NABARD SCHEME HANDOUTS

TOPIC – STANDUP & STARTUP INDIA

Contents

Standup India

Stand up India Scheme was launched on April 05, 2016 to promote entrepreneurship at grassroot level focusing on economic empowerment and job creation. The scheme has been extended till 2025. In 2019-20, the Stand Up India scheme was extended for the entire period coinciding with the 15th Finance Commission period of 2020-25.

Stand up India Scheme was launched by **Ministry of Finance (Department of financial services)**

Background: As India is growing rapidly , hopes, aspirations and expectations of a large group of potential entrepreneurs, particularly **Women, Scheduled Castes (SCs) and Scheduled Tribes (STs)**, are rising. They want to set up an enterprise of their own to allow themselves to thrive and grow. Such entrepreneurs are spread across country and are bubbling with ideas on what they can do for themselves and their families. The Stand Up India scheme envisages to facilitate the dreams of aspiring SC, ST and women entrepreneurs into reality by supporting their energy and enthusiasm and removing hurdles from their path.

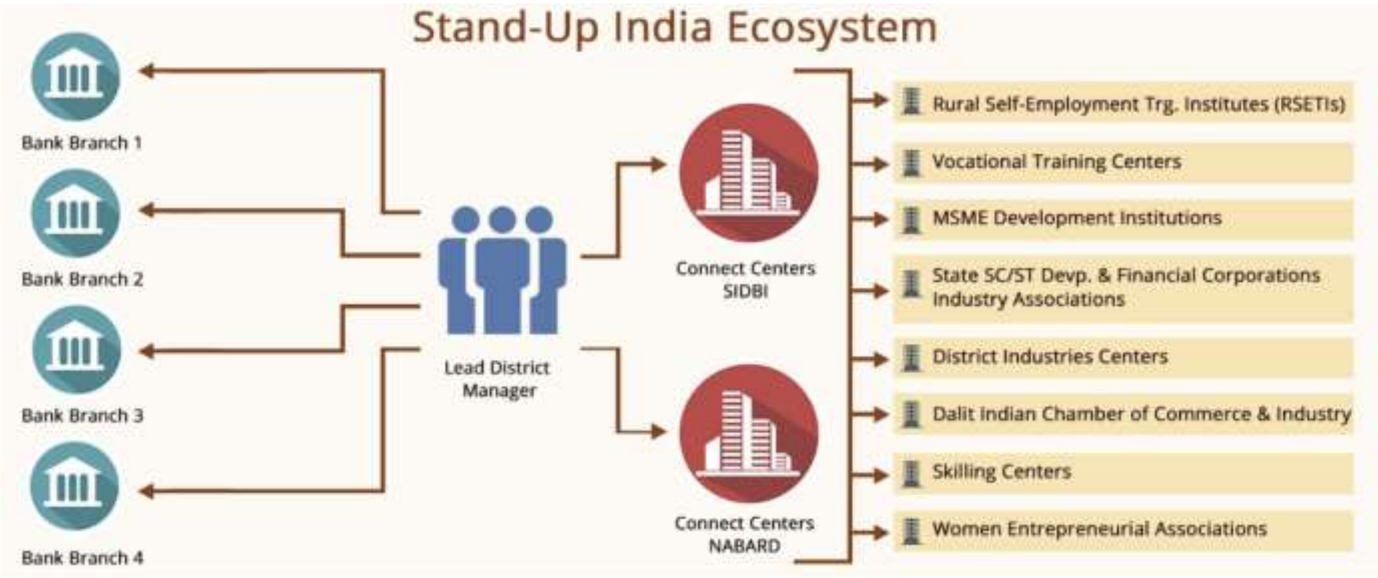
Coverage: Manufacturing, Services, Agri allied and trading

Objectives

• Promote entrepreneurship amongst women, SC & ST category

• Provide loans for greenfield enterprises in manufacturing, services or the trading sector and activities allied to agriculture

• Facilitate bank loans between **Rs.10 lakh and Rs.1 crore** (100lakh) to at least one Scheduled Caste/ Scheduled Tribe borrower and at least one woman borrower per bank branch of Scheduled Commercial Banks.



