CHAPTER 6

ECOSYSTEM FOR DEVELOPMENT OF VENTURE CAPITAL IN GUJARAT

6.0 Introduction

Venture capital is of considerable significance in shaping the pattern of regional economic development. Venture capital industry into India is clustered in three specific regions, namely, Bangalore (technology related cluster), Mumbai (finance related cluster) and New Delhi (political related cluster) (Subhash, 2007). However, there is no substantial technology or financial clustering in Gujarat and hence no sizable existence of venture capital industry. And therefore, Gujarat lags behind in comparison to these regions as far as the development of the venture capital industry is concerned. This chapter discusses the present state of venture capital activity in Gujarat which is known for entrepreneurship. It also highlights the problems related to the growth of venture capital industry. This is followed by discussion on political, economical, social and technological factors that contribute to the evolving ecosystem for the venture capital in Gujarat.

6.1 Venture Capital in Gujarat: Supply Side

In Gujarat there is presence of only one venture capital firm i.e. Gujarat Venture Finance Limited (GVFL) based at Ahmedabad. GVFL started its operations with a 240 million rupee fund in 1990 with investments from the World Bank, the U.K. Commonwealth Development Fund, the Gujarat Industrial Investment Corporation (GIIC), Industrial Development Bank of India (IDBI), various other banks, state corporations and private firms. It was able to raise another 600 million rupees for a second fund in participation with Small Industrial Development Bank of India (SIDBI) in 1995. Then in 1997 it raised a third fund of 200 million rupee for the small sector with an emphasis on Information Technology (IT) sector. GVFL’s investment targets shifted from time to time. From the 1990 fund to the 1995 fund, there were fewer food and agriculture-related firms and a greater emphasis on information technology (Dossani and Kenney, 2001). Today GVFL has many focus areas including agriculture, textile, chemical, engineering,
SEZ, Gems and Jewellery, tourism etc. It is also investing in the promising proposals from the other states. GVFL has also helped many new state level VCs to take off. They include SICOM (in Maharashtra), Rajasthan Venture Capital Fund (RVCF), SIDBI Venture Capital Limited.

Till date, GVFL has launched six funds amounting to ₹ 233 crores namely, GVCF-1990, GVCF-1995, GVCF-1997, Gujarat IT Fund, Gujarat Biotechnology Venture Fund and SME Technology Venture Fund. The Funds were invested in 68 technology companies across India (Nair, 2009). GVFL has liquidated its GVCF-1990 and GVCF-1997 with profits. In Gujarat GVFL has provided helping hands to more than 30 companies. It has created a niche for itself in small and medium scale companies (Retrieved from www.gvfl.com/funds.htm, accessed as on June, 2009).

Table 6.0 Details of Various Funds of GVFL

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<tbody>
<tr>
<td>Corups</td>
<td>₹ 240 million</td>
<td>₹.550 million</td>
<td>₹.200 million</td>
<td>₹ 2500 million</td>
<td>₹ 326.2 million</td>
<td>₹ 500 million (targeted)</td>
</tr>
<tr>
<td>Duration</td>
<td>17 year close ended</td>
<td>14 years</td>
<td>12 years</td>
<td>7 years</td>
<td>14 years</td>
<td>12 years close ended</td>
</tr>
<tr>
<td>Status</td>
<td>Redeemed completely with profit in 2006</td>
<td>Currently in the divestment phase</td>
<td>Liquidated with profit in 2008</td>
<td>Investment stage</td>
<td>Investment stage and partially redeemed</td>
<td>Investment stage and partially redeemed</td>
</tr>
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</table>

(Source: Complied from www.gvfl.com/funds.htm as on December, 2009)

It is important to notice that the long distance investing also occurs in the state in addition to local investing by GVFL. There are few investors from outside the state making investments in the promising opportunities here. But many of such deals are mainly late stage deals that qualify for private equity investments rather venture capital investments. Survey conducted as a part of the research initiative for studying the venture capital investing in India with a special reference to Gujarat, revealed that only 8 firms out of total 38 venture capital firms surveyed, had invested or exited from the ventures in Gujarat. These are the firms providing the growth capital for late stage financing. Though venture capital funds like that of SIDBI invests in early stage deals in
the state, it does so in syndication with the GVFL for mitigating the risk and better monitoring as well as support.

