VENTURE CAPITAL FUND FOR SCHEDULED CASTES

(VCF-SC)

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सत्यमेव जयते

Goverment Of India

EXECUTIVE SUMMARY

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The Scheme of Venture Capital Fund for Scheduled Castes was launched in 2014-15 with a unique feature of advancing loans from Rs.50 lakhs to Rs.15 crores to SC entrepreneurs. Till date loans amounting to Rs. 354.44 crores to 98 companies of SC 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 into two: (1) Financial Assistance up to Rs 5 Crore. The 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. In this category, the investment would be made 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. It is important to conduct technical and feasibility study from an independent source in case required funding exceeds Rs. 5 Crore.

The moratorium for the redemption of principal component is considered on case by case basis but should not exceed 36 months from the date of investment in the company. However, interest/coupon payment commences from the date of investment in the company at regular intervals as determined by the investment committee of the fund. The returns/coupons/interest for financial assistance is linked with 15% per annum equity instruments and 8% per annum in case of debt/convertible instruments are admissible and in the special case of women and disabled entrepreneurs, 7.75% is provisioned. In the case of the company owned by a woman entrepreneur with 51% of the shareholding in the company as the Managing Director, the interest rate of 7.75% is admissible. To qualify disability benefits, the guideline issued by the Department of Empowerment with disabilities for qualifying disabled persons is followed. The major findings of the study are as under:

1. Presently the scheme is implemented in 17 Indian States, namely (1) Andhra Pradesh, (2) Bihar (3) Assam (4) Delhi NCR (5) Chhattisgarh (6) Gujarat (7) Karnataka (8) Maharashtra (9) Pondicherry (10) Punjab (11) Tamil Nadu (12) Telangana (13) Uttar Pradesh (14) West Bengal (15) Uttarakhand (16) Himachal Pradesh and (17) Haryana.
2. The Venture Capital Fund for Scheduled Castes Entrepreneurs is the only Scheme to promote entrepreneurship amongst the Scheduled Castes and to increase financial inclusion for SC entrepreneurs to motivate them for further growth in the society.
3. Women have had 28.1% representation out of 98 VCF set-ups. The maximum number of ventures have been set up in Maharashtra (32.7%), followed by Andhra Pradesh (15.3%) and Telangana (12.2%). The women representation is about 25% in Maharashtra, followed by Telangana (21%) and Andhra Pradesh (13%).
4. The SDG Goal no. 8.3 vouches for promotion of development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro, small and medium-sized enterprises, through access to financial services. Therefore, a motive to promote entrepreneurship amongst the SCs who are oriented towards innovation and growth technologies and provide concessional finance to the SC entrepreneurs who create wealth and value for society is aligned with the SDG goal no. 8.3.
5. The approach adopted for the evaluation of the Scheme under the study is goal-based, process-based and outcome-based. Both quantitative and qualitative information have been garnered applying questionnaire, in-depth interview, observation and focus group discussion as research tools. The evaluation study has relied upon both primary and secondary sources of data. Primary data was collected from IFCI Limited, promoters and workers/wagers of the companies. Questionnaires were administered to the promoters.

Observation-based detailed discussions were held with IFCI Limited, Department of Social Justice and Empowerment, and company promoters. Considering promoters as key stakeholders receiving benefits of the Scheme, to begin with, they were contacted telephonically and then the project-sites were visited. The questionnaire was administered to receive their responses to the objectives of the scheme. It was also intended to know the extent to which the companies covered under the Scheme were aligned with the laid down procedures. Focus group discussions were conducted with the workers of the companies. Thus, the evaluation study took a holistic view by integrating both, the supply and demand-side stakeholders. This approach was applied to identify problems, challenges and constraints in and of the Scheme implementation.

6. The approach of the study is analytical, as indicators have been identified to assess the economic condition before and after the scheme. Apart from this, research tools have also included process-related and multiple issues through an integrated framework to come up with effective findings. Different items of information on the beneficiary profile, basic profile, and information aligned with scheme guidelines and views to enhance the effectiveness of the Scheme have been asked and responses thereof, documented. The sources of information are a balanced blend of primary and secondary information garnered from different layers of stakeholders. Importantly, the views of workers associated with the companies have also been taken to understand the extent to which the scheme has given a chain effect on them. The problems, challenges and constraints in the implementation have been discussed with IFCI and promoters. The information on the criteria adopted for identification of eligible SC entrepreneurs and method applied for motivating them have been taken from IFCI Limited and promoters. For the payback capacity, the bank statements of the borrower have been examined. To assess the employment generation due to coverage of the Scheme, the company promoters were asked to provide the employee details. The

qualification details of the entrepreneurs were taken while taking their feedback. The strength, weakness, opportunities and threat analysis have been conducted based on data collected.

