



Policy analysis on government-funded venture capitalists for scheduled castes

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Abstract

This research aims to explore the impact of setting up a Venture Capital Fund for Scheduled Castes, as announced by P. Chidambaram, the Finance Minister in his Interim Budget Speech for FY 2014-15. This initiative was made in order to promote entrepreneurship and provide concessional finance to the Scheduled Castes. The research will analyse the effectiveness of the fund in terms of its impact on the entrepreneurship of the Scheduled Castes, and the overall effect of the fund on the socio-economic development of the Scheduled Castes. The research will also explore the sustainability of the venture capital fund and the measures taken to ensure its long-term success.

Keywords: government-funded venture, Literature review, entrepreneurship

Introduction

It's not the business of the government to do business, that to when it comes to venture capital, it is the point of investment done by venture capitalists, the reason behind the government of India created the Venture Capital Funds for Scheduled Castes (VCF-SC) and Venture Capital Funds For Backward Classes (VCF-BC) to develop entrepreneurship mind-set among the Scheduled Castes and Backward Classes as part of its commitment. These funds aim to provide financial and technical assistance to entrepreneurs from these communities, helping them to start and grow their businesses. The funds also provide access to capital and mentorship that could otherwise be difficult to obtain. By providing access to capital, these funds aim to bridge the gap between disadvantaged communities and the mainstream economy.

Venture Capital Fund for Scheduled Castes (VCF-SC) and Venture Capital Fund for Backward Classes (VCF-BC) are two schemes introduced by the Ministry of Social Justice and Empowerment, Government of India, to promote entrepreneurship among Scheduled Castes (SC) and Other Backward Classes (OBC). The primary objective of this scheme and policy is to develop micro, small, and medium enterprises (MSMEs) and to give financial assistance to entrepreneurs, especially to schedule caste entrepreneurs. The funds are provided through the National Scheduled Castes Finance and Development Corporation (NSFDC) and National Backward Classes Finance and Development Corporation (NBCFDC). The funds are provided in the form of venture capital, debt and equity finance, guarantee, term loan, and other financial instruments. The funds are provided at concessional rates of interest and with a relaxed repayment schedule. The funds are provided to promote new and innovative business ideas and to facilitate expansion and diversification of existing businesses.

Objective

The primary objective of this research is to examine the impact of the venture capital fund for Scheduled Castes as announced in the year 2014-15. To encourage Scheduled

Castes to become entrepreneurs and to give them access to low-cost financing, the Venture Capital Fund for Scheduled Castes initially allocated 200 crores. The study attempts to explain how money was allocated and what effects the programme has on people. The purpose of this study is to assess how the Scheduled Castes' economic and social well-being has been impacted by this venture capital fund.

Literature review

Bocken, N. M. (2015) ^[1], the study clarifies how venture capitalists fund sustainable enterprises. The study reveals how Venture capitalists view sustainable startups and why they should be their new investment platform. The incentive factor, investment variables, and hurdles to venture capitalists are all thoroughly examined in the research. Additionally, how sustainable venture capitalists support sustainable startups. In the research, expert interviews were conducted, and it was discovered that financial support is provided along with triple-bottom-line business advice. These venture capitalists offer sustainable start-ups with network connections. The goal of a sustainable venture capitalist should be to find innovative technologies that will increase the number of green consumers. Venture capitalists are prepared to fund startups that are willing to assume financial risk and who are attempting to strike a balance between finance and social and environmental returns.

Popp, D. (2022) ^[2], According to the paper, venture capitalists continue to prefer investing in these areas over clean energy technologies even when their investments in high capital, long-term development frameworks, or public sector investments have not produced large returns. The US government is attempting to encourage venture capitalist investment in renewable energy technology. Instead of investing in ailing industries, the government advises investing in clean energy technology, which is essential for long-term growth. Even venture capitalists don't view clean energy technology as their effective funding platform, according to the research, which was conducted by examining 1, 50,000 start-up data initiated between 2010 and 2020.

