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### **A Study of Funding Policies and Initiatives for promoting Startups with reference to SIDBI**

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#### **ABSTRACT**

India has become startup hub with 14476 new entities registered as startups as on 17 December 2018. According to Startup blink report 2017, India stands at 37<sup>th</sup> position in global startup ranking. With this dynamically evolving startup ecosystem, growth opportunities and challenges are continuously increasing. Financial challenges has always been a problem for new and budding entrepreneur. SIDBI, an apex body and principal financial institution, has always been known for playing an important role in development of entrepreneurship in India. SIDBI has introduced various schemes to promote, finance and develop Indian startups and small enterprises. The objective of the Research Paper is to study Funding policy initiatives taken by SIDBI for the development of startups in India and to discuss the current status of startup Policies and Initiatives.

**KEYWORDS:** Startup, funds, SIDBI, policies, Initiatives.

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## **INTRODUCTION**

According to International auditing firm KPMG 2018 report “The changing landscape of disruptive technologies”, India after USA and China Stands third as global tech innovation leader. India has become startup hub with 14476 new entities registered as startups as on 17 December 2018. According to Startup blink report 2017, India stands at 37<sup>th</sup> position in global startup ranking. With this dynamically evolving startup ecosystem, growth opportunities and challenges are continuously increasing. Financial challenges has always been a problem for new and budding Startups in India. Startups often find themselves in problem in getting loans and equity support because of collaterals and cash flows. Also, because of volatility of business world Startups are considered of high risk nature as major percentage of startups often fails to take-off which in turn thwarts their attractiveness for investment. SIDBI has introduced various schemes to Promote, finance and develop Indian startups and MSMEs. Government of India has made SIDBI Fund manager in funding schemes and policies for startups.

## **OBJECTIVE**

The objective of the Research Paper is to Study Funding policies and other initiatives promoted by SIDBI for the development of startups and small enterprises in India. The Sub objectives are to discuss the current status of startup Policies and Initiatives and their reach to small business enterprises.

## **RESEARCH METHODOLOGY**

The Research paper is based on Secondary data. Data and Information regarding various policies and their current status is gathered from Annual Reports, Brochures, Policy-kits, Status reports, Official gazettes and Websites.

## **INDIAN STARTUP**

In 2016, Indian government had taken initiative to start a programme “Startup India” to build conducive and nurturing ecosystem for new business entities named “Startups”. With 14476 new startups, projections and estimation of various global agencies states that “By 2025 India will become startup hub Destination”. According to Gazette of India (G.S.R. 501 (E)) revised notification dated 23rd May 2017, an entity will qualify as startup if it satisfies all the following conditions-

1. If the entity is Incorporated as a private limited company (as defined in the Companies Act, 2013) or a partnership firm (registered under section 59 of the Partnership Act, 1932) or a limited liability partnership in India (under the Limited Liability Partnership Act, 2008) not prior to seven years. The period shall be ten years for biotechnology sector.

2. If the entity's turnover has not exceeded Rupees 25 crores for any of the financial years since incorporation/ registration
3. If the entity is striving for innovation, improvement or development of a product/process/service.
4. Any such entity should not be formed by reconstruction or splitting of an already existing business.

The entity should be technology and intellectual property driven. The startup status of an entity ceases if its turnover crosses Rs. 25 crores for any previous year or if entity has completed seven years from the date of its incorporation. The Startup can apply for tax benefits only after getting certificate from the Inter Ministerial Board. The objective of startup India Initiative is always been to make India "A Nation of job creators" instead "Job seekers". Indian Government aims to accelerate Startups growth through fork approach of innovation, development and design.

### **SIDBI (Small Industries Development Bank of India)**

Established on 2 April, 1990, SIDBI (Small Industries Development Bank of India) is wholly owned subsidiary of IDBI (Industrial Development Bank of India). SIDBI is Primary Financial Institution for promotion, financing and development of startups and MSME sector. SIDBI is fund manager for Small Industries Development Fund and National Equity Fund. SIDBI through inclusive, innovative and integrated approach of vision 2.0 aims to accelerate its effort of creating an integrated financial support ecosystem for Indian startups and MSMEs. SIDBI has created a framework of innovative financing means like Equity, Angel fund, Venture capital fund, Quasi-Equity, Impact funds, Challenge funds etc. to improve funding mechanism of Indian Startups to enable scalability of business.

