EXECUTIVE SUMMARY

Background

The Scheme of Venture Capital Fund for Scheduled Castes was launched in 2014-15 with unique feature of higher level of loans from Rs.50 lakhs to Rs.15 crores for SC entrepreneurs. Till date Loans amounting to Rs. 235.25 crores to 60 Scheduled Caste entrepreneurs have been sanctioned in different areas including Solar Energy, Water treatment plants, Food processing and Beverages, Hotel etc.

Investment under the fund is categorised as follows:

1. **Financial assistance up to Rs 5 Crore** - Investment under this category shall be funded maximum upto 75% of the project cost and the balance 25% of the project cost will be funded by the promoters;
2. **Financial assistance above Rs. 5 Crore**

- Investment under this category shall be funded maximum upto 50% of the project cost. At least 25% of the project cost has to be financed by bank/other institutions. Balance 25% of the project cost will be funded by the promoters.
- The proposals forwarded by Banks or other financial institutions with sanction of 25% of the total project shall be considered. In this case, the projects shall have to be compulsorily appraised by the Banks or other financial institutions.

The Government of India has launched this ‘Venture Capital Fund’ for Scheduled Castes which is 16.6 per cent of the country’s total population with initial capital of Rs. 200 crore. IFCI Ltd. acts as Sponsor, Settler and Asset Management Company (AMC) / Nodal Agency to operate the scheme. The IFCI Ltd. would contribute Rs.50 crore which would comprise Rs.5.00 crore as sponsor and Rs. 45 crore as investor.

Department of Social Justice & Empowerment intended to conduct evaluation of “Venture Capital Fund for Scheduled Castes Entrepreneurs" through Centre for Market Research & Social Development Pvt. Ltd., New Delhi, to find out the implementation difficulties in the scheme, the impact on the beneficiaries, and suggest way forward to improve the effectiveness and efficiency of the scheme.

Study Objectives

The key objectives of this evaluation study are:

i) Whether the Scheme has achieved its targets and goals.
ii) An analysis of pay back capacity of the beneficiaries.
iii) Whether the coverage of the scheme is adequate - whether it has covered areas dominated by SC entrepreneurs.
iv) Has the scheme resulted in generating employment?
v) Key findings
vi) What are the outcomes of the scheme?
vii) Has IFCI succeeded in meeting the objectives of the scheme?
viii) Problems in scheme design if any.
ix) Recommendations for improving the scheme design so as to improve its access.
x) Some case studies.

The study was based on the explorative, descriptive and analytical approach to study. Both secondary and primary research was undertaken to generate required information. Both secondary data and primary data were used for this purpose. Separate Interview schedules were prepared for the beneficiary entrepreneurs and implementing officials to elicit the desired information.

Out of 60 entrepreneurs benefitted under the scheme, 57 were surveyed during the field visit covering 15 states in November 2017 and remaining three could not be surveyed since the concerned persons are not available in the office during the visit and did not provided requisite information after several contacts.

Major Study Findings

1. The venture capital fund for scheduled castes (VCFSC) was announced in the month of January, 2015 with an initial corpus of 245 crores which was scaled up to Rs. 290 crores till the commissioning of this study. More than 400 applications for sanction of loan were received by IFCI which is administering the scheme. A total number of 60 cases have been sanctioned till October 2017 which does not include 14 cancelled and 3 rejected cases subsequent to sanction.