Ma, S. (2020) ^[3], the study's analysis of the corporate venture capital industry's life cycle dynamics According to the report, the corporate venture capital life cycle will begin with corporate innovation before integrating useful outside knowledge to hypothesize the investments. The investigation was conducted using identical corporate venture capitalist sectors that concentrate on a similar technology foundation but with varied information. The parent company that recently acquired the internal startups will have attached the acquisition based on R&D and external decision-making. The life cycle of a corporate venture capitalist typically lasts four years. In a word, it all comes down to managing corporate information choice and innovation.

Recio-Garcia, J. A. (2019) ^[4], one investment that carries a lot of risk and uncertainty is venture capital, but there aren't enough tools to examine that risk or forecast the future. To fill this gap, machine learning is utilised. Machine learning is already being used by hedge funds as a method of issue-solving. Crunch base is a global database with thousands of businesses that provides information to venture capitalists. The risk associated with venture capital investment will be decreased by studying this data and forecasting the results. With the help of this database, you may pinpoint problems in their early stages and estimate their duration during the first three years. In a nutshell, machine learning aims to enable venture capitalists in their efforts to invest wisely in startups, advance rigorously, and lower risk.

Volonté, C. (2019) ^[5], the study is based on observations from 1496 countries, which also include 88 countries, from 1998 to 2014. When conducting research, one looks into how individualism, which has been linked to entrepreneurship, affects venture capital investment. In this study, cross-border analysis was conducted. Various researchers are attempting to prove that venture capital innovation is boosting the economy. The political system's underlying venture capital investment serves as the basis for the tool of individualism. The economic situation, which is measured by GDP per capita, moderates the influence of individualism on capital investment by controlling the entrepreneurial mindset. The research also shows that the fundamental cultural barrier in the modern world and cross-cultural psychology will be based on arguing that individualism as an important aspect.

Graham, S. J. (2019) ^[6], the study makes attention to a 2008 financial crisis empirical study that examines how venture capitalists demonstrate their liquidity supply stocks even then. Even while the funding for films rose at this time, the allocation granted to startups remained the same. How venture capitalists handled the financial crisis while crisis was happening. How did venture capitalists allocate their funds during this period of economic crisis, with a focus on the diversity of investments made during the Moment of crisis? The fact that venture investors couldn't obtain the right information during the crisis is one of their biggest issues. Additionally, expert venture capitalists made different decisions from novice venture capitalists.

Rasmussen, E. (2020) ^[8], the emergence of creative companies has had a greater impact on the economy and society. Policy actions are being implemented to encourage the formation of new businesses. The high impact made by limited enterprises makes the implementation of these policies more difficult. As a result, knowing the start-up process is required for policy creation. The framework

process contains the founding qualities, behaviours, and impacts produced by them. Kantis, H. (2021) ^[9], Indian venture capital has potential for growth even during the current COVID-19 crisis. Indian-based VC funds grew by more than 500 with a total investment of less than 10 during the 1990s. The creation, growth, and boom of the Indian VC business from the theoretical perspective of innovation and entrepreneurial systems, with contributions from Latin American and Indian academics, is the purpose of the study. Indian VC development with reference to global, historical, and territorial dates is referred to.

