

**GOVERNMENT OF INDIA
MICRO, SMALL AND MEDIUM ENTERPRISES
LOK SABHA**

UNSTARRED QUESTION NO:4943
ANSWERED ON:13.08.2014
INVESTMENT IN MSME SECTOR
Sinha Shri Jayant

Will the Minister of MICRO, SMALL AND MEDIUM ENTERPRISES be pleased to state:

- (a) whether the Government has assessed the need for investments for setting up new and growth of existing Micro, Small and Medium Enterprises in the country including Jharkhand and if so, the details thereof;
- (b) whether any constraints have been noticed which impede investments including that by angel investors in MSME measures for sector and if so, the details thereof;
- (c) whether the Government proposes to initiate a study/has conducted any study on the challenges being faced by angle investors interested in investing in the MSME sector in the country including in Jharkhand and if so, the details thereof;
- (d) whether angel investment in the domestic MSME sector is comparable to international levels particularly in comparison to the USA, if so, the details thereof and if not, the reasons therefor; and
- (e) the steps taken/proposed to be taken by the Government to encourage and remove barriers to investments including angel investments in MSME sector to scale it up to international level?

Answer

MINISTER OF MICRO, SMALL AND MEDIUM ENTERPRISES (SHRI KALRAJ MISHRA)

(a): The State Governments are primarily responsible for promoting and supporting MSMEs. Therefore, Government has not specifically assessed the need for investments for setting up new and growth of existing Micro, Small and Medium Enterprises in the country including Jharkhand. However, the Central Government supports and supplements the efforts of the State Governments through implementation of various schemes / programmes.

(b) & (c): One of the major problems faced by MSME entrepreneurs is lack of adequate capital required for raising funds from banks and institutions. For the purpose, Planning Commission had constituted a Committee on Angel Investment and Early stage Venture Capital, which in its report in June 2012, inter alia recommended to facilitate investment flows in early stage ventures by angels and venture capital; consequent incentive structures and easing of investment norms; provide a framework for easier exits for early-stage investors; SIDBI should provide risk capital and equity linked products to MSMEs directly as well as indirectly through banks and Alternate Investment Funds (AIF); enhance and make venture debt and credit guarantees more widely available by banking sector by emulation schemes of SIDBI; early stage lending focused NBFCs; promotion of mutual credit guarantee schemes as that of UNIDO.

(d): Angel investment in India is still in its early stage and is not comparable to international levels particularly in comparison to the USA. However, access to angel funding in India is improving gradually.

(e): The following steps have been taken by the Government to improve early stage businesses:

In Union Budget 2013, Government proposed to recognise Angel Investors to be registered under SEBI Alternative Investment Fund Category-I which has tax pass through status. This removes ambiguity, avoids double taxation & offers some relief to this industry.

Government has proposed to allow SMEs & start-ups to list on the SME exchanges without mandatory Initial Public Offer (IPO) process, pursuant to which SEBI has permitted to listing without an IPO and trading of specified securities of small and medium enterprises (SMEs) including start-up companies on Institutional Trading Platform (ITP) in SME Exchanges. The move is aimed at providing a certain level of liquidity for early stage investments in SME/ start-ups and will also give Angel/VC investors an additional exit route.

SIDBI had started the risk capital operations in FY 2008-09 under the MSME Risk Capital Fund (MSME- RCF) with a committed corpus of Rs.2,000 crore to ameliorate the problems faced by the MSMEs in accessing capital and facilitate the extension of bank finance to MSMEs. Subsequently, India Opportunities Venture Fund (IOVF) of Rs.5000 crore had been set up in terms of the announcement in the Union Budget for FY 2012-13. SIDBI Venture Capital Ltd. (SVCL), a subsidiary of SIDBI set up in July, 1999, is an investment management company, presently managing four venture capital funds, viz. the National Venture Fund for Software and Information Technology Industry (NFSIT), the SME Growth Fund (SGF), India Opportunities Fund (IOF) and Samridhi Fund. These VC funds provide assistance to knowledge based MSMEs. Till March 31, 2014, a total of Rs.540 crore has been disbursed under the first two funds. The third fund viz., India Opportunities Fund has a corpus of Rs.600 crore. As of March 31, 2014, IOF has made

commitments worth Rs.182 crore in 15 companies.