In the absence of any aggregate statistics with respect to the number of deals or the value of venture capital investments in the state, there is a considerable data gap. And it is difficult to comment and compare inter and intra state venture capital investments over a period of time.

6.2 Problems relating to Development of the Venture Capital in Gujarat

Entrepreneurial spirit of Gujarat is very well documented in entrepreneurship literature. Gujarat is the leading industrialized state of India, having multinational corporations, private and public sector enterprises as well as significant number of medium and small scale units. However, it has lagged behind the other states as far as the concentration of the venture capital investments is concerned. The economic growth indicators of Gujarat over a period of time have been impressive. The analysis of the economic indicators in Gujarat suggests that the state witnessed the Gross State Domestic Product (GSDP) of 10.2% for the year 2002-07 and a target GSDP of 11.2% is envisaged till 2007-12 (Retrieved from www.vibrantgujarat.com, accessed as on December, 2009).

In fact, as per the recent TiE-KPMG survey 2008, Gujarat has been ranked as fifth conducive state for entrepreneurial ventures. As per the survey findings, in Gujarat entrepreneurship and risk taking ability is respected more than a high paying job. Added to this, Gujarat has the right mindset and social conditioning required to nurture entrepreneurship. Further, World Bank report on doing business in India 2009 that covered 17 cities across the country; ranked Ahmedabad (Gujarat) fifth in terms of ease of doing business in India.

Though the economic and social landscape in the state has been quite notable, the growth of the venture capital investments has not kept the pace with economic progress in the state. Since last two decades of the existence of GVFL, there have been only 68 investments made till date (excluding the investments made by investors from other states in Gujarat). It seems some links in the ecosystem which are missing leading to the sluggish growth of the venture capital industry. These missing links have been addressed in the following part.
Mason and Harrison (1992) explained that clustering of venture capital firms at a particular location may itself tend to raise demand there. This is because experience and knowledge of the local venture capital market spread through local business and information networks. This will encourage additional entrepreneurial activity to seek venture capital funding. A lack of venture capital firms in a region may mean that these knowledge chains are weak and incomplete. This may depress local demand for risk capital which in turn may deter additional venture capital firms from investing in the region (Martin, 2005).

This rationale aptly applies to Gujarat. In Gujarat, due to absence of technology clustering and innovations, there is a less local demand for such sources of funding. This lack of demand also prohibits venture capital firms from outside the state to invest here. Hence, inadequate local demand and reluctance on the part of investors to invest in the state leads to overall depressed development of the venture capital market.

Further, literature on the localized nature of VC investing suggests that venture capitalists favour businesses that are located close to where the VCs, themselves are located. As the majority of the venture capital firms in India are located in Mumbai, Bangalore and Delhi, these firms prefer to invest in the ventures which are located near to them. This is also one reason for less interest by venture capital firms outside the state to invest in Gujarat.

Moreover, economic and industrial development in the state are more tilted towards manufacturing sector as opposed to emerging technology sector. Venture capital is a specialized form of industrial finance to the rapidly growing companies often in the technology sectors (Mason and Harrison, 2002). Because of this, Gujarat is at a systematic disadvantage with respect to provision of venture capital.

The development of the technological infrastructure is considered to be one of the factors responsible for the regional variations in the supply of venture capital (Mason and Harrison, 2002). An overwhelming majority of the venture capitalists focus on investments in technology companies while Gujarat has no remarkable presence in the Information Technology (IT) industry yet. The IT hubs of the southern part of India have become the preferable spaces for technology companies to set up their operations and
expand while Gujarat is losing out on sunrise industries in the knowledge based sectors (Swaminathan, 2008).