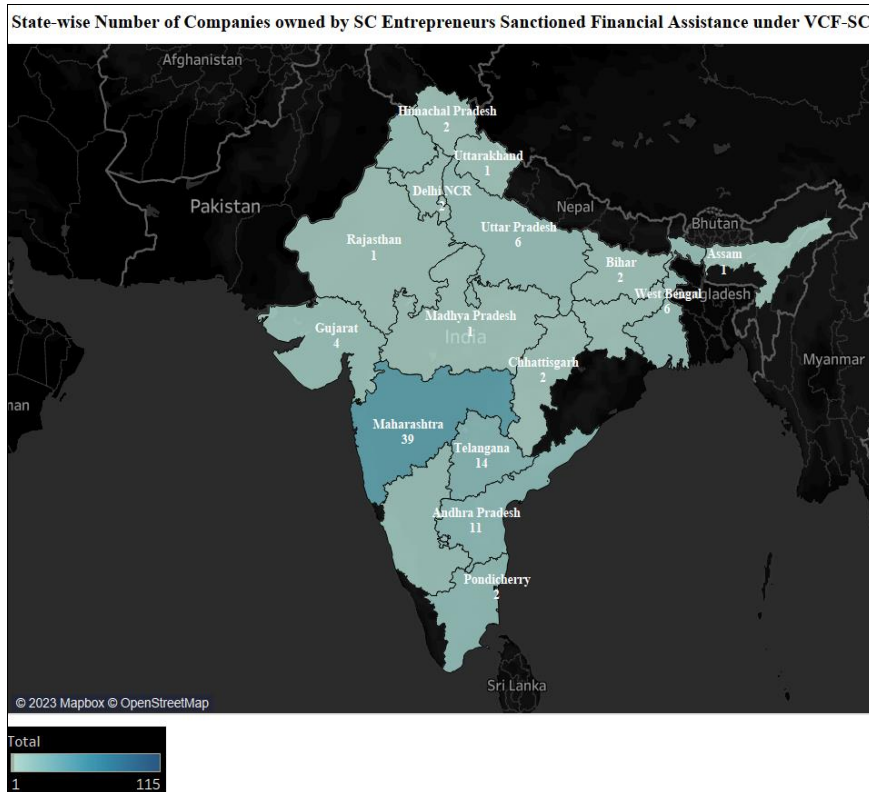
Background

The first government-funded venture capitalist in India is brought by Technology Development Board (TDB). It is a public-private partnership between the Department of Science and Technology (DST) and private partners, such as venture capital firms, angel investors, and financial institutions. The fund provides early-stage financial assistance to Indian start-ups and small and medium enterprises (SMEs) working in the fields of advanced technologies. The fund aims to provide equity funding and other assistance to innovative projects and businesses in the fields of biotechnology, pharmaceuticals, energy, information technology, and nanotechnology, among others. It also provides technical assistance to the beneficiary companies, helping them to build their capabilities in the areas of research and development, product development, technology commercialization, and business planning.

The fund provides both debt and equity financing to its beneficiaries, which can range from ₹3 crore to ₹50 crore. The fund also offers mentorship and guidance to the beneficiary companies, helping them to identify and assess opportunities and make sound business decisions. The fund also provides post-investment support to the companies, such as helping them to create strategic partnerships and explore new markets. The fund has been established with an initial corpus of ₹2,000 crore and is expected to be operational in 2020. The fund is expected to help spur innovation and entrepreneurship, create jobs, and fuel economic growth in India.

The primary objective of TDB's venture capital funds is to finance entrepreneurs who want to run businesses that involve technology and innovation. This is especially important when those entrepreneurs run small or medium-sized businesses, as this type of business is more prevalent in MSMEs-dominated nations. Normally, TDB contributes 15% of the venture capital fund, but it is given greater weight if entrepreneurs are fostering innovation and technology for business or industrial expansion by 25%. When it comes to the balance of the portfolio, TDB will have a representative who can provide exemptions, and the proposal must be founded on innovation and technological content. Financial services are not desired, and the track record of the fund management will also be taken into consideration. To help manage the portfolio, they will also appoint a representative to the VCF Investment Committee. TDB has already committed 285 crores to 11 VCF, and additional investors have contributed a total of 2,463 crores. TDB doesn't encourage financial service.

Analysis

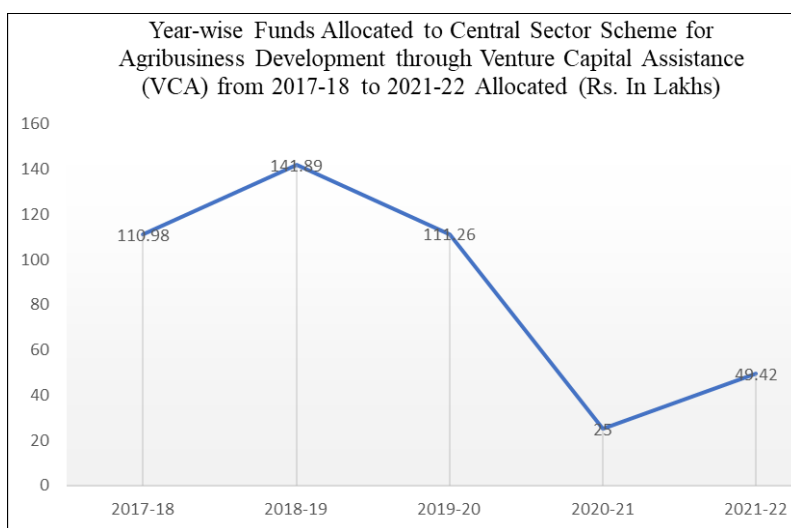


Source: <https://data.gov.in/> (Venture Capital)