7. The objectives of the evaluation study of Venture Capital Fund for Scheduled Castes (VCF-SC) are as under:

   i. To examine the problems, challenges, and constraints in the implementation of the scheme,
   ii. To study the criteria adopted for identification of eligible SC entrepreneurs and method applied for motivating them to undertake financial inclusion,
   iii. To analyse the payback capacity of the beneficiaries,
   iv. To study whether the scheme has resulted in the generation of employment,
   v. To examine the qualifications of entrepreneurs and their selection criteria,
   vi. To conduct strengths', weaknesses', opportunities' and their threats' analysis of the scheme,
   vii. To document the key findings on the data collected from the field on the objectives of the study,
   viii. To identify shortcomings in the design of the existing scheme if any, and
   ix. To recommend/suggest for necessary restructuring to be carried in the scheme to achieve desired results and its need for continuation.

8. The samples were drawn from Uttar Pradesh (North Region), Andhra Pradesh (Southern Region), Telangana (Southern Region) and Gujarat (Western Region). Hence, the samples selected are representative of the four regions. The companies selected in the study are financial disbursement/ sanction of below 5 crores. The two companies selected from the southern region, namely M/s Palandu Solar Power Private Limited and M/s Dartyens Power Limited operating in the power sector. The M/s Sunheri Rice Mill Private Limited is from

north region associated to agro-business sector. The Rainbow Packaging Private Limited from Western Region is a plastic-sheet producing company. Thus, the samples were taken from three different sectors, namely power, agro-business and plastic manufacturing. Out of the four companies listed, two companies have received the full disbursements. The other two companies have been disbursed less than the amount sanctioned. M/s Sunheri Rice Mills, Bijnore has not started.

9. The performance of the scheme has been evaluated on the output/outcome indicators viz. business model adopted, percentage of SC shareholdings in the company management in last six and twelve months, capital investment in the company, project cost, provision of collateral or corporate guarantee, borrowings from financial institutions, chain effect of the venture on other SC people, the overall profit of the business, payback capacity, ancillary entrepreneurs connected to the venture, employment generated, the wealth of assets created, and innovation and technology being employed.

10. M/s Dartyens Private Limited has installed 3550 modules, 11 tracking motors and 11 SMBs. The company is set up in the land area of 7 acres. The link road to the company is Sagar Road which is 17 kms away from Nalgonda. M/s Dartyens Power Private Limited was set up in 2016 and a loan of Rs. 4.47 crore was sanctioned, of which Rs. 4.35 crore disbursed. The company supplies power to TSTRANCO of Telangana State. The company receives revenue of Rs. 6.49 per unit. The total production capacity of the venture is 1760 units /day in winters, 1360 units/day in the rainy season and 4323 units/day in summers. There were four workers deputed to look after the working of the plant, of which two were from SC community. A total of Rs.58000/month was being spent on human resource.

11. M/s Palnadu Solar Power Private Limited was set up at Inumella Village, Guntur in 2015. It is situated in 25 acres. It is a 5 MW energy venture. It has 18520 solar modules. The company received a loan amount of Rs. 15 crores. The said amount consists of Rs. 14

crores as VCF-Debt and Rs. 1 cr. as VCF-SC equity. The venture was implemented in the year 2015. Seven workers were found working with the company. A total of Rs. 86000 was spent on human resource.

