Indian Economy · GS - III

Examine the role of venture capital in promoting innovation and entrepreneurship in the technology sector.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 24/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Risk capital, start-up ecosystem, innovation, equity dilution, employment generation, corporate governance

Model Answer

Introduction

Venture capital is a form of private equity financing provided to start-ups and emerging businesses with high growth potential. It plays an important role in supporting innovation, particularly in capital-intensive sectors such as artificial intelligence.

Role of Venture Capital in Technology Development

1. **Access to risk capital:** Venture capital enables innovative businesses to finance research, product development and commercialisation despite uncertain returns.

2. **Scaling innovation:** Large investments help technology companies expand computing infrastructure, recruit skilled professionals and enter international markets.

3. **Entrepreneurial ecosystem:** Funding encourages new business formation, competition and the development of specialised technology industries.

4. **Employment generation:** Expansion of start-ups creates opportunities in engineering, research, data science and related services.

5. **Strategic investment:** Investments in artificial intelligence, semiconductors and advanced technologies can strengthen a country's technological capabilities.

Associated Challenges

1. **Equity dilution:** Founders may lose a portion of their ownership when new shares are issued to investors.

2. **Profitability pressures:** Investor expectations may encourage rapid expansion over sustainable business models.

3. **Valuation risks:** High private valuations may not necessarily reflect long-term commercial viability.

4. **Concentration of capital:** Unequal access to funding can disadvantage smaller firms and entrepreneurs outside major technology hubs.

Way Forward

1. Strengthen transparent valuation and disclosure practices.
2. Promote domestic venture capital and institutional investment.
3. Improve access to early-stage funding and research infrastructure.
4. Encourage responsible corporate governance and long-term innovation.

Conclusion

Venture capital is an important driver of technological progress and entrepreneurship. A balanced ecosystem combining patient capital, transparent governance and sustainable business models can help translate innovation into broader economic development.

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