Fig 1

The above data explains Scheduled Caste entrepreneurs who have been sanctioned financial assistance under the Venture Capital Fund for Scheduled Castes from 2014-15 to 2022-23. From the above data, it is clear that Maharashtra has the highest number of companies owned by Scheduled Caste entrepreneurs who have been sanctioned financial assistance under the Venture Capital Fund for Scheduled Castes from 2014-2015 to 2022-2023, with totally 39 companies. This is followed by Telangana with 14 companies, Andhra Pradesh with 11 companies, and Punjab and Karnataka with 4 companies each. Other states have less than 4 companies each.

In terms of the total number of companies, Maharashtra constitutes 34% of the overall total of 115 companies. Telangana and Andhra Pradesh together constitute 24% of the total, and Punjab and Karnataka together constitute 7%. The remaining states constitute the remaining 35%. Overall, it can be seen that the majority of the companies owned by Scheduled Caste entrepreneurs who have been sanctioned financial assistance under the Venture Capital Fund for Scheduled Castes from 2014-15 to 2022-23 are concentrated in Maharashtra, Telangana, and Andhra Pradesh.



Source: Annual Report, published by Department of Social Justice & Empowerment, Ministry of Social Justice & Empowerment, Government of India (<https://socialjustice.gov.in/whats-new/1494>)

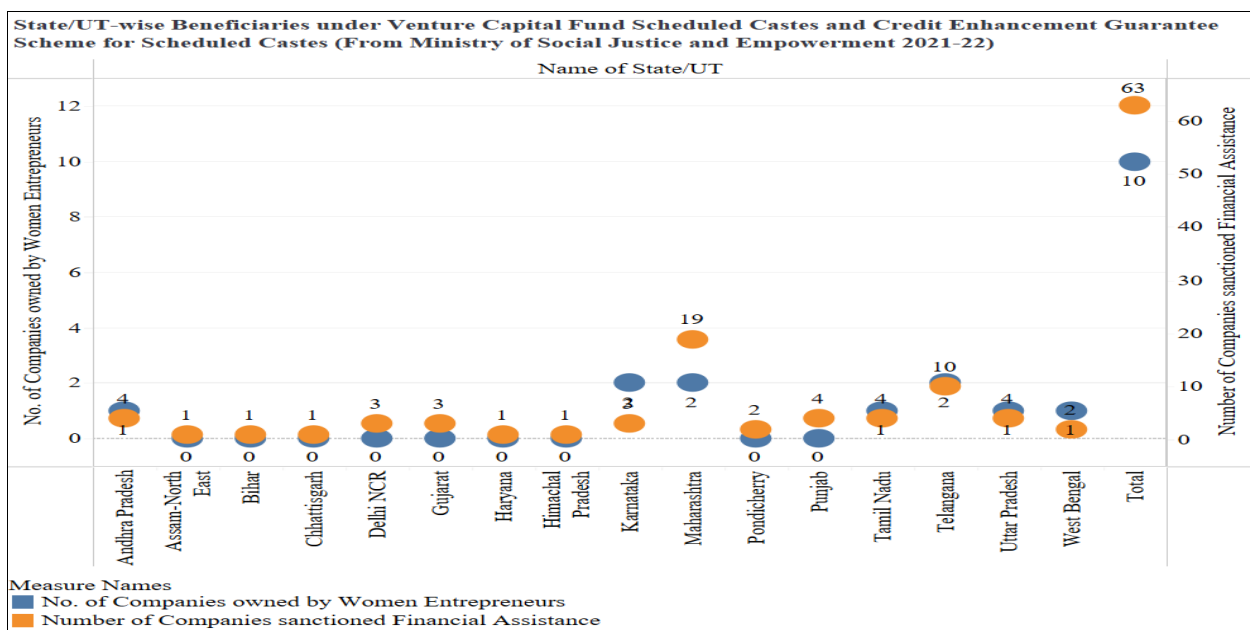
Fig 2

The Central Sector Scheme for Agribusiness Development through Venture Capital Assistance (VCA) has been allocated Rs. 110.98 lakhs in the financial year 2017-2018, Rs. 141.89 lakhs in the financial year 2018-2019, Rs. 111.26 lakhs in the financial year 2019-2020, Rs. 25 lakhs in the financial year 2020-2021 and Rs. 49.42 lakhs in the financial year 2021-2022.