### **POLICY INITIATIVES FOR FUNDING SUPPORT OF INDIAN START-UPS**

- ***Fund of funds for startups (FFS)***

The FFS aims to provide funding support to innovative Startups firms for their development and growth. For supporting development and growth of startups, the Fund of Funds for start-Ups (FFS) caters funding needs of Start-ups by participating in SEBI registered Venture Funds. The Fund is entirely managed by SIDBI in-house investment team. The Fund by nature act as Fund of Funds, means it participates in capital of SEBI registered Venture Funds and not directly into Startups. The size of the fund is Rs. 10,000 crore which is to be released over the 14th and 15<sup>th</sup> Finance Commission by the year 2025. The fund invests in SEBI registered Alternative Investment Funds (AIFs) which, in turn, invests in Startups. Tenure of Alternative Investment Funds supported under

Fund Of Funds For Startups is 12 years. The Investment Focus is to tap broad variety of sectors and it is kept sector agnostic. In true sense, FFS fund acts as promoter to attract private capital for Startups in equity and quasi-equity form. Total amount sanctioned to Support thirty AIFs under FFS was Rs. 1,495.70 crore as on September 30, 2018. According to Startup Status Report dated 23 November 2018, Rs. 600 crore has already been sanctioned to SIDBI and a letter of comfort for Rs 1600 crore has been accorded to SIDBI. Total commitments of FFS to 32 Alternative Investment funds stands at Rs 1611 crore. Till now 170 Startups have already received funding through various AIFs. According to data provided by India stats, 62 startups in 2016-2017 and 58 startups in 2017-18 have been provided Financial support under FFS and 22 startups are being chosen for 2018-2019 (up to July 2018).

**Table I : Number of Startups Provided Financial Assistance by Fund of Funds for Startups (FFS) under Startup India Programme in India (2016-2017 to 2018-2019-upto July 2018)**

Year	No. of Startups
2016-2017	62
2017-2018	58
2018-2019-upto July 2018	22

Source : <https://www.indiastat.com/>

- ***A scheme for promotion of innovation, rural industry and entrepreneurship (ASPIRE)***

ASPIRE fund was set up by SIDBI with Rs. 60 crore for time period of 12 years with the objective to promote entrepreneurship culture and economic development at grass root level in India. With the view to promote innovation in startup ventures of rural and agriculture industry, incubator and technology center network was setup to accelerate the pace of entrepreneurship. ASPIRE's another objective is to boost employment opportunities and create jobs which will facilitate innovative business solutions to unfulfilled needs of society. The fund supports Venture Capital Funds and Angel investors for investing specifically in agro-based and rural focused start-ups to stimulate the rural economy and do not caters Information Technology startups. As on September 30, 2018, Total amount of ASPIRE Fund Sanctioned to support five Alternative Investment Funds is Rs. 47.50 crore.

