

Three Tiers, One Escalator

The findings support a three-tier account of instrument maturity that maps cleanly onto the entrepreneurial finance escalator framework introduced in Section 2.1. Angel investment (RQ1) is the most institutionally developed of the three instruments, but its concentration in a single network means the ecosystem's angel capacity is more accurately described as one organization's balance sheet and deal flow than as a market in the conventional sense — a structural fragility not evident from LAN's growth narrative alone, and one that this study's Tier 3 classification of the underlying figures makes explicit rather than implicit. Venture capital (RQ2) shows greater nominal institutional multiplication (22 funds) but its most active and best-documented participant is externally domiciled and foreign-licensed, consistent with the institutional-void substitution pattern described in Section 2.2; this raises an open question, beyond this study's evidence base, of whether foreign-anchored VC activity crowds in or crowds out the formation of domestically capitalized funds over the medium term.

Crowdfunding (RQ3) is the clearest case of the regulatory-lag dynamic theorized in Section 2.3, and arguably the most policy-actionable finding in this study: a well-specified regulatory proposal, developed with multilateral technical assistance and benchmarked against international standards, has sat unfinalized for over four years, apparently obstructed by an unresolved conflict with existing company law rather than by any documented policy disagreement over the desirability of crowdfunding itself. This is analytically distinct from, and arguably more tractable than, the broader institutional fragmentation documented elsewhere in Sri Lankan investment-climate research (e.g., the stalled Economic Transformation Act/Board of Investment transition), because it does not require resolving competing institutional mandates — only reconciling two specific, identifiable statutory provisions.

Read together, these findings qualify the optimistic reading of Sri Lanka's 2025–2026 macroeconomic and capital-market recovery documented in Section 4.1. Record FDI and equity-market performance indicate that risk-tolerant capital able to price in sovereign-level signals has returned; the angel, VC, and crowdfunding findings indicate that the deeper institutional infrastructure required to convert Sri Lanka's substantial talent pool and improving macro fundamentals into a self-sustaining domestic entrepreneurial-finance ecosystem remains, in each of the three instruments examined, either concentrated, externally anchored, or regulatorily incomplete.

The Missing Middle in Sequence

The life-cycle mapping in Section 4.5 adds a sequential dimension to these three RQ-level findings. Rather than a uniformly underdeveloped ecosystem, Sri Lanka exhibits a specific discontinuity: pre-seed and seed financing, while concentrated in single institutions, are demonstrably present and active, whereas early-growth (Series A) and expansion-stage capital appear to be effectively absent from the documentary record examined. This 'missing middle' pattern is consequential precisely because it sits downstream of the stage this study finds best served — meaning the ventures most likely to encounter it are exactly those that LAN, nVentures, and the wider seed ecosystem have already successfully financed. The acquisition-led exit pattern documented in Table 3 (WealthOS by JPMorgan; and, in the broader ecosystem, WSO2 by EQT) is consistent with what financial growth cycle theory would predict when a domestic Series A market does not exist: ventures that cannot raise a domestic next round either seek acquisition earlier than they might otherwise, or seek growth capital abroad, in both cases bypassing the Colombo Stock Exchange as a plausible future listing venue for the technology sector.

External Validity: Is Sri Lanka's Pattern Idiosyncratic or Regional?

A central limitation of any single-country documentary study is that it cannot, on its own evidence, distinguish a country-specific institutional failure from a broader pattern characteristic of small, post-crisis, or lower-middle-income entrepreneurial finance ecosystems. While a full comparative study is beyond this paper's documentary scope (see Section 7), a preliminary check against Bangladesh — a South Asian economy of comparable regional standing with a more extensively documented startup-finance sector — suggests the discontinuous, 'missing middle' pattern identified in Section 4.5 may not be unique to Sri Lanka. Bangladesh's venture capital market deployed roughly USD 877 million between 2010 and 2025, but this capital was heavily weighted toward late-stage rounds: Series B absorbed approximately 57% of deployed VC capital, while Series A absorbed only around 15%, despite Series A representing a larger share of deal volume, indicating that domestic VC has functioned primarily as a growth-stage allocator rather than a broad early-stage risk-capital provider (LightCastle Partners, 2026). Local-investor participation in Bangladeshi funding rounds has also been reported as remarkably low — under USD 1 million of a total USD 124 million raised by Bangladeshi startups in 2025 — prompting a state-backed initiative, the Bangladesh Startup Investment Corporation, explicitly designed to seed a domestic institutional-investor base for late-seed and Series A rounds (Inforcapital, 2026).

Read alongside this study's Sri Lankan findings, the Bangladesh comparison suggests two things. First, the specific location of the funding gap identified in Section 4.5 — a well-served seed stage giving way to a thin Series A stage — recurs in at least one other South Asian post-crisis-adjacent economy, which weakens (without ruling out) a purely Sri Lanka-specific institutional explanation and strengthens the case that this is a regional pattern consistent with the broader 'equity gap' literature (Mason & Harrison, 2015). Second, Bangladesh's policy response — a state-backed vehicle explicitly targeting the missing middle — offers a directly comparable precedent for the fund-of-funds recommendation this study makes in Section 6, suggesting the recommendation is not a speculative import from mature-market policy but one with an active, geographically proximate analogue. This comparison should be read as indicative rather than definitive: it draws on a single comparator economy, uses differently structured secondary data than this study's Sri Lanka-specific sources, and was not subjected to the same source-quality appraisal framework applied in Section 3.2 to Sri Lankan sources. A systematic multi-country comparison, ideally applying a common appraisal framework across all comparator economies, remains an important direction for future research (Section 7).