Overall, the total funds allocated to the Central Sector Scheme for Agribusiness Development through Venture Capital Assistance (VCA) over the five-year period from 2017-18 to 2021-22 is Rs. 438.55 lakhs. The highest amount of funds allocated to the Central Sector Scheme for Agribusiness Development through Venture Capital Assistance (VCA) over the five-year period was in the financial year 2018-19, with Rs. 141.89 lakhs being allocated. The lowest amount of funds allocated over the five-year period was in the financial year 2020-21, with Rs. 25 lakhs being allocated. The trend in funds allocated to the

Central Sector Scheme for Agribusiness Development through Venture Capital Assistance (VCA) from 2017-18 to 2021-22 can be described as increasing from 2017-18 to 2018-19, followed by a decrease from 2019-20 to 2020-21, and a slight increase from 2020-21 to 2021-22. The fall in funds allocated to Central Sector Scheme for Agribusiness Development through Venture Capital Assistance from 2020-21 is likely due to the economic downturn caused by the COVID-19 pandemic. The pandemic not only significantly affected only Indian economy but also globally, resulting in a decrease in the availability of funds for such schemes. The government has had to prioritize spending on essential services such as healthcare and welfare, leaving less funds available for other sectors such as agribusiness. Additionally, the fall in global demand for Indian exports has reduced the government's revenues, further limiting the funds available for such schemes.

Fig 3



Source: Annual Report, published by Department of Social Justice & Empowerment, Ministry of Social Justice & Empowerment, Government of India (<https://socialjustice.gov.in/whats-new/1494>)