**Table II : Funds Released under ASPIRE in India (2014-2015 to 2017-2018-upto 20.03.2018)**

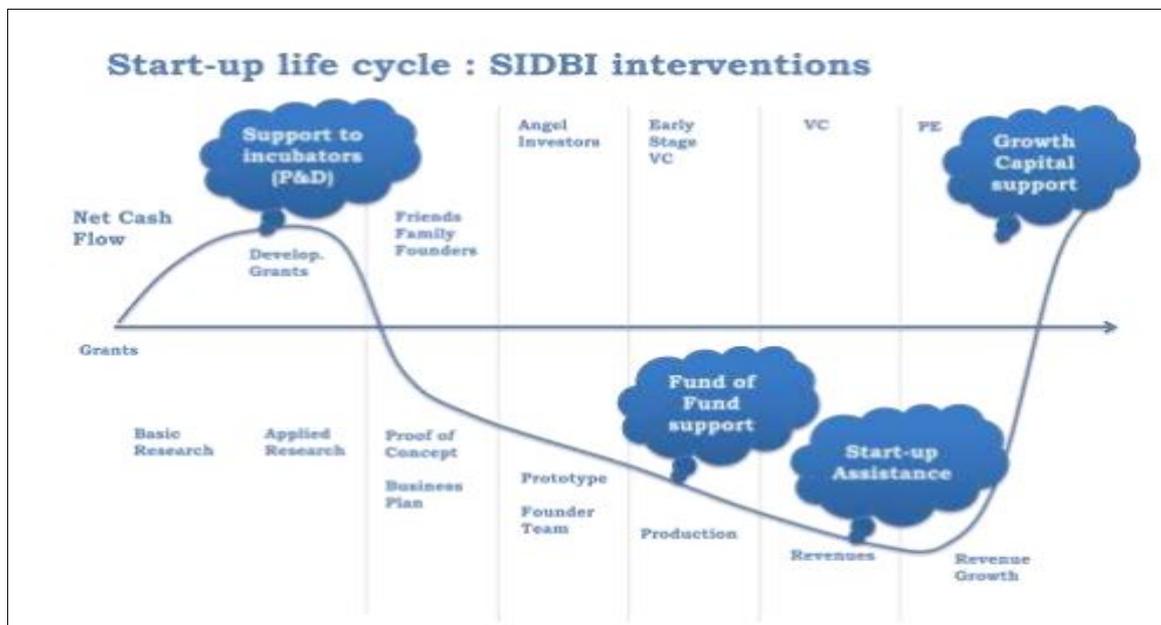
Year	Budget Estimate (Rs. in crores)	Revised Estimate (Rs. in crores)	Funds Released (Rs. in crores)
2014-2015	200.00	10.00	5.00
2015-2016	200.00	86.00	69.59
2016-2017	100.00	16.50	14.83
2017-2018	50.00	50.00	47.09

Source : <https://www.indiastat.com/>

- **India aspiration fund (IAF)**

India Aspiration fund has been set up by SIDBI with support from Reserve Bank of India (RBI), to accelerate Equity, Risk capital and equity linked investments in Start-ups. For meeting equity requirements of Start-ups, India Aspiration Fund (IAF) invests in those Venture Capital Funds which invest at least 50% of the Fund corpus in early stage enterprises. SIDBI generally contributes up to 10 to 15 percent of Venture Capital Fund out of India Aspiration Fund. Under India Aspiration Fund, only those Companies are eligible where Venture Capital Funds are managed by institutional Asset Management and experienced Fund Managers. IAF gives sector agnostic contribution to SEBI registered Alternative Investment Funds (AIFs) specifically targeting startups and MSMEs. Fund size of India aspiration fund is Rs. 2000 crore. Till March 31, 2018, twenty six alternative investment funds are being supported by sanctioning Rs. 976.05 crore under India Aspiration Fund.

**Figure I: SIDBI interventions in a Start-Up Life Cycle**



Source: <https://venturefund.sidbi.in>

- **Smile (Sidbi Make In India Loan For Small Enterprises)**

To cater soft loan needs of small enterprises, SIDBI has launched debt-fund SMILE (SIDBI Make in India Loan for Small Enterprises). SIDBI has allocated Rs. 10,000 crore to SMILE funding mechanism that specifically facilitates soft-term loan for small Startups and MSMEs to meet startups debt-to-equity needs and avails growth opportunities. The objective of SMILE is to facilitate soft loans in term loan and quasi-equity form on flexible terms to small startups and MSMEs. SMILE offers short-term loans to Small enterprises undertaking modernization, expansion, technology up-gradations for extending their business with less stringent and flexible rules and regulations.

