



STARTUP INDIA SEED FUND SCHEME (SISFS) & FUND OF FUNDS FOR STARTUPS (FFS): FUNDING CRITERIA AND FINANCIAL PERFORMANCE

Dr. M. Uma¹, Dr. L. Malarvizhi²

^{1,2}Assistant Professor, Department of Commerce,
Hindusthan College of Arts & Science, Coimbatore.
¹ uma.m@hicas.ac.in, ² malarvizhi.l@hicas.ac.in

ABSTRACT

Having access to capital is crucial for entrepreneurs in the early phases of their ventures, just starting out. There are various funding options available to them, such as venture capital firms and angel investors. These funding sources will only provide financial support to startups that can demonstrate the viability of their business concepts. Similarly, banks may offer loans, but only to applicants with collateral. It's particularly vital to secure seed funding for startups with innovative business models aiming to test their concepts. The Government, through the Startup India initiative, does not directly finance startups. To address capital needs at different stages of a business's development, the Government has introduced the Fund of Funds for Startups (FFS) Scheme and Startup India Seed Fund Scheme (SISFS). This research is based on secondary data from the Fund of Funds for Startups (FFS) Scheme and Startup India Seed Fund Scheme (SISFS). The data has been examined using tables and graphs. The findings suggest that there is a significant number of startups in our country, and the Government has implemented measures to support these startups.

keywords: *Government Schemes, Funding options, India Initiative.*

1. INTRODUCTION

Entrepreneurs require initial funding to launch their ventures. It's challenging for individuals to secure personal funds for starting a business. Entrepreneurs seek financial support to kickstart their entrepreneurial journey. This funding is essential not just at the beginning but throughout the business's lifecycle. Having access to capital is crucial for entrepreneurs in the early stages when the business is in its infancy. Various funding sources are available to entrepreneurs, including venture capital firms and angel investors. These sources will only provide funding if the startup can demonstrate the viability of its concept. Similarly, banks may offer loans to startups, but such loans are only available to those with collateral. It's critical to provide seed funding to startups with innovative concepts for conducting proof of concept trials. The SISF Scheme is designed to offer financial backing to startups engaged in proof of concept, product trials, market entry, prototype development, and commercialization. This support enables startups to refine their ideas, potentially attracting venture capitalists or angel investors, or securing loans from financial institutions or commercial banks. These funding options allow entrepreneurs to pursue their innovative ideas with dedication, contributing to societal growth and impacting the economy. Seed funds are distributed only to startups that partner with eligible incubators in India.



2. STARTUP INDIA SEED FUND SCHEME (SISFS) & FUND OF FUNDS FOR STARTUPS (FFS)

Through the Startup India initiative, which was launched in 2016 under G.S.R. notification 127 (E), the government designates qualifying organizations as 'Startups.' Over the last five years, up to March 21, 2022, a total of 66,359 startups have received this recognition. While the Startup India initiative does not provide direct funding to startups, it has introduced two significant schemes: the Fund of Funds for Startups (FFS) and the Startup India Seed Fund Scheme (SISFS). The FFS, established in 2016 with a corpus of 10,000 crores, is intended to enhance the startup ecosystem and improve access to domestic capital, operating across the 14th and 15th Finance Commission cycles. Although it does not make direct investments in startups, the SISFS aims to provide financial assistance to startups that have a proof of concept, are conducting product trials, entering the market, developing prototypes, and commercializing their products. This support is designed to help startups reach a stage where they can attract funding from venture capitalists, angel investors, or financial institutions. Entrepreneurs lacking extensive business experience who are planning to launch a new venture should initially seek seed capital from the government, which will enable them to successfully establish their business. As they accumulate experience and gain insights into their operations, they can then seek further investment from other sources to advance their ventures.