A combination of factors has worked in favour of such development of IT industry in southern part of the country. They include market conditions, technological advancements, government policy etc. Bangalore, where many venture capital firms are concentrated, is India’s technological hub supporting many technology companies. These companies are involved in cutting edge work which is not done in many parts of the world. Chennai, besides the third biggest auto hub in India, is also a major technology centre where the firms such as Nokia, Cognizant and Flextronics have a huge presence (Ramakrishnan, 2009). Adding to this, semiconductor (a segment of the IT industry) majors have put up their bases in south India largely in Hyderabad. The hardware industry in spread out in TamilNadu, Karnataka, Andhra Pradesh and to some extent in Pondicherry; has grown substantially with some of the global powerhouses like Nokia, Motorola and Dell setting up their bases in the region (Thimmaya, 2009).

The south has harboured a rich base of research and development facilities and files maximum patents in any given year. This may be due to excellence developed by premium institutes like IITs. Access to skilled labour is a major advantage in southern part of the country. Large players have flooded to south to tap into the region’s intellectual pool (Thimmaya, 2009). The engineering colleges here have long adapted to the industry’s requirements, allied with them on training and research and in turn given qualified graduates every year (Ramesh, 2009).

As the IT industry kept growing, it also led to the emergence of a new breed of entrepreneurs, who are well versed in application of technology as well as running a business enterprise. Many of these entrepreneurs had prior work experience in established technology companies and later branched out on their own.

Such development of the IT/ITES industry has been very slow in Gujarat. Gujarat has particularly been unfortunate at attracting knowledge and innovation based industries like IT, bio technology, offshoring and other service industries. The state lost its base in pharam industry steadily to Andhra Pradesh, Delhi and Maharashtra as it has not been able to retain the research and development intensive part of the business. On the other
hand, in the IT related manufacturing such as computer assembly, peripherals, electronics, and telecommunication equipment despite having an early base, Gujarat has almost completely lost out to other states. Overall, Gujarat has shown a particular weakness in attracting and retaining such skill-intensive and high-tech sectors in comparison with Tamilnadu, Karnataka, Andhrapradesh, Maharashtra and Delhi (Morris, 2008).

The intellectual and skilled workforce which is an integral part of the development of the IT industry is also scant in the state. While the climate for investment is favorable and the spirit of entrepreneurship stronger, there is a felt weakness of lack of technical institutes resulting into shortage of qualified human resources. Between 2001-02 and 2006-07, Gujarat doubled the number of technical education seats from 20,600 to 41000. However, the pace at which the state is growing, there would soon be acute shortage of technical manpower (Kanwar, 2008). This neglect may turn out to be adversary in the information age where knowledge, creativity and innovation will be the key areas. Besides, the available proficient and skilled labour in the state migrates to south in order to capitalize upon the IT wave.

It is said that firms located in regions where IT clusters are not developed, do not get sufficient access to skill (intellectual capital), training and R & D (Basant and Chandra, 2007). This also deters other venture capital firms from setting up their operations in the state. In order to give boost to quality education and research, the state should play a proactive role to set up institutes of excellence in a variety of disciplines (Vakil, 2008).

The other big missing link in addition to IT development and intellectual capital in the state is the serious involvement of the corporate sector in funding the startup. Like VC funds, corporates can also play a major role in engendering and nurturing innovative startups. Gujarat houses many key players across diverse industry sectors such as NIRMA, Arvind, Torrent, Rasna, Paras Pharma, Cadila Pharma, Shah Alloys Limited, Alembic, Claris, Intas, Dishman and many more. The realization that constant innovation in a knowledge economy is critical for continued value creation has been forcing many companies including MNCs to set up venture capital fund in cities like Bangalore (e.g. Intel and Cannan). These established entrepreneurs and corporates together with high net worth individuals should create such networks and provide early stage support in terms
of funding, mentoring and networking to budding entrepreneurs from the state. And government should provide all support to such initiatives.

The financial clustering like that of Mumbai with a presence of two major stock exchanges, offices of RBI and SEBI and the headquarters of all the major banks; is hard to locate in Gujarat at present. Majority of VC firm in India are located in Mumbai. Being a major financial centre, Mumbai offers access to the pool of knowledge and expertise. It also provides proximity to other financiers, entrepreneurs, legal, accounting and consulting firms. And concentration of venture capital firms near to stock exchanges facilitates the exit mechanism from venture capital investments via IPOs. Gujarat does not have such network of financial institutions resulting into lack of concentration of venture capital firms.