CONCLUSION AND RECOMMENDATIONS

This study finds that Sri Lanka's early-stage risk-capital ecosystem — angel investment, venture capital, and crowdfunding — has not developed at a pace commensurate with the country's broader macroeconomic and capital-market recovery since 2022. Of the three areas examined, equity crowdfunding regulation represents the single most tractable, highest-leverage policy gap: finalizing a framework that has already undergone

multilateral-assisted consultation would not require new institutional creation, only resolution of an identified statutory conflict with the Companies Act. For the angel segment, diversifying formal angel-network capacity beyond a single dominant organization, and establishing a periodic, independently conducted angel-market survey (following international precedent), would materially improve both market depth and data transparency.

For venture capital, policy attention should focus on understanding — through firm-level research beyond this study's documentary scope — whether foreign-domiciled funds such as nVentures are complements to or substitutes for domestic VC formation, and on reconciling the substantial divergence between modeled market-size estimates and independently tracked deal flow, which currently leaves policymakers without a reliable single figure for the size of the market they are seeking to grow.

A fourth, life-cycle-specific recommendation follows from Section 4.5 and is reinforced by the regional comparison in Section 5.3: policy and fund-of-funds design should explicitly target Series A-stage capital formation — for example, by structuring a defined allocation of the existing USD 50 million Fund-of-Funds toward Series A co-investment vehicles, following the directional precedent of Bangladesh's newly launched Startup Investment Corporation — since the evidence assembled here suggests this is the specific point in the funding life cycle, rather than the ecosystem in aggregate, where Sri Lankan ventures are most likely to stall or exit prematurely.

LIMITATIONS AND FUTURE RESEARCH

This study is limited by its reliance on secondary and institutional documentary sources rather than firm-level investor surveys, and by the evolving nature of its subject matter: the SEC's crowdfunding rulemaking process, LAN's Fund II, and nVentures' Fund II were all in active or recently announced stages as of the most recent data available and may have progressed materially by the time of publication. This study's findings should accordingly be read as a snapshot as of August 2026 rather than a stable characterization of the ecosystem: at least two of the three tracked instruments were in active transition at the time of writing — LAN's Fund II was in planning following its 2025 announcement, and nVentures' Fund II (USD 10 million) had only recently launched — meaning the concentration and scale figures reported in Sections 4.2 and 4.3 are likely to shift, potentially materially, within twelve to eighteen months of publication.

A further limitation concerns source independence and, correspondingly, generalizability. As formalized in the source-quality appraisal framework (Section 3.2), several headline figures in this study — LAN's cumulative deployment, nVentures' fund performance metrics — originate from single-organization, self-reported disclosures rather than independently audited sources (Tier 3), and this is not unique to Sri Lanka's ecosystem, but it does mean the study's institutional-maturity assessment rests, in the angel and VC segments, on the credibility of one disclosing entity per instrument. Independent verification (e.g., through LP-level reporting or regulatory audit) was not available within this study's documentary scope. Relatedly, because the analysis is confined to a single country, the study cannot on its own evidence establish whether the discontinuous, 'missing middle' pattern documented in Section 4.5 reflects a Sri Lanka-specific institutional failure or a broader pattern common to comparable lower-middle-income, post-crisis, or small open economies; the indicative Bangladesh comparison in Section 5.3 suggests the latter is plausible but does not substitute for a systematic multi-country study.

Future research should pursue four concrete extensions. First, a systematic, multi-country comparative study — applying the same source-quality appraisal framework developed in Section 3.2 across at least three to five comparator economies (e.g., Bangladesh, Vietnam, Kenya, Nepal) — would establish whether Sri Lanka's three-tier, discontinuous funding structure is idiosyncratic or represents a broader lower-middle-income pattern. Second, primary-data validation is a priority: a structured investor and founder survey, following the methodology of established angel-market sizing exercises in more mature ecosystems (e.g., the UK British Business Angels Association or the US Angel Capital Association's annual surveys), administered to LAN members, informal angel investors, and a sample of nVentures' and the Digital Innovation Fund's portfolio

founders, would allow this study's Tier 3 disclosure-based findings to be either corroborated or revised by independent primary evidence, and should be designed explicitly to estimate the total angel and crowdfunding market sizes that this study's documentary sources could not independently establish. Third, semi-structured interviews with SEC officials involved in the crowdfunding consultation process, and with legal practitioners familiar with the Companies Act conflict identified in Section 4.4, would clarify whether the observed four-year regulatory delay reflects technical drafting difficulty, resourcing constraints, or unstated policy hesitancy — distinctions this study's documentary evidence cannot resolve. Fourth, future research should track, on an ongoing basis, whether the SEC finalizes its equity crowdfunding framework, whether LAN's Fund II and nVentures' Fund II measurably narrow the market-size divergence documented in Table 4, and whether any Series A-stage fund emerges to close the life-cycle gap documented in Table 3 and Section 5.3.

Notes

All LKR-to-USD conversions in this study use the average interbank exchange rate for the reporting period in which the underlying figure was disclosed (approximately LKR 300/USD as of the LAN 2025 disclosure), unless the original source reported a USD figure directly. Because Sri Lanka's exchange rate has fluctuated materially since 2022, cumulative figures spanning multiple years — such as LAN's LKR 2 billion since 2012 — should be read as a nominal sum across different exchange-rate regimes rather than a real, inflation- or currency-adjusted total. This limits direct comparability with the venture capital figures reported in Section 4.3, which are largely disclosed in USD at the time of investment.

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