<u>Need for the scheme:</u>

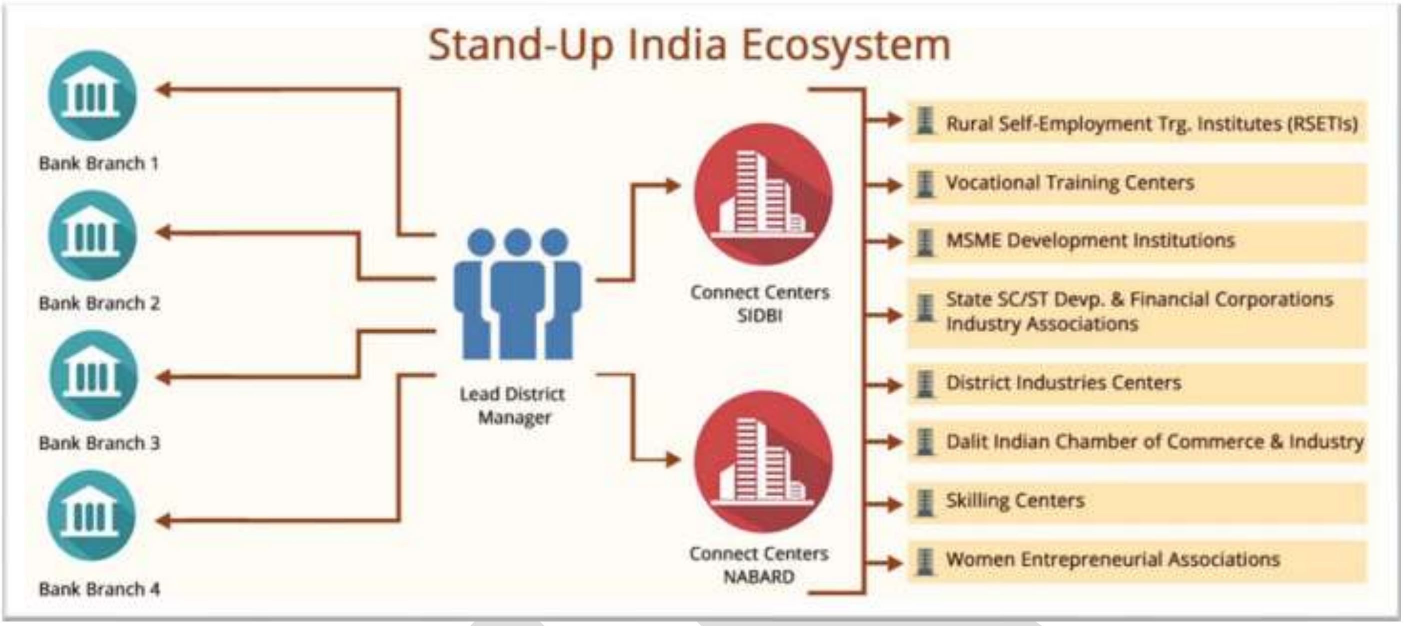
The Stand-Up India scheme is based on recognition of the challenges faced by SC, ST and women entrepreneurs in setting up enterprises, obtaining loans and other support needed from time to time for succeeding in business. The scheme therefore endeavours to create an ecosystem which facilitates and continues to provide a supportive environment for doing business. The scheme seeks to give access to loans from bank branches to borrowers to help them set up their own enterprise.

The scheme, which covers all branches of Scheduled Commercial Banks, can be accessed in three potential ways:

• Directly at the branch

• Through Stand-Up India Portal (www.standupmitra.in)

• Through the Lead District Manager (LDM)



Eligibility:

• SC/ST and/or women entrepreneurs, above 18 years of age

• Loans under the scheme are available for only green field projects. Green field signifies, in this context, the first-time venture of the beneficiary in manufacturing, services or the trading sector and activities allied to agriculture

• In case of non-individual enterprises, **51% of the shareholding and controlling stake should be held by either SC/ST and/or Women Entrepreneur**

• Borrowers should not be in default to any bank/financial institution

- The Scheme envisages **'up to 15%'** margin money which can be provided in convergence with eligible Central/State schemes. In any case, the borrower shall be required to bring in minimum of **10 % of the project cost as own contribution.**

Changes made to the Scheme

Pursuant to an announcement by the Union Finance Minister in the Budget speech FY 2021-22, the following changes have been made in the Stand-Up India Scheme:

- The extent of margin money to be brought by the borrower has been reduced from '**up to 25%' to 'up to 15%**' of the project cost. However, the borrower will continue to contribute **at least 10%** of the project cost as own contribution;
- Loans for enterprises in 'Activities allied to agriculture' e.g. pisciculture, beekeeping, poultry, livestock, rearing, grading, sorting, aggregation agro industries, dairy, fishery, agriclinic and agribusiness centers, food & agro-processing, etc. (excluding crop loans, land improvement such as canals, irrigation, wells) and services supporting these, shall be eligible for coverage under the Scheme.
- Type of loan is composite loan i.e. term+working capital
- Repayment: 7 year with moratorium of 18 months

SMILE Scheme is operated only through SIDBI for investment in projects coming up in 25 identified sectors under the Make in India programme for existing and new units. The support is in the nature of quasi equity and term loan on relatively soft terms, with the minimum term loan size for new units at 25 lakh. Stand-Up India scheme is proposed to be operated through 1.25 lakh bank branches in the country. The loans would be above 10 lakh and upto 100 lakh specifically for SC/ST/Women entrepreneurs setting up green field projects.

<u>Handholding Support :</u>

- To extend collateral free coverage, Government of India has set up the Credit Guarantee Fund for Stand-Up India (CGFSI). Apart from providing credit facility, Stand Up India Scheme also envisages extending handholding support to the potential borrowers. It also provides for convergence with Central/State Government schemes. Applications under the scheme can also be made online at (www.standupmitra.in) portal.

- Apart from linking prospective borrowers to banks for loans, the online portal https://www.standupmitra.in/ developed by Small Industries Development Bank of India (SIDBI) for Stand-Up India Scheme is also providing guidance to prospective entrepreneurs in their endeavour to set up business enterprises, starting from training to filling up loan applications, as per bank requirements.
- Through a network of more than 8,000 Hand Holding Agencies, this portal facilitates step by step guidance for connecting prospective borrowers to various agencies with specific expertise viz. Skilling Centres, Mentorship support, Entrepreneurship Development Program Centres, District Industries Centre, together with addresses and contact number.

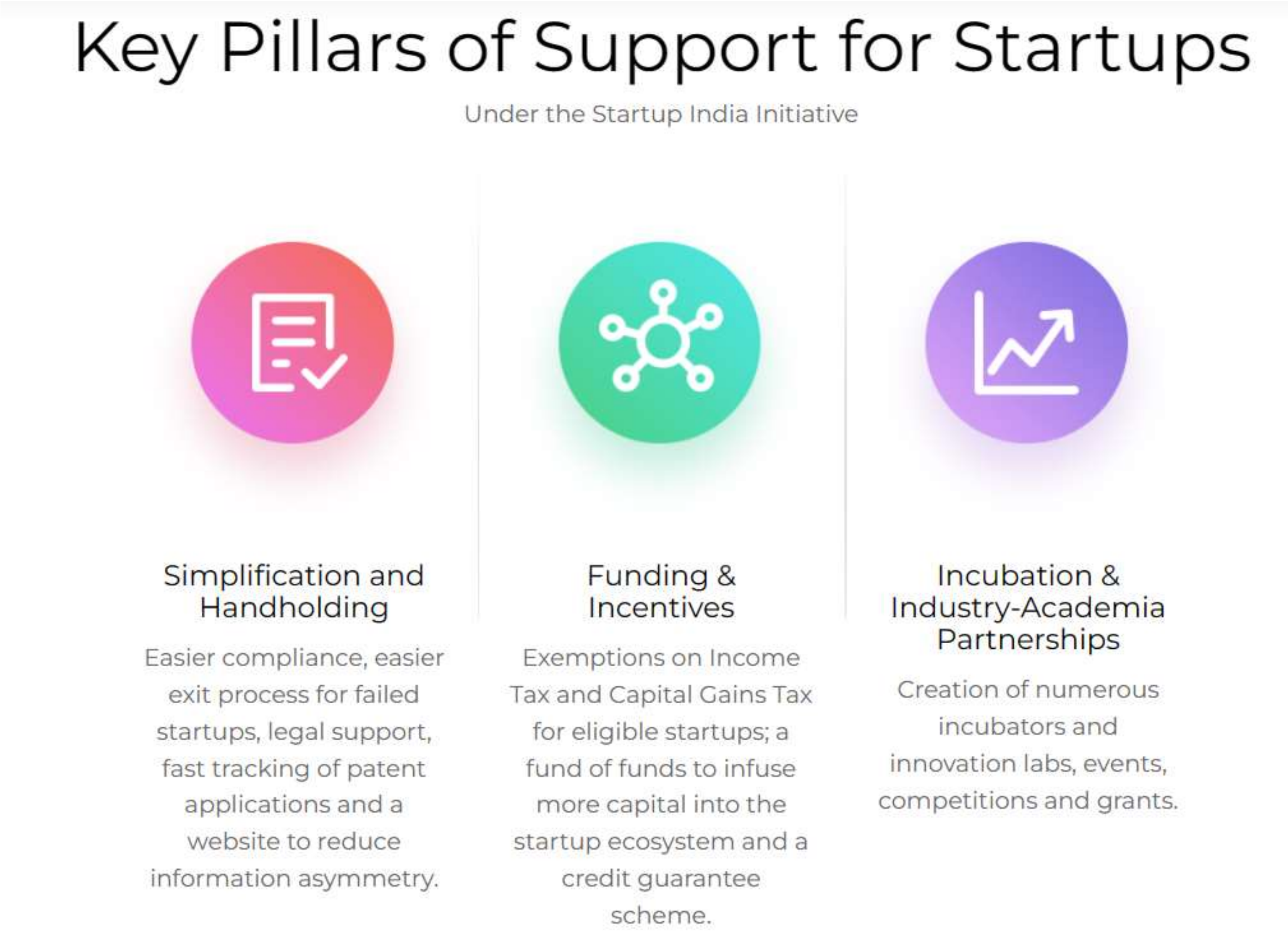
Achievements of this Scheme as on 21.03.2023