6.3 Gujarat: Initiatives for Development

As discussed above, there are certain roadblocks to the development of competitive, innovative and knowledge driven economy and thereby venture capital in the state. However, with the recent initiatives of the Gujarat government, the gap is getting...
narrowed. These initiatives have been viewed in terms of entrepreneurship ecosystem in the state and further classified in terms of political, economic, social and technological developments in the following section.

**Technology Factors:**
- Growing focus upon IT sector with several IT SEZs, an IT corridor, a knowledge city, and three IT complexes
- State of the art ready to use IT infrastructure
- IT fund set up by government
- Lower cost of IT&ITES operations as compared to other states
- Focus on bio-Technology including healthcare, pharmaceuticals, agriculture biotechnology, industrial enzymes, bioinformatics, and contract research, marine and environmental biotechnology.
- Creation of Gujarat State Biotech Mission and Bio-Tech Venture fund

**Political Factors:**
- Conducive government policies across various sectors
- Stable government
- Incentives and tax benefits
- Promoting state as an ideal investment destination through Biennial Vibrant Gujarat Global Investment summit
- Progressive Gujarat Industrial Policy 2003 with strong emphasis on promotion of research and development activities

**Social Factors:**
- Emerging young and knowledge entrepreneurs
- Enterprising culture in the state
- Premier educational institutes like IIM, EDI, NID, MICA, NIRMA
- Presence of incubation centres by academic institutes and Govt. of Gujarat
- Presence of chapter office by TiE
- Networking events like Start up Saturday and Bar-Camps

**Economic Factors:**
- Leading industrialized state (GSDP of 10.2% for the year 2002-07)
- Vibrant manufacturing base with 76 identified manufacturing sectors
- Cluster development approach (83 Focused Product clusters)
- SEZ led development (21 SEZs)
- Power and Telecom Infrastructure
- Availability of real estate at reasonable cost

**Entrepreneurship Ecosystem In Gujarat**
(Source: Compiled by author)

6.3.1 Technological Developments

Technological developments in the state have been reviewed for information technology and bio-technology sectors in the following section.
6.3.1.1 Information Technology (IT) Sector

IT development which is considered to be the thrust area for venture capital financing is at a nascent stage in the state, however, it is on the threshold for becoming a major hub for IT activity through various approved and proposed IT SEZs, an IT corridor, a knowledge city, and several IT complexes. Information technology enabled services (ITES), Knowledge Process Outsourcing (KPOs) and Business Process Outsourcing (BPOs) are the fastest emerging sectors in Gujarat. There are over 70 KPO companies and over 50 BPO companies currently operating in the state with over 350 registered units and 172 operational units in the Software Technology Park India (STPI) at Gandhinagar. The IT/ ITES sector turnover is expected to grow from US$60.98 million in 2005 to US$2439.02 million in year 2010-11. The Information and Communication Technology (ICT) sector is projected to witness investments of up to US$3658.54 million by 2010 (Retrieved from www.vibrantgujarat.com, accessed on December, 2009).

A comprehensive IT Policy 2006–2011 was introduced by the Government of Gujarat with a vision to endeavor for rapid expansion and growth of knowledge based economy in the state. State government has given various financial and non-financial incentives for the development of IT infrastructure like stamp duty exemption on purchase of land, simplification of labour laws, exemption from power cut and payment of electricity duty for a period of five years, financial assistance at 50% of fixed capital investment in land, buildings and infrastructure facilities to IT park developer, a grant of SEZ status to IT industry/ IT parks, subject to provisions of the SEZ act/ rules etc. Government has also created Gujarat IT Fund with a corpus fund of US$5.85 million to provide financial support for development of IT, ITES and IT products industry (Retrieved from http://www.lemonconsulting.net/Final%20In%20side%20Page.pdf, accessed as on April, 2010).