2. Beneficiaries under the scheme are from 15 states in the country. Maximum number of beneficiaries are from Maharashtra (12% SC population), Andhra Pradesh and Telangana (16% SC population-undivided Andhra Pradesh) whereas other States having 20% to 32% population have not been adequately covered. Further, the States like Rajasthan, Odisha, Tripura, Uttarakhand, Madhya Pradesh, Jharkhand, Delhi and UT of Chandigarh with a significant percentage of Scheduled Castes population, do not have any beneficiary under the scheme. Besides, no SC entrepreneur from North Eastern States barring one in Assam has been sanctioned the assistance under the scheme. Thus, the coverage of the Scheme is not adequate. The Scheme has also not covered many SC dominated areas/ States and areas having more number of SC entrepreneurs. The data reveals that the eligible entrepreneurs in Maharashtra have been benefitted the most compared to other areas having more number of SC entrepreneurs, whereas the states of Madhya Pradesh, Kerala and Rajasthan having significant concentration of SC entrepreneurs, do not have any beneficiaries under the scheme.
3. The eligible companies who have been sanctioned venture capital, have promoted projects in manufacturing and service sector. The manufacturing sector industries funded include projects in power, textiles, manufactured products, food processing and service sector includes information technology, health, amusement and hotels etc.
4. As on October 2017, a total amount of 238.80 crore has been sanctioned to 60 eligible companies and 146.44 crore disbursed to 47 companies. 13 companies are yet to be disbursed the assistance due to various reasons which include non-submission of legal documents (10 cases) and vetting of legal documents by IFCI.
5. Time taken for sanction of loans by IFCI takes around 2-10 months against the stipulated period of 2-3 months as provided under the scheme. The reason for this delay is due to time taken in legal documentation, provision of collaterals and timely arrangement of margin money.
6. Out of 47 disbursed cases, 16 companies have been released the full assistance, more than 90% of the sanctioned amount have been released to 9, 50% to 82% to 15 and 7 companies have been released below 50%. The main reasons for delay in disbursement are as under:
   - Delay in conversion of agricultural land to non-agriculture;
   - Delay in submission techno-economic viability (TEV) report;
   - Delay in obtaining NOC from State land allotting agency;
   - Inability to provide security/ collateral;
   - Pending legal documentation, valuation and title search report (TSR).

7. Among these sixty companies, 14 have availed loans from banks at an interest rate which is higher than that under the VCFSC.
8. Out of 57 surveyed companies covered under this study, 47 are not very comfortable with the present repayment period of 6 years. Most of them are of the opinion that the repayment period should be extended to 8-10 years including the moratorium period.
9. Out of 47 companies to whom disbursement has been made under the scheme, 30 have already started repayment without any default, 4 have started repayment but subsequently defaulted, 2 have defaulted without repaying any amount and in 11 cases, the repayment is yet to commence.
10. Out of 47 companies which have been disbursed assistance, 7 companies have started commercial operation and 8 have implemented the project. Others are under process of implementation.
11. IFCI confirmed that six companies are defaulters as on October, 2017. At present, IFCI is following up with the default entrepreneurs to repay the due installment(s). Soon IFCI shall be taking the following actions against the defaulters as per the terms and conditions of the sanction:
    a) Depositing the PDCs.
    b) Invoke of pledged shares and personal guarantees of promoters and mortgagors.
    c) Recalling the financial assistance provided under the scheme.
    d) Other legal recovery actions.
12. Keeping in view that 15 companies have implemented the projects sanctioned, it is premature to capture the exact impact on employment generation. Still, it is observed from the survey that the direct employment has increased 685 to 1561 (increase of 128%) and indirect employment has increased from 460 to 1151 (increase by 150%).
13. The assets being funded under this scheme are considered as primary security. Additional collaterals are taken in case the project is located in leased premises where the land and building is not owned by the entrepreneur. There is no guideline with regard to the quantum of additional security. The same is determined by the fund manager keeping in view the nature of funding, type of business and risk involved thereof. It is observed that IFCI addresses this issue liberally keeping in view the nature of fund.
14. IFCI provides hand holding support to the prospective ventures which include preparation of feasibility report, financial viability analysis data, project monitoring and other guidance as may be required on case to case basis.

15. IFCI participates in the venture by taking equity to the extent of 1000 to 10000 shares. However, in most of the cases, the equity exposure of IFCI in funded ventures are to the extent of one lakh rupees only. Besides equity, the main funding of the project is through optionally convertible debentures (OCD). Therefore actual participation in board of directors of the ventures will come up when the OCDs mature as per terms of sanction. At present, IFCI is not on the board of any funded venture.

Conclusion

1. Subsequent to the launch of the venture capital fund for scheduled castes (VCFSC), 60 projects have been sanctioned which do not include 14 cancelled and 3 rejected cases. Out of 60 sanctioned projects, 47 projects have been disbursed the fund either fully or partially. 15 projects have been fully implemented out of which 7 have started commercial operations.
2. The findings indicate that the scheme has partially succeeded in meeting its objectives keeping in view that the process of sanction, disbursement and project implementation is still on and majority of ventures are yet to take off.
3. As this scheme is first of its kind and a maiden attempt to fund the ventures promoted by a disadvantaged section of society like scheduled castes, it is taking off slowly but substantially. The fund has to address plethora of issues like awareness generation, counseling, regular follow up of reluctant entrepreneurs and diverse handholding support, which consumes a lot of time. Further prudency in regulating sanction and disbursement, needs to be adhered to ensure that the funding is made to appropriate ventures who have potential to grow and succeed and to ensure that the fund does not go into the hands of non serious entrepreneurs.
4. The scheme's success can be observed after the full disbursement takes place, projects are implemented and after a full financial year of commencement of commercial operations. Then only the operation, profitability and sustainability parameters can be assessed. The survey of and interactions with entrepreneurs as well as fund manager suggest that the ventures are on right track barring a few cases.
5. This evaluation indicates that the scheme implementation has to address the concern of entrepreneurs, their business format and progress of project with patience and empathy.