- Rs.40,710 crore has been sanctioned under Stand Up India Scheme to 180,636 accounts up to 21.03.2023 since inception of the Scheme.

2 Start up India

Launched on 16th January, 2016, the Startup India Initiative has rolled out several programs with the objective of supporting entrepreneurs, building a robust startup ecosystem and transforming India into a country of job creators instead of job seekers. These programs are managed by a dedicated Startup India Team, which reports to the **Department for Industrial Policy and Promotion (DPIIT).**

- **An entity shall be considered a "Startup" –**
- **If it's incorporated as either Private Limited Company or Registered Partnership Firm or Limited Liability Partnership. A sole proprietorship or a public limited company is not eligible as startup**
- **If it is up to 10 years from the date of its incorporation/ registration**
- **If its turnover for any of the financial years has not exceeded INR 100 crore**
- **If it is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation**
- **Should not have been formed by splitting up or reconstruction of a business already in existence.**



Under the Startup India initiative, the Government is implementing three flagship Schemes, namely, Fund of Funds for Startups (FFS), Startup India Seed Fund Scheme (SISFS) and Credit Guarantee Scheme for Startups (CGSS) to support start-ups at various stages of their business cycle.

The flagship schemes under Startup India initiative namely,

- **Fund of Funds for Startups (FFS),**
- **Startup India Seed Fund Scheme (SISFS) and**
- **Credit Guarantee Scheme for Startups (CGSS)**

extend support to startups at various stages of their business cycle. The startups thereafter, are able to raise investments from angel investors or venture capitalists or seek loans from commercial banks or financial institutions.

2.1 Startup India Seed Fund Scheme

- The scheme was announced at Startup India International Summit on 16th January 2021.

- Department for Promotion of Industry and Internal Trade (DPIIT) approved an outlay of Rs. 945 Crore for the period of 4 years starting from 2021-22 to provide financial assistance to startups for Proof of Concept, prototype development, product trials, market entry, and commercialization.

Execution and Monitoring:

- An Experts Advisory Committee (EAC) has been constituted by DPIIT, which will be responsible for the overall execution and monitoring of the Startup India Seed Fund Scheme.
- The EAC will evaluate and select incubators for allotment of Seed Funds, monitor progress, and take all necessary measures for efficient utilization of funds towards fulfilment of objectives of Startup India Seed Fund Scheme.