Besides government support, there is supporting IT infrastructure readily available in the state. To name a few credential, the state has largest operational Optical Fiber Communication (OFC) network in the country; more than 65,000 kms and over 500 MB of bandwidth offered by 5 international gateways. Gujarat State Wide Area Network (GSWAN), the word’s second largest IP based WAN digitally links all the 25 districts of
the state and 14000 government offices. There is ready to use state-of-the-art infrastructure such as the Creative Infocity Park at Gandhinagar and GNFC Info tower at Ahmedabad for 'plug 'n play' ICT startups. Info City, an IT park spread over 150 acres in Gandhinagar, has tenants like Microsoft, ACI and TCS. Also, there are 10 IT/ITES SEZs to be set up in the state by large corporate players such as Tata, DLF, Adani Group, Raheja group, etc. (Retrieved from www.vibrantgujarat.jp/district_profile/pdf/sector-profile/...of.../it.pdf, accessed as on December, 2009).

Further, Gujarat is going to be a front runner in financial services industry too. Several countries around the globe have successful international financial services centres. These centres create a business environment to promote talent and increase capital flow. Government of Gujarat proposes to set up Gujarat International Financial Tech City (GIFT), with an investment of 70,000 cores by 2017 (Sharma, 2008). GIFT targets a 6-8% share of the financial services potential in India. With huge corporate investments being committed to Gujarat, several banks ad financial institutions are keen to set up their base here.

A part of the region between Ahmedabad and Gandhinagar has been earmarked for the development of a Central Finance and Business District (CFBD), institutional areas, knowledge parks, integrated townships etc. (Ernst and Young, 2007). The various business segments that are proposed to be targeted by GIFT include banking services, insurance and asset management companies, microfinance firms, BPOs, commodity trading and information technology (Retrieved from http://giftgujarat.in/, accessed on January, 2010). To some extent thus financial development of the state might help in developing the financial clusters required for venture capital activity.

### Table 6.1 Key Highlights of the Project (GIFT)

<table>
<thead>
<tr>
<th>Project Details</th>
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<tbody>
<tr>
<td>Total area earmarked for development</td>
<td>500 acres</td>
</tr>
<tr>
<td>Total project cost</td>
<td>₹150 billion</td>
</tr>
<tr>
<td>Proposed location</td>
<td>Shahpur villae</td>
</tr>
<tr>
<td>Date of commencement of construction</td>
<td>December, 2007</td>
</tr>
<tr>
<td>Estimated completion date</td>
<td>First phase May 2010</td>
</tr>
<tr>
<td>Grant of SEZ status</td>
<td>₹250 crores</td>
</tr>
</tbody>
</table>

(Source: Ernst and Young (2007), Vibrant Gujarat-Global Investors’ Summit (VGGIS) Gujarat: Beyond the obvious, A Reportage on Initiatives for Inclusive growth)
Table 6.2 Target Sectors of GIFT

<table>
<thead>
<tr>
<th>Business</th>
<th>Nature of Opportunity</th>
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<tbody>
<tr>
<td>Financial services operations</td>
<td>Back office of Banking, Insurance and Asset management companies</td>
</tr>
<tr>
<td>Corporate centre</td>
<td>Accounting, HR, Admin and IT</td>
</tr>
<tr>
<td>Select product market</td>
<td>Private banking, Microfinance etc.</td>
</tr>
<tr>
<td>Capital market and trading</td>
<td>Includes Commodity trading, Private equity, Hedge funds and Institutional brokerage</td>
</tr>
<tr>
<td>Financial services</td>
<td>Corporate roles in financial service companies</td>
</tr>
<tr>
<td>IT services</td>
<td>Software application development and maintenance for BFSI and other verticals</td>
</tr>
<tr>
<td>ITeS/BPO services</td>
<td>Captive BPOs of large global financial services companies, third party BPO service providers and KPOs etc.</td>
</tr>
</tbody>
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Social infrastructure mainly education required for IT development is also improving. From nearly 6,000-odd engineering seats in 2002, Gujarat has more than 25000 seats today. Ahmedabad has got IIT campus as IT giants are looking to set up operations here and looking to employ Gujaratis. National Association of Software and Service Companies (NASSCOM) along with state government is starting NASSCOM Assessment of Competence (NAC), a skill certification programme for BPO manpower.

