Venture Capital Funds (VCF)

4.27 The Union Budget for 1999-2000 stressed the need for higher investment in venture capital activity. As it is difficult to access capital market to raise funds for technology development/ demonstration, especially for small and medium industries,VCF has a major role to play in this area. The National Venture Fund for Software and IT industry (NVFSIT) launched in the current financial year merits mention in this context. NVFSIT is managed by the Small Industry Development Bank of India (SIDBI) Venture Capital Ltd. (SVCL), which is a wholly owned subsidiary of SIDBI. In the backdrop of these developments, SEBI initiated a process of interaction with industry participants and experts to identify the various issues and key areas critical for the development of the VCF industry in India. The SEBI Committee on Venture Capital headed by Shri K.B. Chandrasekhar, (Chairman, Exodus Communications, Inc.) set up in July, 1999, examined the impediments to the growth of VCF and suggested several measures to facilitate the growth of venture capital activity in India. In order to obtain a global perspective, Indian entrepreneurs from the Silicon Valley were also associated with this Committee. The thrust of the Committee's recommendations is to facilitate, through an enabling regulatory, legal, tax and institutional environment, the creation of a pool of risk capital to finance idea-based entrepreneurship with a disproportionate potential reward–to-cost ratio (Box 4.3).

BOX 4.3

Major Recommendations of the SEBI Committee on Venture Capital Funds(VCF)

- Since SEBI is responsible for overall regulation and registration of VCF, multiple regulatory requirements should be harmonised and consolidated within the framework of SEBI Regulations to facilitate uniform, hassle-free, single window clearance.
- In view of the above, the Ministry of Finance guidelines for overseas venture capital investment in India dated September 20, 1995 may be repealed.
- The existing provisions of the IT Act need to be reframed to provide for automatic income-tax exemption to VCFs registered with SEBI.
- Necessary legislative provisions for incorporation of entities such as Limited Liability Partnership, Limited Liability Company, etc. may be made either by enactment of separate Act or by amending the existing Indian Partnership Act and Indian Companies Act.
- Mutual Funds, banks and insurance companies should be permitted to invest in SEBI-registered VCFs.
- SEBI Venture Capital Regulations should be amended to facilitate inclusion of funds set up, scheme floated by a trust, company, body corporate or other legal entities.
- The investment criteria should be redefined to permit investment by VCFs primarily in the equity or equity related instruments or securities convertible into equity and also by way of subscription to IPOs.