2.2 Eligibility

STARTUPS	INCUBATORS
• A startup, recognized by DPIIT, incorporated not more than 2 years ago at the time of application. • Startup should not have received more than Rs 10 lakh of monetary support under any other Central or State Government scheme. This does not include prize money from competitions and grand challenges, subsidized working space, founder monthly allowance, access to labs, or access to prototyping facility.	• The incubator must be a legal entity: - A society registered under the Societies Registration Act 1860, or - A Trust registered under the Indian Trusts Act 1882, or - A Private Limited company registered under the Companies Act 1956 or the Companies Act 2013, or - A statutory body created through an Act of the legislature

• Shareholding by Indian promoters in the startup should be at least 51% at the time of application to the incubator for the scheme, as per Companies Act, 2013 and SEBI (ICDR) Regulations, 2018.	• The incubator should be operational for at least two years on the date of application to the scheme • The incubator must have facilities to seat at least 25 individuals • The incubator must have at least 5 startups undergoing incubation physically on the date of application • In case the incubator has not been assisted by the Central or State Government(s): - The incubator must be operational for at least three years - Must have at least 10 separate startups undergoing incubation in the incubator physically on the date of application - Must present audited annual reports for the last 2 years

- No, individual entrepreneurs are not eligible to apply for support under the scheme. Only DPIIT recognized startups can apply for the SISFS

2.3 Regulatory Reforms for Startup

53 key regulatory reforms undertaken for startup ecosystem are as under: Only Reforms under RBI & SEBI discussed for now

Reserve Bank of India

- Startup enterprises permitted to access loans under External Commercial Borrowing Framework up to USD 3 million.(Oct, 2016)
- A Securities and Exchange Board of India (SEBI) registered Foreign Venture Capital Investor (FVCI) may contribute up to 100%of the capital of an Indian company engaged in any activity mentioned in Schedule 6 of Notification No. FEMA 20/2000, including startups irrespective of the sector in which it is engaged, under the automatic route. (Aug, 2017)
- An Indian startup having an overseas subsidiary, may open a foreign currency account with a bank outside India for the purpose of crediting to it foreign exchange earnings out of exports/ sales made by the said entity and/ or the receivables, arising out of exports/ sales, of its overseas subsidiary. (June, 2016)
- SOFTEX form filed by software exporters moved online. (Feb, 2019)

- Under FDI Policy, tenure of Startup has been aligned with DPIIT Notification dated 19th February,2019 for the purpose of definition of convertible notes. (March 2022)

Securities and Exchange Board of India (SEBI)

- Lock in period for investments made by an Angel Fund reduced to 1 year from 3 years as amended by the SEBI (Alternative Investment Funds) (Amendment) Regulations,2016, w.e.f. 04-01-2017.
- Angel Funds are allowed to invest in overseas venture capital undertakings upto 25% of their investible corpus in line with other AIFs as provided by the SEBI (Alternative Investment Funds) (Amendment) Regulations, 2016, w.e.f. 04-01-2017.
- The upper limit for number of angel investors in a scheme is increased from forty nine to two hundred as amended by SEBI (Alternative Investment Funds) (Amendment) Regulations, 2016,w.e.f. 04-01-2017
- The requirements of minimum investment amount by an Angel Fund in any venture capital undertaking is reduced from fifty lakhs to twenty five lakhs as amended by SEBI (Alternative Investment Funds) (Amendment) Regulations, 2016,w.e.f. 04-01-2017
- "Operating Guidelines for Alternative Investment Funds in International Financial Services Centres" issued by SEBI. (Nov, 2018)
- Under AIF Regulations, definition of Startup has been aligned with DPIIT Notification dated 19th February,2019 for the purpose of investment by Angel Funds in Startups (5th May,2021)
- The SEBI (Alternative Investment Fund) (Second Amendment) Regulations 2021 removes the list of restricted activities or sectors from the definition of Venture Capital Undertaking i.e. Category 1 AIFs can now invest in NBFCs. (5th May 2021)

