

## Highlights of Planning Commission report August, 2012

The year 2012 has witnessed yet another push for building India's nascent entrepreneurial ecosystem. The committee of Planning Commission on "Angel Investing and Early Stage Venture Capital" under the chairmanship of Shri Sunil Mitra, Ex-Revenue Secretary, Government of India has submitted a blue print for the same. The key highlights are:

### **Summary**

Entrepreneurship engine in India, over the next decade, has the potential to create 2500 successful high growth ventures, with combined revenue of over ₹10 lakh crore (USD 180 billion), and to generate 10 million direct & 20-30 million indirect jobs. Consequently, powering India's economic progress with:

- Inclusive economic development
- Innovative products/services for India's young population
- India as a hub for frugal innovation
- Attracting investment flows and creating substantial wealth

This cycle has been set in motion over past few years with emergence of first generation entrepreneurs, increasing availability of capital, and strengthening of the ecosystem.

The Committee's recommendations include:

- 1) Facilitate investments: Recognition and promotion of early-stage investments and early stage investors such as angel investors, venture and seed funds, and attract investors through development of appropriate policy measures and fiscal incentives.
- 2) Enhance and scale-up venture incubation programs: Grow incubators from the current 120 number to over a 1000 by 2022, beyond IITs, IIMs etc. Enhance the limit of investing in an incubatee company from ₹25 lacs to ₹1 crores. Encourage Private Sector participation in incubation centers.

- 3) Ease entrepreneurial processes: Ease regulations and processes for setting up, operating, and exiting a business. For example, reduce transaction time and costs through measures such as single-window clearance, set-up entrepreneurial hubs on the lines of STPI, permit self-regulation and self-compliance for businesses with turnover of less than ₹25 crore, and stringent penalties for prevention of potential misuse.
- 4) Ease exits for investors: Develop policy framework for easier exits to encourage early stage investments by Angels and others investors including appropriate fiscal incentive on capital gains. MoF could also allow companies registered in India to make an initial public offer on exchanges outside India without or before listing in India, as was the case earlier.
- 5) Remove regulatory hurdles that inhibit domestic investments: Permit pension funds, insurance funds and provident funds to invest a small part of their corpus in early-stage venture funds to improve capital flows. Special incentives such as tax credits could be provided to HNIs, corporates and institutions that invest in early stage venture funds or to incubators and to angel investors. Allow NRI investment in Venture Capital Fund through automatic route.
- 6) Government could establish a "fund-of-funds (FOF)" to seed early stage venture funds: With a corpus of ₹5,000 crore, this FOF will invest as an anchor investor, in a number of Alternative Investment Funds.
- 7) Develop and scale-up debt offerings: Debt is critical to meeting working capital requirements. Traditional debt providers, however, do not lend without collateral. As such, early stage ventures cannot meet lender requirements. Therefore, expand the lender base by incentivizing banks to offer SIDBI-like schemes to early stage ventures. Banks to create capacity and capability for lending to such ventures.
- 8) Set up collaborative forums for mentorship and networking: Industry associations and chambers of commerce to set up

mechanisms for mentoring relationships between established businesses and early stage ventures.

The Report has been accepted by the Planning Commission and has also been presented to the Finance Minister and his team in the Ministry of Finance.

We would like to quote Mr. Alok Mittal, member of the Planning commission committee on “Angel Investing and Early Stage Venture Capital” and an

Advisor on the Board of YourNest Angel Fund, “If implemented well, these steps will reduce the barriers to creating successful startups, and allow a broader set of people to participate in entrepreneurship. Indian entrepreneurs are charting a high growth trajectory, which could have tremendous impact on the country’s future. They have also demonstrated their ability and commitment to be disciplined and to follow the rules. It is time now to clear the potholes and build the highways of entrepreneurship.”