- ***Sidbi Startup Mitra***

SIDBI Start-Up Mitra is a digitized platform that fills gaps in start-up ecosystem by providing a single platform to bring all start-up entrepreneurs, investors, incubators, stakeholders, mentors and banks at one virtual place. The portal supported by Department of Science and Technology meets financial needs of early stage start-ups. SIDBI Start-Up Mitra spread awareness about government schemes among all stake holder in startup ecosystem by becoming centralized knowledge partner. The portal facilitates all states startup policies at single web page and the platform as on 21 december 2018 have 14,372 start-ups, 92 investors and 121 incubators as SIDBI Start-Up Mitra registered members. Since October 2014, Twenty two States have formulated Startup Policies till now. Under startup Mitra, small B. in is one more initiative to provide a platform for inputs and discussion among experts. The platform through its article and blogs motivates Indian individuals to seek business opportunities and simplifies the establishment process of a firm in India.

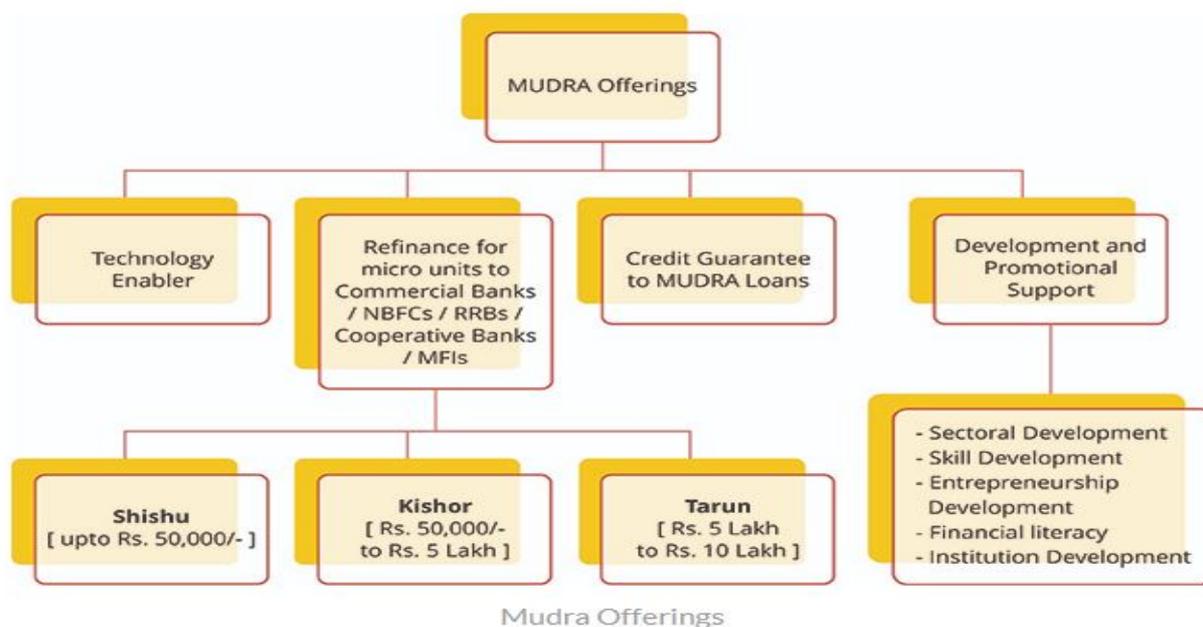
- ***Sidbi Venture Fund***

SIDBI facilitates equity assistance to start-ups through Venture Capital funds. SIDBI invests only in new and small enterprise focused funds means VCFs which invest up to 50% of the Corpus or up to twice the SIDBI offering in startups and MSMEs. As on April 30, 2017, SIDBI has contributed to 92 venture capital funds through SIDBI venture fund. Government has specifically launched Rs.100 crore North east venture fund keeping the entrepreneurial development need of North East states in which Rs.25 crore is committed by Small Industries Development Bank of India (SIDBI).