Ahmedabad is emerging as one of the best destinations for the industry in global arena. As per recent KPMG report on ‘Exploring Global Frontiers- the new emerging destinations 2009’ existing preferred locations for shared services and outsourcing are getting saturated. Hence, many IT and ITES units are moving towards tier II and tier III cities for reasons like lower attrition levels in such cities (at least 5-6% lower than in metros), affordable talent pool available in tier II towns, and multifold internal cost arbitrage in talent acquisition, infrastructure catering, transport and in any such operational and service entrepreneurs expenditure for companies. Ahmedabad is very appropriate fit for this industry for its favourable business climate, access to a good supply of talent, good quality of life and lower costs to set up a unit. (As reported in, The Economic Times, Ahmedabad, 2009, February, pp 3) As the cost for IT/ITES operations in Ahmedabad is lower by 40-50 per cent as compared to Tier I cities of the country, substantial potential is envisaged for future IT/ITES investment (As reported in, Times of India, 2007, November).
In short, Gujarat is today emerging as a preferred destination particularly for large businesses like ITES/BPO due to its excellent offerings on the parameters like cost advantage, conducive power and telecom infrastructure, suitable real estate availability and government support and incentives.

6.3.1.2 Bio-Technology Sector

Though IT industry is quite popular among venture funds, biotechnology is also witnessing increases attention from the investors these days. Biotechnology sector in Gujarat is growing persistently in recent years. The landscape of Gujarat biotech industry today consists of more than 50 biotechnology companies and nearly 66 support organisations. The biotechnology stakeholders in the state include corporates, academic institutes, research institutes and NGOs. The industry has evolved around sub sectors like healthcare, agriculture, industrial, environmental and others such as contract research, nutraceuticals, marine, etc (Khan, 2008).

The state government earlier formulated the State Biotechnology Policy 2007-2012 and the Gujarat State Biotechnology Mission (GSBTM) was set up. The creation of GSBTM as an autonomous body in the Department of Science and Technology (DST) is meant to address, promote and coordinate various issues in terms of research, education, industry, infrastructure or entrepreneurship.

A biotech venture fund has been created to provide support entrepreneurs with ideas. It is a Rs 50 crore fund of which Rs 10 crore will come as state government's share and the remaining Rs 40 crore will be mobilised from financial institutions. An amount of Rs 2 crore has already been given as loan amount to Gujarat Venture Finance Limited (GVFL) as a financial incentive for biotech industries and entrepreneurs (Khan, 2008).

On the education front, the state has more than 11 Universities and around half a dozen research institutes imparting under graduate and post graduate courses in biotechnology and allied sciences, to fulfill the need of skilled manpower. Gujarat continues to attract companies venturing into the new, emerging education sector. 3000 crore Yash Birla group promoted Birla Shloka Edutech Limited proposes to set up a super specialty institutes in the field of bio-technology, bio-informatics and agriculture by investing another ₹ 100 crore (Kumar, 2009).
Biotech companies setting up businesses in Gujarat would be able to exploit rich biological resources of the state. Further, Gujarat has a traditional base for pharmaceuticals in which biotechnology has wide applications. All these are supported by academic infrastructure and strong government support. Thus, Gujarat has a strong potential for the development of biotechnology sector and therefore venture capital in the state.

6.3.2 Social Infrastructure (Education) and Entrepreneurship Development

Today, youngsters in Gujarat are mainly knowledge entrepreneurs unlike the first generation entrepreneurs who were mere traders. They prefer to become an entrepreneur rather doing a job. But such individuals lack conducive environment for successfully converting their ideas into innovations. Creation and development of the incubation centres in the state is an initiative to bridge this gap.