12. M/s Rainbow Packaging Private Limited, Ahmedabad was set up in 1986. The project is located at Changodar Industrial Estate, Sarkhej Bhavla Road, Changodar, Ahmedabad. Under the VCF-SC scheme, the company was sanctioned Rs. 2.42 crore in the year 2015. The amount was disbursed for purchasing the printing machine on the plastic sheets. The Company was found producing effective stock value and better results with the newly purchased printing machine.
13. M/s Sunheri Rice Mills Private Limited was to set-up in Bijnore. The promoters expressed their negative concerns about the officials of IFCI Limited. They alleged the officials of IFCI Limited for not effectively processing their requests and asking for undue favours.
14. The sampled ventures were manufacturing units. Out of four ventures studied, two of them were operating in the power sector, one in plastic sheet manufacturing and other, rice mill.
15. The legal status of companies was changed to Private Limited. Before the scheme, except M/s Sunheri Rice Mills Private Limited, the other three companies, namely M/s Dartynes Power Private Limited, M/s Palnadu Solar Power Private Limited and M/s Rainbow Packaging Private Limited underwent structural changes.
16. Before the coverage of the scheme, the promoters provided collateral or corporate guarantee for borrowing financial inputs. However, M/s Dartyens Power Private Limited and M/s Palnadu Solar Power Private Limited did not borrow at all before availing the Scheme's benefits. After being covered under the Scheme, their capacity of investment relatively went up. M/s Dartyens Power Private Limited and M/s Palnadu Solar Power Private Limited invested to the tune of 45.9% and 58.45% which they did not do before being covered under the Scheme. However, the promoters of two other companies, namely

M/s Rainbow Packaging Private Limited and M/s Sunheri Rice Mills seem to have enjoyed relief in the investments. M/s Rainbow Packaging Private Limited and M/s Sunheri Rice Mills private Limited invested 80% and 50%, respectively. With the association with the scheme M/s Rainbow Packaging Private Limited and M/s Sunheri Rice Mills private Limited invested 68.36% and 34.19%, respectively. However, M/s Sunheri Rice Mills Private Limited could receive an amount of Rs.100 lakh against the sanctioned loan amount of Rs.256 lakhs. The company after availing the scheme did not move forward with its venture.

17. The employment opportunities have been documented considering the participation of other than SC workforce as well. The employment has been divided into three categories, namely full time, part-time and seasonal. To calculate the total number of employments, the norms of MSME has been followed wherein two part-time employments equal to one full time, and 4 seasonal giving rise to one full time. M/s Dartyens and M/s Palnadu Solar Power private Limited companies did not offer any employment before availing concessional finance. The companies after being covered under the scheme have started producing positive results on the output indicator of employment generation. Aligned with the Scheme objective, out of the total employment created by companies for SCs, 57.2% additional employments have been created. Employment opportunities for SCs were created to the tune of 100% by both M/s Dartynes and M/s Palnadu Solar Power whereas 52.38% additional employment opportunities were created by M/s Rainbow Packaging Private Limited. The analysis recognizes the adverse impact of the Scheme on M/s Sunheri Rice Mills. It is to be noted that both M/s Dartynes and M/s Palnadu Solar Power did not create any employment opportunities before their coverage under the Scheme. Thus, the progressive growth in the creation of employment opportunities is visible in the case of M/s Rainbow Packaging Private Limited.

18. Considering that the workers working with the companies were directly linked with the ecosystem of the business and receiving the first-hand interface, bringing about attitudinal changes to orient them to a similar venture, responses were documented. During our focus group discussion, it was clarified that the workers of companies cannot afford to initiate a venture of that kind. However, workers from M/S Rainbow Packaging Private Limited, Gujarat expressed their willingness to start-ups. No workers from other company expressed their desire to start any venture fostering entrepreneurial values. Thus, 25% of the workers have expressed that they would be setting-up similar venture in the future.
19. Before the coverage of the Scheme, the sampled companies did not have 'very good' profits. The two companies operating with the power sector have not responded to the concerns. The actual profit has been received by two companies, namely Rainbow Packaging and Sunheri Rice Mills Private Limited to the tune of 1.5% and 7%, respectively. The payback capacities of power sector companies have not responded on their transactions with financial institutions whereas the two companies borrowed loans from commercial banks. Barring M/s Rainbow Packaging Private Limited, no company associated small SC entrepreneurs. The technology being used before the Scheme has been normal printing responded by M/s Rainbow Packaging Private Limited. Overall, most of the companies on the above-mentioned parameters are under-performing.
20. After the implementation of the Scheme, the entrepreneurs responded to the component of profit received. M/s Palnadu has reflected 'no-response' in the column of profit received. The Sunheri Rice Mills which has not started the venture and remains silent on all the components. M/s Rainbow Packaging has expressed good profit received after its inclusion to the scheme. The company promoters fulfil their financial requirements by taking loans from commercial banks. The company supports less than 20 small SC entrepreneurs. They provide scholarship to SC students from their profit. They are using 'rotogravure'

innovative technology to redefine their economic growth. M/s Palnadu Power Private Limited is mostly silent on the aforementioned output indicators. So is the case with M/s Dartyens Power Private Limited.