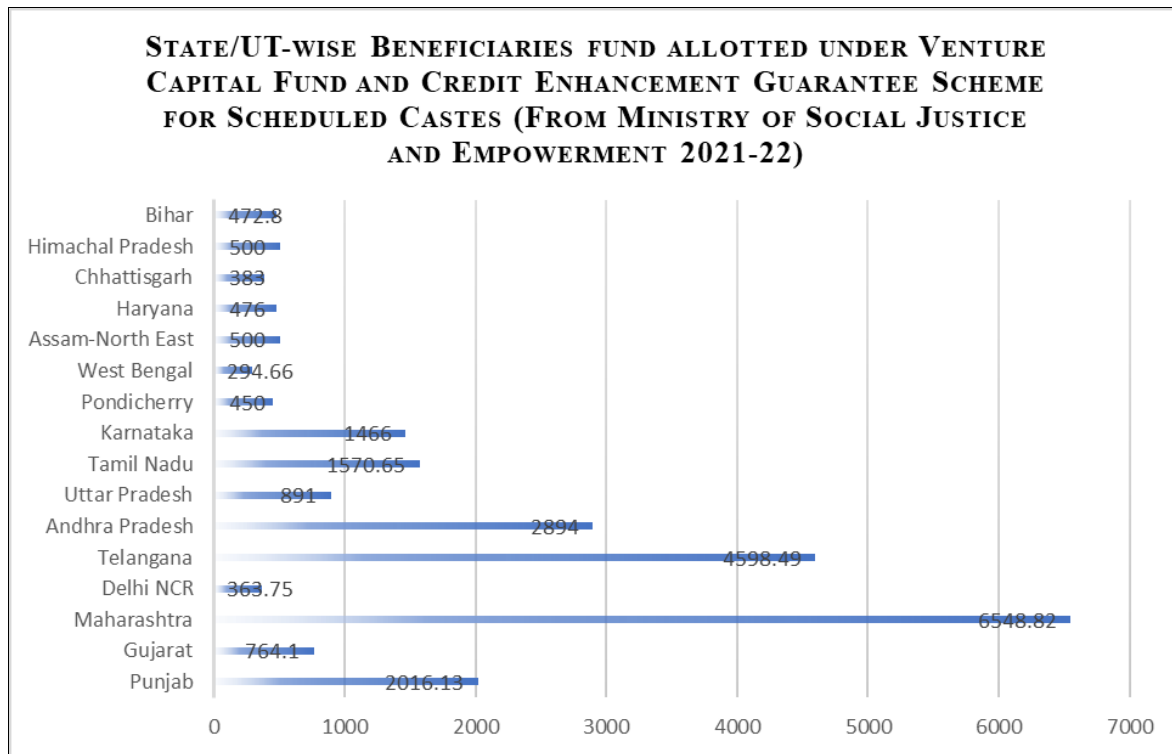
Fig 3

The Venture Capital Fund Scheduled Castes and Credit Enhancement Guarantee Scheme for Scheduled Castes, launched by the Ministry of Social Justice and Empowerment, which basically aims to provide financial assistance to Scheduled Caste entrepreneurs to start and expand their businesses. Under this scheme, a total of 63 companies have been sanctioned financial assistance across all the states and UTs, with 10 of them being owned by women entrepreneurs.

The states and UTs that have been sanctioned the highest number of companies are Maharashtra (19 companies, 2 owned by women entrepreneurs) and Telangana (10 companies, 2 owned by women entrepreneurs). The states and UTs with the lowest number of companies are Assam-North East (1 company, 0 owned by women entrepreneurs), Haryana (1 company, 0 owned by women entrepreneurs), Chhattisgarh (1 company, 0 owned by women entrepreneurs), Himachal Pradesh (1 company, 0 owned by women entrepreneurs) and Bihar (1 company, 0 owned by women entrepreneurs). Overall, the states and UTs of Uttar Pradesh, Maharashtra, Andhra Pradesh, Telangana, Tamil

Nadu, and Karnataka have the highest number of women entrepreneurs, with 2, 2, 1, 1, 1 and 2 respectively. This indicates that these states are taking proactive steps towards promoting women entrepreneurship. Women entrepreneurs are given importance under this scheme as it enables them to access capital and credit for their businesses. This helps them to create and grow their businesses, leading to economic growth and development. Additionally, it helps to reduce inequality in the economy, as women-owned businesses are often at a disadvantage in terms of access to capital and credit. This scheme helps to bridge the gap and provide women entrepreneurs with the support they need to succeed.

The data also reveals that the states and UTs of Chhattisgarh, Punjab, Himachal Pradesh, Gujarat, Delhi NCR, Pondicherry, Assam-North East, West Bengal, Haryana, and Bihar have no companies owned by women entrepreneurs. This indicates that more needs to be done to promote and encourage women entrepreneurship in these states and UTs.



Source: Annual Report, published by Department of Social Justice & Empowerment, Ministry of Social Justice & Empowerment, Government of India (<https://socialjustice.gov.in/whats-new/1494>)

Fig 4

The above data shows the sanctioned financial assistance from the Ministry of Social Justice and Empowerment for the year 2021-22 under the Venture Capital Fund Scheduled Castes and Credit Enhancement Guarantee Scheme.

The financial assistance for each state and union territory varies depending on the number of beneficiaries. Punjab has the highest financial assistance of 2016.13 lakhs, followed by Maharashtra with 6548.82 lakhs, Telangana with 4598.49 lakhs, and Andhra Pradesh with 2894 lakhs. On the other hand, Delhi NCR has the lowest financial assistance of 363.75 lakhs.

The total sanctioned financial assistance under the scheme is 24189.4 lakhs. The scheme aims to provide financial support to Scheduled Caste entrepreneurs to start and scale up their businesses. It also aims to create jobs and provide financial stability to the people belonging to the Scheduled Caste category.

The sanctioned financial assistance (in Rs. Lakhs) provided by the Ministry of Social Justice and Empowerment to various states/UTs under the Venture Capital Fund Scheduled Castes and Credit Enhancement Guarantee Scheme for Scheduled Castes in 2021-22. The financial assistance is meant to help the Scheduled Castes in the various states/UTs to set up businesses and access credit for their ventures, it differs the number of financial assistance that is given, depending on the population of Scheduled Castes in that particular state/UT. The highest amount of financial assistance has been sanctioned for Maharashtra, at Rs. 6548.82 lakhs, followed by Telangana at Rs. 4598.49 lakhs, and Andhra Pradesh at Rs. 2894 lakhs. The other states/UTs have been sanctioned much lower amounts.