Gujarat has become a hub of entrepreneurial activities with the presence of many incubation centres and entrepreneurship cells. To create the pull factor in the entrepreneurial ecosystem and to promote entrepreneurship in Gujarat, many education institutions have been active in creating business incubation cells. These incubation cells provide the right stimuli, exposure, environment, opportunities, and interactions, which are instrumental in developing individuals who create intellectual capital. They offer valuable services like subsidized office space, access to knowledge resources, advice on business plan, financial assistance, sound credibility to the venture, help to pitch to investors etc (Kuratko and Hodgetts, 2005). Figure 6.4 presents an incubation model followed by these centres.
Gujarat has institutes recognized internationally for its quality in excellence and contributions. Among them include Indian Space Research Organisation, Physical Research Laboratory, Indian Plasma Research Laboratory, Entrepreneurial Development Institute of India, National Institute of Design and the Indian Institute of Management (Vakil, 2008). These institutes have taken a progressive step in this direction and many of them have set up incubation centres for promoting and nurturing the innovations of aspiring entrepreneurs in different sectors like technology, communication and designing. These include; Centre for Innovation Incubation and Entrepreneurship (CIIE). It was setup by IIM, Ahmedabad in 2001 and is supported by Government of Gujarat as well as the National Innovation Foundation (NIF). Some of the funds that CIIE leverages include: DST funded seed fund and Techno Promotion Programme (TePP). SEMIndia has announced equity based funding of Rs 5 lakh for outstanding startup incubated at CIIE. CIIE also works closely with VCs and banks and has been raising venture finance for startups as and when required.

The second one is National Design Business Incubation (NDBI) which is a part of a commitment by National Institute of Designing (NID) to build on India’s design strengths. NDBI, supported by Department of Science and Technology (DST) is the first and the only one design-led business incubator in the country.

The third incubation centre is Com-cubator started by Mudra Institute of Communication, Ahmedabad MICA-EDC to develop, nurture, promote and successfully commercialize ventures in the area of communications. Along with networking and mentoring support, the Com-cubator provides the facilities to the Com-cubatees like
television audience measurement lab, hughes directways on-line education facility, idea lab, digital I-Mac lab, digital design and publishing department, video conferencing room, radio broadcasting facilities and access to library resources. The fourth one is the Centre for Entrepreneurship and Incubation at DA-IICT (CEID) to support innovations in technology field.

The Gujarat government is set to follow suit by starting its own incubation centres across the state for the first time. The state government had announced the setting up of such incubators in its new industrial policy of 2009 in January. The initiative will be undertaken jointly by the Department of Science and Technology and Software Technology Parks of India (STPI). The state Industries Commissioner (IC) office has proposed a new incubator named 'National centre of excellence in technology and entrepreneurship'. These centres will also be involved in the funding aspect by bringing in venture capitalists at a later stage (Dave, 2009).

On the top of all these incubation centres and entrepreneurship cells, one of the premier national institutes for Entrepreneurship; Entrepreneurship Development Institute of India (EDI) is located in Ahmedabad, Gujarat. EDI, a national level institution, was set up in 1983. It primarily engages into selection, training and development of the first generation entrepreneurs with competence and attitude to initiate, nurture and expand industrial enterprises.

An organisation with a global network of entrepreneurs and professionals Indus Entrepreneurs (TiE) has a chapter office in Ahmedabad. TiE was formed in 1992 in Silicon Valley by a group of successful entrepreneurs, corporate executives, and senior professionals. There are currently over 11,000 members and more than 2,500 charter members in 53 chapters across 12 countries. TiE provides top notch programs, marquee events, forums, special interests groups, networking with the industry and mentoring programs for members to benefit from (Retrieved from www.tie.org › Home › About TiE, accessed on December, 2009). In order to encourage the entrepreneurship in Gujarat, TiE has announced setting up of ₹ 2 crore seed fund. The resources will be raised from HNIs, global gujarati businessmen looking for promising investment options and mentoring opportunities as well as government agencies keen on boosting specific sectors like engineering, capital goods, tourism, It and ITES (Bose, 2007).
Today aspiring entrepreneurs have many opportunities to interact with various elements of the ecosystem through events like Startup Saturday and Bar-Camps. Startup Saturday is a monthly community driven forum and an initiative by the HeadStart group. It is held in Ahmedabad, every second Saturday of the month. A Startup Saturday provides a forum for entrepreneurs to discuss, present, network and learn from peers, prospective customers, adopters, partners and investors. Bar-Camp is an ad-hoc gathering born from the desire for people to share and learn in an open environment. There were two Bar-camps being organized at Ahmedabad I June, 2008 and August, 2008.