21. The design of the scheme intends to benefit the SC community entrepreneurs. The implementation of the scheme is such that only selected financially competent promoters can get the benefit. As it is clear from the Scheme guideline that above five crores of the project cost, the funding is available to the tune of 50% and in case the below amount, it has been provisioned at 66%-75%. The common SC people cannot afford to invest in such a high amount. Looking at the ventures in operation, it seems to have touched mainly the socio-economically empowered SCs.

22. The ratio of disbursed amount and number of beneficiaries can give us an indication of input use efficiency. The efficiency of use of input can be computed by taking a simple ratio of output to input. The average input use efficiency has been calculated as 0.44. Keeping the average as standard, we find that only in the inception year i.e. 2014-15, the efficiency level is higher than the average. In the year 2016-17 and 2019-20, the efficiency level is progressing towards the average level.

Recommendations

23. Most of the projects funded are new and the entrepreneurs need to know more to manage and grow their enterprise. Keeping in view the nature of the fund and its targeted beneficiaries, the tenure of the loan may be increased to 10-12 years on the assessment of the cash flow position of each project. The increased tenure of repayment would provide relief to the entrepreneurs.

24. One of the major reasons in the ineffective coverage of the Scheme is difficulties faced by entrepreneurs to arrange necessary approvals and licenses. To cover the number of SC

beneficiaries to the Scheme, they should be facilitated with a single-window system to get their cases disposed expeditiously within a time frame.

25. There exists entrepreneur lined up finance up to 75% of project cost due to his expertise and strength of the project. But the entrepreneur is not able to proceed because of the inability to arrange 25% margin money. It is suggested that 12.5 % of the project cost may be funded under VCF-SC through participation in the equity of such ventures after acceptance of the entrepreneurs.

26. There should be proper information dissemination about VCF-SC. The task of the advertisement should not be left to IFCI Limited alone. The Ministry can take initiatives to promulgate the scheme and its benefits through newspapers, magazines, website and social sites.

27. 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.

28. 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 bring more desirous entrepreneurs.

29. The interest rate imposed on the principal component of loan should be brought down to 5% and the balance interest required from the bank can be met out through interest subvention. The Ministry may like to allocate separate fund for the subsidy on the interest

component. This would make the scheme attractive and tenable for SC entrepreneurs. However, to provide the interest subsidy of 3% should be subjected to third-party verification of the companies.

30. Rs. 354.44 crore so far sanctioned to 98 companies out of the total corpus of Rs. 452.17 crore; scheme may be further strengthened with more financial allocations to promote innovation and growth among SC entrepreneurs.

31. The externalities of the Scheme can be categorised as under:

    1. The **financial limitation** of the scheme does not enable the promoters to meet their induced requirements related to their business. There is considerable delay in the fund release.
    2. The **information deficit** is one of the major externalities expressed by the promoters while executing the projects. The letter of Intent (LoI) is prepared several times to address the needs of the promoters. There are no fixed documents which regulate the preparation of the letter of intent.
    3. The **organizational structure** has to be a private limited company wherein the promoters demand it to be either proprietary or partnership firm or one-person company or limited liability partnership or any other law-abiding establishment, as most of the sampled SC Entrepreneurs were not fully aware of entry-level of business requirement to be set up under Private Limited Company. The conversion to the private limited company requires more capital infusion, statutory fees and approvals. The major requirement of a minimum of two directors and shareholders of Private Limited Company may not be met by Many SC Entrepreneurs.
    4. The **repayment period** should be industry-specific. There are selected sectors where IFICI Limited lending should be aligned to standard norms prescribed by IREDA etc.

5. The **Interest Rate** is a major roadblock in the timely repayment. The rate should be reduced to 5%. It has been suggested by the promoters that the remaining interest rate requires to be met from the funds of the Ministry since it is a method of incentivising the entrepreneurship among Scheduled caste population.
6. The **Penal Interest** becomes a major hurdle in the repayment.

32. The Strength, weakness, opportunities and threats of the Scheme are as under:

A. **Strength**: The Scheme of Venture Capital Fund for SC is unique of its kind. The scheme enables promoters to set up their company by borrowing loans from IFCI Limited. The Scheme has transferred acres of lands into productive assets. It has also opened employment opportunities to unemployed SC population. As a result of the Scheme, there are 98 working ventures in 17 States.