2.4 Fund of Fund for Startup

- The Fund of Funds for Startups (FFS) Scheme was approved and established in 2016 with a corpus of Rs 10,000 crore, with contribution spread over the 14th and 15th Finance Commission cycle based on progress of implementation, to provide much-needed boost to the Indian startup ecosystem and enable access to domestic capital.
- Under FFS, the Scheme does not directly invest in startups, instead provides capital to SEBI-registered AIFs, known as daughter funds, who in turn invest money in growing Indian startups through equity and equity-linked instruments. Small Industries Development Bank of India (SIDBI) has been given the mandate of operating this Fund through selection of suitable daughter funds and overseeing the disbursal of committed capital. AIFs supported under FFS are required to invest at least 2 times of the amount committed under FFS in startups.
- Fund of Funds for Startups (FFS) Scheme: The Government has established FFS with corpus of **Rs. 10,000 crore,** to meet the funding needs of startups. DPIIT is the

monitoring agency and Small Industries Development Bank of India (SIDBI) is the operating agency for FFS.
- The total corpus of Rs. 10,000 crore is envisaged to be provided over the 14th and 15th Finance Commission cycles based on progress of the scheme and availability of funds. It has not only made capital available for startups at early stage, seed stage and growth stage but also played a catalytic role in terms of facilitating raising of domestic capital, reducing dependence on foreign capital and encouraging home grown and new venture capital funds.

2.5 Credit Guarantee Scheme for Startups (CGSS)

Credit Guarantee Scheme for Startups (CGSS): The Government has established the Credit Guarantee Scheme for Startups for providing credit guarantees to loans extended to DPIIT recognized startups by Scheduled Commercial Banks, Non-Banking Financial Companies (NBFCs) and Venture Debt Funds (VDFs) under SEBI registered Alternative Investment Funds. CGSS is aimed at providing credit guarantee up to a specified limit against loans extended by Member Institutions (MIs) to finance eligible borrowers viz. DPIIT recognized startups.

- The scheme has been approved for the purpose of providing credit guarantees to loans extended by Member Institutions (MIs) to finance eligible borrowers being startups.
- MIs include financial intermediaries (banks, financial institutions, Non-Banking Financial Companies) engaged in lending/investing and conforming to the eligibility criteria approved under the Scheme.
- This scheme would help provide the much-needed collateral-free debt funding to start-ups.
- The credit guarantee cover under the Scheme would be transaction based and umbrella based.
- The exposure to individual cases would be capped at Rs. 10 crore per case or the actual outstanding credit amount, whichever is less.
- In respect of transaction-based guarantee cover, the guarantee cover is obtained by the MIs on a single eligible borrower basis.
- Transaction based guarantees will promote lending by Banks/ NBFCs to eligible startups.
- The umbrella-based guarantee cover will provide guarantee to Venture Debt Funds (VDF) registered under Alternative Investment Funds (AIF) regulations of Securities and Exchange Board of India (SEBI).

3 Understanding Venture Capital

Venture Capital (VC) industry has 4 main entities, which are mentioned below

- Entrepreneurs who need funding

- Investors with an objective of securing very high returns.
- Investment bankers who need companies to sell.
- Venture Capitalists (VC) who make money for themselves by creating a market for the above 3 players in the industry.

More about it

- Entrepreneurs need investments for their start-up companies. The investments or the capital that these entrepreneurs receive from wealthy investors is called Venture Capital and the investors are called Venture Capitalists.
- VC firms reduce the risk of investments by co-investing with other VC firms. Usually, there will be the main investor called the 'lead investor' and other investors will be called 'followers'.
- Below table gives a list of the types of venture capital funding and their features

Type of Funding	Objective & Amount of Funding
Pre-seed funding	1. Pre-seed funding is in the range of \$100,000 – \$200,000 2. Funding provided when a startup is less than a year old. 3. Supports R&D, Market Research. 4. Recruit new members.
Seed Capital	1. Funding will be in the range of \$ 1million – \$ 2 million 2. Start-up company will need a product that will be viable in the market
Series A funding	1. Funding will range in between \$ 2 million – \$ 15 million 2. The start-up company needs to have a market-proven product that will help in scaling up fast.
Series B funding	1. Funding can range between \$ 7 million – \$ 20 million. 2. This round is considered to be less risky. 3. Funding is used for Business Development, advertising.
Series C funding	1. Funds for developing more products and services, acquiring another company 2. Funding received is usually in the range of \$ 25 million.
Series D funding	1. Few start-ups reach this stage. 2. Positive reasons could be the company wants to stay private for some more time or they need to go for more expansion before going for IPO. 3. The negative reason could be the company did not hit the expected growth plans.

	4. This is down round funding as trust in the companies abilities has been eroded.