



Cabinet

Cabinet approves of proposal to establish a Fund of Fund for Start-ups (FFS)

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The Union Cabinet chaired by the Prime Minister Shri Narendra Modi has approved the following proposals with regard to the Fund of Funds of Start-ups (FFS) which was established in June, last year with a corpus of Rs. 1,000 crores.

- i. Alternate Investment Funds (AIFs) supported by FFS shall invest at least twice the amount of contribution received from FFS in Start-ups qualifying as per the Gazette Notification G.S.R.180 (E) dt. 17/02/2016. Further, if the amount committed for a Start-up in whole has not been released before a Start-up ceases to be so, the balance funding can continue thereafter.
- ii. It was also decided that operating expenses for carrying out due diligence, legal and technical appraisal, convening meeting of Venture Capital Investment Committee, etc. would be met out of the FFS to the extent of 0.50% of the commitments made to AIFs and outstanding. This will be debited to the fund at the beginning of each half year; i.e. April 1 and October 1.

Background

The Union Cabinet in its meeting held on 22/06/2016 had approved the proposal to establish a Fund of Funds for Start-ups (FFS) with a total corpus of Rs.10000 crore, with contribution spread over the 14th & 15th Finance Commission cycles based on progress of implementation and availability of funds. It was decided that the FFS shall contribute to the corpus of Alternative Investment Funds (AIFs) for investing in equity and equity linked instruments of various start-ups at early stage, seed stage and growth stages.

The FFS is being managed and operated by Small Industries Development Bank of India (SIDBI). FFS contributes to SEBI registered Alternative Investment Funds (AIFs) that may go up to a maximum of 35% of the corpus of the AIF concerned.

The Cabinet on 22.06.2016 had decided that the corpus of Fund of Funds along with counterpart funds raised by the AIFs in which FFS takes equity would be invested entirely in Start-ups. It has been pointed out to the Department during its interactions with various stakeholders that investors in the AIFs would prefer that the portfolio of AIFs is adequately diversified to manage the investment risks appropriately and if the entire pool of funds of the AIF is invested in Start-ups, it poses unacceptable risks to the investors of such AIFs.

The other issues raised by stakeholders were that the process of funding of Start-ups by AIFs is long drawn which starts from pitching by a Start-up, commitment by the AIF and then release of funds in tranches. Thus it is possible that before release of the final instalment the turnover of the Start-up crosses Rs. 25 crores but it still needs funds to meet its growth requirements. Besides, Start-ups need access to funds through various stages of their life cycle, viz. early stage, seed stage and growth stage.

It was also pointed out to the Department by SIDBI that the present provisions don't provide for SIDBI to get compensated for activities done post sanction to AIFs.

These decisions have been taken to in the backdrop of the above concerns.

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