3. STARTUPS REQUIREMENTS AND INITIATIVES

The startup ecosystem in India faces significant challenges due to a lack of capital during the seed and 'Proof of Concept' development stages. The funding required at this critical juncture can determine the success or failure of startups with promising business ideas. While entrepreneurs may seek additional financing later, the initial phase demands substantial investment. The necessary funds to launch a business can vary in size, yet they may not be readily available to the entrepreneur. It is essential for them to assess their concept through surveys or by analyzing the advantages and disadvantages of their proposed project, which can motivate them to embark on their entrepreneurial journey with a well-founded rationale, thereby avoiding high-risk ventures. Frequently, businesses encounter setbacks when they fail to research similar enterprises prior to launching their own. Although innovative ideas often emerge from the youth of our nation, their limited knowledge may hinder their ability to evaluate their business concepts effectively. Therefore, it is advisable for them to seek guidance from experienced individuals in similar fields before committing to an investment. Numerous innovative business ideas remain unrealized due to insufficient funding. The seed capital available to startups should be utilized in the most effective manner possible, as financial support is crucial for transforming an idea into a successful business.

The development of these concepts should encompass a comprehensive perspective, rather than relying solely on the individual's limited knowledge. It is advisable to engage with a diverse group of individuals who may contribute insights, even if they do not provide financial support. Prior to launching the business, it is essential to create a prototype of the product and the business model, followed by conducting trials to allow potential customers to experience the product. Once the product has been tested and refined through public feedback, the business can achieve significant success through a strategic market entry. Proper identification of the target market is crucial, and after conducting thorough surveys and finalizing the product prototype, the commercialization process can commence. Entrepreneurs often face uncertainty regarding the product's benefits, leading them to attempt



a large-scale launch prematurely, which can result in substantial challenges and financial losses.

4. ELIGIBILITY CRITERIA

Startups must meet specific eligibility criteria to apply for the "Startup India Seed Fund Scheme (SISFS)." The following conditions apply:

- A startup must be recognized by the Department for Promotion of Industry and Internal Trade (DPIIT) and should have been incorporated no more than two years prior to the application for SISFS.
- The startup should be centered around a business idea that aims to develop a product or service with market potential, scalability, and commercial viability.
- The focus of the startup should involve the application of technology in its core product or service, distribution model, business model, and the methodologies employed to address the targeted problem.
- Priority within the SISFS is given to startups that offer innovative solutions in sectors such as waste management, social impact, financial inclusion, water management, oil and gas, agriculture, biotechnology, education, textiles, defense, railways, energy, food processing, space, healthcare, and mobility.
- Startups seeking funding may have previously received financial support from other agencies; however, the total amount received must not exceed Rs. 10 lakhs under any Central or State Government scheme. This limit does not include prize money from competitions, subsidized working space, founders' monthly allowances, or access to prototyping facilities or labs.
- Promoters must hold a minimum of 51% shareholding in the startup when applying for funds from the incubator, in accordance with SEBI (ICDR) Regulations, 2018, and the Companies Act, 2013.
- No startup is eligible to receive seed support more than once, as stipulated in provisions 8.1 (i) and 8.1 (ii).

5. LITERATURE REVIEW

Jain (2017) noted in their research that the Indian populace has long been dedicated to development and innovation. A significant mercantile community has been engaged in business for generations and is expected to continue in similar ventures for the foreseeable future. In the early post-independence era, private enterprises played a minimal role in the business landscape, as the government took the lead due to the severely damaged economy. However, the introduction of globalization saw the entry of numerous multinational corporations, propelling the economy to new heights. This shift led to a comprehensive transformation of the Indian economic framework. The focus of this study is to explore the potential of startups in contributing to GDP growth and inspiring individuals to foster a resilient economy while creating valuable opportunities for entrepreneurs.

Rawal (2018) has indicated in the study that the concept of startups holds various interpretations within the Indian context. In India, startups are typically associated with young and dynamic individuals who collaborate to establish companies aimed at generating value for both customers and themselves. Startups embody vision, entrepreneurial characteristics, growth potential, and a forward-looking approach. It is essential for India and other developing nations to adopt both dialectical and practical measures to address



developmental gaps. The Indian government has initiated a wave of support for startups, launching numerous schemes designed to benefit these enterprises. State governments have acknowledged the significance of startups and their potential contributions to economic advancement. The researcher emphasizes the necessity of fostering an environment conducive to startup growth, as progress in this area has been limited. Furthermore, there is a pressing need to establish acceleration and incubation centers, particularly in rural and non-urban regions, to attract innovative ideas from diverse sectors of the economy.