Recommendations

Based on the outcome of this evaluation study, the following recommendations are made for consideration of authorities:

1. The life of the fund as registered with SEBI is 10 years which is extendable by two years. Funding made to any venture in 2018-19 has to be squared off by 2025. Majority of the entrepreneurs feel that the tenure of loan may be extended to 8-10 years. Most of the projects funded are new and the entrepreneurs need a leverage to manage and grow the enterprise. Keeping in view the nature of fund and its targeted beneficiaries, the tenure of loan may be increased to 7 to 8 years on assessment of the cash flow position of each project. This will make the entrepreneurs more comfortable.
2. The moratorium period is normally allowed from 12 to 18 months against the scheme provision of two to three years. This may be liberally considered to give a little more breathing space to entrepreneurs to streamline their cash flow. This does not need a change in the scheme and within the ambit of the scheme, the moratorium period can be allowed up to three years with a loan tenure of seven to eight years.
3. There are a few cases where the entrepreneur has lined up finance up to 75% of project cost due to his expertise and strength of the project. But he is not able to proceed because of inability to arrange 25% margin money. It is suggested that 12.5 % of the project cost may be funded under VCFSC through participation in the equity of such ventures. This will help to materialise the establishment of potential ventures.
4. One of the major reasons of slow disbursement is difficulties faced by entrepreneurs to arrange necessary approvals and licenses. Some entrepreneurs are also facing difficulties in obtaining no objection certificate from land allotting agencies of state governments to mortgage the property to IFCI and in conversion of agricultural land for non agricultural use. The matter may be taken up with state governments to facilitate the cases of scheduled caste entrepreneurs through single window clearance wherever the facility is available and in other cases where single window clearance is not available, the state government may issue instructions to dispose of the cases expeditiously within a time frame.
5. In cases where project cost is more than 5 crore, 50 % funding is done by IFCI and 25 % is done by banks. Although in many cases, IFCI sanctions its share first giving 3-6 months time to the entrepreneurs to obtain bank sanction. But disbursement by IFCI is only done after bank loan is sanctioned. This delays project implementation inordinately. Therefore, the

matter may be taken up with banks to evolve a mechanism where loan can be sanctioned by them immediately after sanction made by IFCI without resorting to separate appraisal. Else banks could appraise and sanction their share first and sent to IFCI for venture funding which IFCI should do expeditiously within a time frame.

6. The procurement policy of Government and PSUs provide for 4 % procurement from MSMEs promoted by scheduled caste and scheduled tribe entrepreneurs. However the procurement conditions envisage supply of a fixed quantity for which the small entrepreneurs in this category do not qualify. Concerned Ministries, state governments and public sector undertakings may be advised to change/ relax the stipulated quantity conditions which will benefit the small SC entrepreneurs immensely.
7. At present DICs facilitate registration of new industries in states. There is a separate cell in DICs of the states to facilitate single window clearance wherever the facility is available. But they don’t have any database of SC entrepreneurs. States may be advised to make the scheme available in DICs and appoint a nodal officer to deal with scheduled caste entrepreneurs and forward the cases to the fund manager for further counselling and handholding. This integration is necessary because the Scheme is yet to cover states having huge SC population. Further, it will help in bringing in more desirous entrepreneurs which will help in broad basing the scrutiny and sanction. Once more applicants are roped in, reluctant and non serious entrepreneurs can be eliminated.
8. Hand holding support to small and new entrepreneurs should include compliance of the requirement of Companies Act 2013 as they face hurdles in completing the statutory compliances which sometimes delay sanctions and disbursements.
9. As the interest subsidy available to MSMEs are not available to the beneficiaries under this scheme as the venture finance is done by the IFCI which is a non banking finance company and the respective schemes regulating the subsidy envisage finance by banks as a qualifying condition. Therefore, possibility of synchronisation may be considered to attract more prospective entrepreneurs across all the States.
10. Rs. 235.25 crore so far sanctioned to 60 companies out of the total corpus of Rs. 290 crore; scheme may be further strengthened with more financial allocations to promote innovation and growth among SC entrepreneurs.