Even states like Tamil Nadu and other highly populated Scheduled Castes have less allocation when compared to states like Maharashtra, therefore it shows that the population of Scheduled Castes is not the deciding factor for

allocation. The Ministry of Social Justice and Empowerment has allocated the fund according to population of each state, the states that are very much interested in entrepreneurship.

The difference in the allocation of funds between the states/UTs is due to the population of Scheduled Castes in each of those states/UTs. Maharashtra and Telangana, the two states with the highest amount of financial assistance, have a higher number of Scheduled Castes than the other states/UTs. This is why they have been sanctioned more funds.

The government of India created the Venture Capital Funds For Scheduled Castes (VCF-SC) and Venture Capital Funds For Backward Classes (VCF-BC) to promote entrepreneurship among the underprivileged and marginalized sections of society. The funds will provide capital and other support to entrepreneurs from these communities to help them set up and grow their businesses. This will help create employment opportunities and increase the economic opportunities available to these communities. The funds will also help create an ecosystem where these communities can access resources and support to grow their businesses.

Disadvantage

The disadvantage behind the government of India creating the Venture Capital Funds For Scheduled Castes (VCF-SC) and Venture Capital Funds For Backward Classes (VCF-BC) is that they tend to further entrench existing caste divisions and create a two-tiered system of economic opportunity. This is because the funds are designed to provide financial support to businesses owned, controlled, and managed by those from Scheduled Castes and Backward Classes, which in turn, creates a separate and unequal system of economic opportunity that disadvantages

those from other castes. In addition, the funds may also lead to increased social tensions, as those from other castes may perceive that their economic opportunities are being unfairly limited by the government. Finally, such funds may also lead to a situation where businesses from different castes compete with each other for financial resources, thus creating a further division in the economy.

The downside of the Government of India creating the Venture Capital Funds For Scheduled Castes (VCF-SC) and Venture Capital Funds For Backward Classes (VCF-BC) is the lack of transparency and accountability in the allocation of funds. These funds are meant to provide financial assistance to disadvantaged communities, but without proper oversight, there is a risk that the funds may not be used as intended, or they may be misused. Additionally, there is no clear mechanism in place to ensure that the funds are being used in an effective and efficient manner. Furthermore, the funds are allocated based on a political agenda rather than a merit-based system, which could lead to the funds not being allocated to the most deserving and qualified candidates. Finally, there is the potential for corruption and cronyism, which can lead to favouritism and unfairness in the allocation of funds.

Furthermore, such a system could also lead to increased corruption and nepotism as it would provide a means for those in power to benefit their family and friends. This could lead to those in power and in privileged social groups having greater access to resources and opportunities, thus creating a situation of unequal access to resources.

Finally, such a system could also lead to an increased strain on the government's budget, as these funds must be maintained and replenished. This could take away from other important government-funded initiatives and could thus lead to a decrease in the quality of service provided to citizens. Government should give importance to sectors like health care because low allocation done by the union budget 2023, rather than funding for the development of entrepreneurship.

Conclusion

In conclusion, the scheme has been successful in its aim of promoting entrepreneurship among the Scheduled Castes and providing them with concessional finance. This fund has had a positive impact on entrepreneurs' lives, but it has been discovered that over time, government funding is declining. This could be due to the several economic difficulties that have persisted, notably the pandemic, the ongoing recession, and rising inflation. These kinds of schemes should receive considerably greater attention from the Indian government because they improve people's quality of life while spurring economic growth and, implicitly, employment. Foreign direct investment will increase the economy by encouraging foreign businesses to invest in Indian entrepreneurship, but forming our own large, expanding businesses and enterprises will result in economic growth that is sustained and will benefit domestic enterprises as well as Government, therefore allotting to such scheme is important. The fund has also been successful in promoting new and innovative business ideas and facilitating the expansion and diversification of existing businesses. The sustainability of the venture capital fund and the measures taken to ensure its long-term success have been adequately addressed, demonstrating the success of this initiative.

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