Objectives

- To analyze the significance of SISFS and FFS programs in Indian startups.
- To assess the financial performance of startups in India over the past years.

6. ANALYSIS AND DISCUSSION.

The information obtained from the Government of India's Ministry of Commerce and Industry, specifically the Department for Promotion of Industry and Internal Trade, in the document titled "Allocation and Distribution of Funds to Startups," dated March 25, 2022, has been thoroughly examined. This study aims to analyze the impact of the SISFS and FFS schemes implemented by the Government of India over the past seven years. A comprehensive state-wise and year-wise enumeration of recognized startups across the nation has been compiled for the five-year period from 2016-17 to 2021-22. The data presented indicates a consistent increase in the number of startups during this timeframe. Notably, Maharashtra leads with the highest number of startups at 12,333, followed by Karnataka with 8,243, Delhi with 7,914, Uttar Pradesh with 5,964, and Gujarat with 4,378.

During the period from 2015-16 to 2021-22, a total of ₹2,791.29 crores has been allocated under the FFS scheme. Established in 2016, the FFS scheme commenced with a corpus of ₹10,000 crores, which was distributed over the 14th and 15th Finance Commission cycles. This allocation was contingent upon the progress of implementation and aimed at enhancing the startup ecosystem in India while facilitating access to domestic capital. The Department allocated ₹2,791.29 crores to SIDBI, which subsequently provided support to Alternative Investment Funds (AIFs).

7. RESEARCH FINDINGS

- There has been a notable increase in the number of startups from 2016-17 to 2021-22.
- Maharashtra has recorded the highest number of startups during the period from 2016 to 2021-22.
- The total funding allocated under the Fund of Funds for Startups (FFS) amounts to 2,791.29 crores from 2015-16 to 2021-22.
- Maharashtra leads in cumulative drawdown, followed by Karnataka.
- The largest allocation of funds under the Startup India Seed Fund Scheme (SISFS) occurred in the year 2022-23, totaling 346.50 crores.
- Karnataka has received the highest state-wise approval of funds under the SISFS scheme, amounting to 39.5 crores, with Telangana following closely.

9. CONCLUSION

The Government has been actively promoting startups for an extended period. The Startup India Seed Fund Scheme (SISFS) is designed to provide financial support to startups that have a proof of concept, are conducting product trials, entering the market, developing prototypes, and commercializing their products. Under these initiatives, the Government identifies eligible entities as 'Startups,' recognizing them under the Startup India initiative, which was launched in 2016 through G.S.R. notification 127 (E). Over the past five years, including the current year up to March 21, 2022, a total of 66,359 startups have been recognized. It is important to note that the Government does not directly fund startups under the Startup India initiative. To facilitate capital at various stages of the business lifecycle, the Government has established the Fund of Funds for Startups (FFS) Scheme and the Startup India Seed Fund Scheme (SISFS). The capital required at this stage can be crucial for startups with promising business ideas. Numerous innovative business concepts fail to launch due to insufficient funding. The seed funds provided to startups can be utilized effectively to foster their growth.

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AUTHOR PROFILE:

Author – 1



Dr. M. Uma, M.Com., PGDCA., MPhil., Ph.D., has teaching experience of 5 years and 2.5 years of industrial experience, has published 20 articles in international journal and 15 article in national journal.

Author – 2



Dr.L.Malarvizhi, M.Com., MPhil., Ph.D., has teaching experience of 15 years, has published 15 articles in international and national journal, Acted as a COE member (Supervisor), Participated and presented in many Seminars, Conference Proceedings and FDP, Question paper setter, 2 Patents published.