6.3.3 Political and Economic Developments

In addition to various policy initiatives by government as described earlier in relation to IT, bio technology, education and funding, government has taken various steps such as privatization, simplification of procedures for investors as well as entrepreneurs and governance to expedite the business processes.

Venture capital support is very crucial for the development of SME sector. Gujarat has 76 identified manufacturing sectors with a large number of small and medium scale industries. There are at present over 3,20,000 micro, small and medium scale enterprises (MSMEs) in Gujarat. Each of these sectors is located in clusters spread throughout the state. The government has adopted cluster development approach for empowering the clusters to encourage various economic and non-economic inter-firm linkages (Pillai, 2009). This will improve the efficiency and international competitiveness of SMEs (Awasthi and Kashyap, 2008). The SME sector in Gujarat has generated interest among Italy and Indonesia, the two countries that are keen to tie up with the state (Pattanayak, Darji and Parmar, 2009).

Finally, to conceptualize and showcase Gujarat as a leading investment destination for Indian and foreign investors across industry sectors, Government of Gujarat has been organising biennial Vibrant Gujarat Global Investors’ Summit since 2003. The summit exhibits Gujarat’s strength such as robust infrastructure, diverse industrial base and good governance particularly to global investor community (Ernst and Young, 2007). A brief snapshot of the no. of Memorandum of Understanding (MoUs) signed by industry groups and entrepreneurs / investors in the summit and the value of the investments have been
presented below. The important aspect of the investment intention is proposals from different economic sectors covering as many as 29 sectors distributed among industry sectors, infrastructure, social services, tourism etc.

### Table 6.3 Details of MoUs and Investments

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of MoUs</th>
<th>Investments (US $ Bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>76</td>
<td>14</td>
</tr>
<tr>
<td>2005</td>
<td>226</td>
<td>20</td>
</tr>
<tr>
<td>2007</td>
<td>672</td>
<td>152</td>
</tr>
<tr>
<td>2009</td>
<td>8500</td>
<td>240</td>
</tr>
</tbody>
</table>


### Figure 6.3 Investment Regions in Gujarat


#### 6.4 Conclusion

Political, economical, social and technological developments in Gujarat as discussed in this chapter highlight a healthy trend for entrepreneurial growth and therefore a promising potential for the venture capital industry in the state. However, it seems that it would be quite difficult to develop a sizeable local venture capital market in the state due to absence of significant technological and financial centres. Besides, there is a little spread of knowledge based innovation in Gujarat at present and hence less demand for such funding by the entrepreneurs. It is believed that the future economic drivers are knowledge based activities related to technology sector. Realizing this, the government has already taken progressive steps to develop the state as an outsourcing hub for IT and
ITES activities. However, Gujarati businesses have not been successful in claiming any significant technological developments/innovations in products/processes as compared to the southern states of the country. The challenge for youth in the state is to use technology for value addition.

Considering this situation, it may be ineffective to set up a regional pool of venture capital artificially. It is said that substantial sources of venture capital only emerge when a critical mass of entrepreneurial activity is reached. This will help various clusters and the inter-linkages among them to develop. To encourage the venture capital activity on both demand and supply side, the state is making concerted efforts by creating the knowledge and institutional networks needed to facilitate the necessary localised learning about venture capital possibilities. However, it takes time to build a technology cluster capable of generating leading edge ideas. But once the venture capitalists recognize this they will be attracted to invest. This is likely to be a long term endeavor. It may be unrealistic, therefore, to expect notable policy impacts in the short term.

The next chapter presents the analysis of the primary data collected from the Indian venture capitalists and the entrepreneurs from Gujarat.