B. **Weakness**: Out of the total corpus fund of Rs. 452.17 crore, the disbursed fund is 354.44 crore. A total of 21.61% of the fund is an unspent balance that could have been used. The information dissemination about the Scheme is not adequate, as it has not reached out to the beneficiaries. There exist disputes resulting from the fund disbursement process. One of the major reasons identified is dispute resulting from the disbursement and difficulties faced by entrepreneurs to arrange necessary approvals and licenses, so much so 25% fund arrangement by normal SC population is difficult.

C. **Opportunities**: The scheme provides opportunities to the SC entrepreneurs for opening ventures that can profit them and motivate other SCs to be the part of financial inclusion. The entrepreneurs are getting savings and expanding their business. Up to 75% financial availability for the venture is precisely a progressive step. Many unemployed youths are getting employment opportunities from the SC population.

Thus, the opportunities for incentivising entrepreneurs on the one hand and beneficiaries on the other are major opportunities offered by the Scheme.

D. **Threats**: Provisionally no threat has been foreseen except disputed matters and as a result of that the venture has not taken off. It requires proper investigation of the case before giving the loan and providing handholding supports to the beneficiaries, once the loan is approved. Obtaining clearances from the State departments is one of the perceived threats that can be corrected by employing a single-window system.

33. **The venture capital fund for SC (VCF-SC) is a distinct scheme and needs continuation.** The selection of beneficiaries is an important step before their induction. The state development agencies are required to complete the task of awareness generation among the SC population. The size of ventures may be divided into three types, namely (1) Up to Rs. 25 Lakhs (Small), (2) Rs. 25 Lakhs to Rs. 5 crore (Medium), and (3) Rs. 5 crores up to 15 crores (Medium and Large) aligned with MSME recent guideline inscribed in Gazette notification dated 30th September 2006. To make the scheme attractive, 3% subsidy may be admissible on the interest component after an independent verification.

34. The vision for working with the scheme would be three-staged, namely (1) Short Term {1-2 years} (2) Medium Term {2-3 Years}, and (3) Long Term {3-5 Years}. In the short term, the scheme should be customized in such a way that potential beneficiaries are covered and they set up their ventures. Information dissemination through effective means should be ensured in short term. They should be provided handholding support to address any hurdle that they may face. In the medium term, the entrepreneurs should be encouraged to build their capacity to run the ventures effectively. They should mandatorily put to training. The uncovered states with potential beneficiaries should be covered. In the long term, the SC population should be competent enough to get

attracted to the Scheme. The bank interest rate subsidy then may be withdrawn because by that time they would have developed the art of working on the economy of scale with unbeatable pace.

35. The Venture Capital Fund for SC (VCF-SC) is a unique scheme under the Ministry of Social Justice to enhance entrepreneurship among SC people. Considering the specificity of the Scheme, **it needs to be continued** with the following riders:

a. In the entire course of project approval and implementation, the CS and CA should be selected in consultation with promoter concerned.

b. The promoters should be given all required technical information by IFCI well in advance and an undertaking should be obtained from the SC entrepreneurs that nothing remains to be understood thereafter. Technical information should properly be given to the promoters. A representative from the Ministry and an external CA should be made the part of the entire induction process. The CA may optionally be taken by beneficiary consent.

c. Though the information on 'Venture Capital Fund' is available on the dedicated VCF platform, the same should also be integrated with the MoSJE website.

d. Repayment period should be industry-specific. The uniform periodicity of the repayment needs to be considered and made flexible.

e. The outreach of the Scheme is not very effective in terms of the number of beneficiaries and States covered. The budgetary expenditure pattern shows that there is a substantial amount which could be used for covering the potential SC entrepreneurs. To enhance the outreach and efficacy of the Scheme, its financial envelope requires to be rightsized.

f. The grievance redressal mechanism of the scheme is not very effective. The Ministry may like to appoint an arbitrator in the event of handling disputes between IFCI Limited and promoters, ensuring amicable solutions.

g. The IFCI is suggested to prepare a document where every single detail relating to inception to disbursement is well defined. It is learnt that LoI which contains actual project cost is revised favouring/disfavouring select promoters. No document once delivered would be changed without assigning a valid reason thereof.

Though the mission and vision of the scheme are equity-oriented and pro-SC population, absence of care might make it distressful.