## **MICRO UNITS DEVELOPMENT & REFINANCE AGENCY LTD (MUDRA)**

Set up on April 08, 2015, MUDRA is wholly owned subsidiary of SIDBI. Its primarily objective is to “fund the unfunded” small startups and micro Business units. MUDRA as primary vehicle acts as refinancing Institution and do not lend loans directly to entrepreneurs. It provide refinance facility under Pradhan Mantri Mudra Yojana (PMMY) Scheme. MUDRA with initial corpus of Rs 20,000 crores extends financial support to banks, NBFCs, Micro-finance Institutions (MFIs) and other lending institutions at state and regional level. MUDRA provide support loan up to Rs 10 lakh to revenue generating small and micro enterprises and startups involved in manufacturing, services, processing and trading activities in agriculture and allied sector. In its product offering MUDRA has formulated three Products Shishu, Kishore and Tarun to indicate the development stage and funding need of entrepreneur and it also acts as reference point for next growth stage.

Figure II: MUDRA Product Offerings



Source: <http://www.mudra.org.in/Offerings>

According to MUDRA Annual report 2017-18, MUDRA has registered 93 banks, 32 NBFCs, 72 MFIs and 6 small finance banks (SFBs) in total 200 institutions for providing refinance facility to micro firms. Under PMMY, Total disbursements stands at Rs 2,46,437 crore during FY 2017-18. In this specifically 40 percent has been given to women entrepreneurs and 33 percent to social categories. Nearly 4.81 crore entrepreneurs has got MUDRA benefit and 1.52 lakh MUDRA cards of worth Rs 1425.48 crore are being given through PMMY in Financial year 2017-18.

**Table III : Achievement under Pradhan Mantri Mudra Yojana (Financial Year: 2018-19)**

No. of PMMY loans sanctioned	29230665
Amount Sanctioned	Rs 153783.83 Crore
Amount Disbursed	Rs 147115.20 Crore

Source: <http://www.mudra.org.in/>

## • INCUBATION CENTERS

SIDBI along with other Institutions has created incubators network to help Start-up entrepreneurs by providing them seed funding, workspace and mentoring. These incubators nurture startup entrepreneurs by providing them technological know-how of business. SIDBI currently supports business incubator at KIIT University at Bhubaneswar, SIDBI Innovation & Incubation Centre at IIT Kanpur and SIDBI Centre for Innovations in Financial Inclusion at IIM, Lucknow.

• **TECHNOLOGY INFORMATION FORECASTING AND ASSESSMENT COUNCIL – SIDBI REVOLVING FUND FOR TECHNOLOGY INNOVATION (TIFAC-SRIJAN)**

TIFAC-SRIJAN programme of TIFAC & SIDBI promotes new and small enterprise projects that bring new product or process and it aims to bring high-risk technologies to the market for opening up opportunities for business linked with innovation. This programme promotes new and small enterprises through demonstration, commercialization and development of technology based projects to encourage startups to innovate. TIFAC-SRIJAN provides flexible condition loans at soft terms to promote and encourage innovation of new technology and for its commercialization. The scheme currently commits up to 80% cost of project or up to Rs 100 lakhs and if costs of project exceeds Rs 100 lakhs then it offers judicious assistance.

**CONCLUSION**

According to a survey “Early Stage Investment Insights Report-2018” by Innoven Capital, the early stage funding activity in start-ups have taken a dip in 2018 in comparison to 2017. Also, Economic survey 2017-18 puts question mark on credit disbursement policies of banks as 82.6 percent of total credit being given to large firms and only 17.4 percent is given to MSMEs and small sector. Taken past statistics too, NSSO survey in 2013 states that only 5 percent of 5.77 crore small business and micro firms have direct reach to formal credit institutions. Rest of the entrepreneurs fund their business through informal sources. Data and statistics indicates that despite having wide array of funding facilities provided by banks, there exist a hesitation in banks to grant loan to small sector and startups due to various reasons. SIDBI, established as principal financial institution for promoting small enterprises have achieved numerous milestones in development of small enterprises but still it has failed in creating a climate of trust between banks, startups and MSMEs. If startup’s level of appetite for credit is considered then it could be derived that a more robust startup financing ecosystem is yet to be evolved in India and SIDBI need to focus more on creating a climate of trust between small entrepreneurs and banking institutions. Also, for improving its reach to small startups, better implementation of policies need to be looked upon.

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