12

STANDING COMMITTEE ON FINANCE
(2019-2020)

SEVENTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENTS OF ECONOMIC AFFAIRS AND REVENUE)
AND
MINISTRY OF COMMERCE
(DEPARTMENT FOR PROMOTION OF INDUSTRY AND INTERNAL TRADE)

FINANCING THE STARTUP ECOSYSTEM

TWELFTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

TWELFTH REPORT

STANDING COMMITTEE ON FINANCE
(2019-2020)

(SEVENTEENTH LOK SABHA)

MINISTRY OF FINANCE
(DEPARTMENTS OF ECONOMIC AFFAIRS AND REVENUE)
AND
MINISTRY OF COMMERCE
(DEPARTMENT FOR PROMOTION OF INDUSTRY AND INTERNAL TRADE)

FINANCING THE STARTUP ECOSYSTEM

Presented to Hon'ble Speaker on 9th September 2020

Presented to Lok Sabha on ________________

Laid in Rajya Sabha on _______________

LOK SABHA SECRETARIAT
NEW DELHI

CONTENTS

COMPOSITION OF STANDING COMMITTEE ON FINANCE (2019-2020)

Shri Jayant Sinha - Chairperson

MEMBERS

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Subhash Chandra Baheria
4. Shri Vallabhaneni Balashowry
5. Shri Shrirang Appa Barne
6. Dr. Subhash Ramrao Bhamre
7. Smt. Sunita Duggal
8. Shri Gaurav Gogoi
9. Shri Sudheer Gupta
10. Smt. Darshana Vikram Jardosh
11. Shri Manoj Kishorbhai Kotak
12. Shri Pinaki Misra
13. Shri P.V Midhun Reddy
14. Prof. Saugata Roy
15. Shri Gopal Chinayya Shetty
16. Dr. (Prof.) Kirit Premjibhai Solanki
17. Shri Manish Tewari
18. Shri P. Velusamy
19. Shri Parvesh Sahib Singh Verma
20. Shri Rajesh Verma
21. Shri Giridhari Yadav

RAJYA SABHA

22. Shri Rajeev Chandrasekhar
23. Shri A. Navaneethakrishnan
24. Shri Praful Patel
25. Shri Amar Patnaik
26. Shri Mahesh Poddar
27. Shri C.M. Ramesh
28. Shri Bikash Ranjan
29. Shri G.V.L Narasimha Rao
30. Dr. Manmohan Singh
31. Smt. Ambika Soni

SECRETARIAT

1. Shri V.K. Tripathi - Joint Secretary
2. Shri Ramkumar Suryanarayanan - Director
3. Shri Kulmohan Singh Arora - Addl. Director
4. Ms. Yugma Malik - Committee Officer

INTRODUCTION

I, the Chairperson of the Parliamentary Standing Committee on Finance, having been authorized by the Committee, present this Twelfth Report on the subject 'Financing the Startup Ecosystem'

2. At their sittings held on 03 January, 2020, the Committee took evidence of the representatives of the Indian Private Equity and Venture Capital Association (IVCA). On 28 July, 2020, the Committee took evidence of the officials of the Ministry of Finance (Departments of Economic Affairs and Revenue and Ministry of Commerce (Department for Promotion of Industry and Internal Trade). The Committee also interacted with the representatives of Pension Fund Regulatory and Development Authority (PFRDA) and Life Insurance Corporation of India (LIC) on 8 September, 2020.

3. During the study visit to Bengaluru on 20th January, 2020, the Committee held discussions with the representatives of IVCA.

4. The Committee at their sitting held on 8 September, 2020 considered and adopted the draft report and authorised the Chairperson to finalize the same and present it to the Hon'ble Speaker.

5. The Committee wish to express their thanks to the officials of the Ministry of Finance (Department of Economic Affairs and Revenue), Ministry of Commerce (DPIIT) and representatives from IVCA, PFRDA and LIC for appearing before the Committee and furnishing the requisite material and information which were desired in connection with the examination of the subject.

6. For facility of reference, the observations/recommendations of the Committee have been printed in bold at the end of the Report.

New Delhi
08 September, 2020
17 Bhadrapada, 1942(Saka)

Shri Jayant Sinha
Chairperson,
Standing Committee on Finance

Report

PART - I

Introduction

1.1 A startup ecosystem enables the flow of high-impact innovations into the economy. Through this ecosystem, innovators and entrepreneurs develop and launch solutions to solve real-world problems faster and at scale. Additionally, startup ecosystems accelerate job and wealth creation from high-impact innovations. The value of a startup ecosystem lies in the access to resources and information flow creating more investment opportunities for the right institutions to connect with the right ideas for their businesses and portfolios, at the right time and for the right reasons.

1.2 Innovation-driven job and wealth creation drive prosperity and comprehensive national power. As a result, the growth of startup ecosystems is an important national priority in all major economies. Moreover, all countries are currently reeling under the high and rising human and economic cost caused by the outbreak of COVID-19 pandemic, which has compelled governments to enforce isolation, lockdown and widespread closures in order to contain the spread of the highly infectious virus. India's ability to rise and show resilience post the pandemic and generate wealth and create social goodwill will come by tapping its huge entrepreneurial potential.

1.3 India's rapid recovery from the COVID-19 pandemic and sustainable fast-growth thereafter will depend vitally on the quality of our startup ecosystem. Such an ecosystem includes incubators, startup accelerators, venture capitalists, private investors, foundations, entrepreneurs, universities, government, corporations, mentors and the media. They all play a significant role in creating value in the larger ecosystem by transforming new ideas into reality through knowledge generation, its diffusion and use; domestic and international regulatory environment; training; product market conditions and availability of finance. Startups and innovators are driving the next wave of innovation in India. Innovative services, products, and business models are going to dictate the growth trajectory of the Indian economy for the next decade and play a key role in helping India realize its potential as a global superpower and in achieving the goal of Aatmanirbhar Bharat.

1.4 India is set to become one of the biggest consumer markets in the coming years and entrepreneurship is deemed as one of the key pillars to drive India's growth. Under these circumstances, India must actively construct and nurture its innovation hubs that bring together entrepreneurship, industry, capital, and research. Startup ecosystems are an amalgamation of highly specialised talent, research from top-tier universities, an incentive system for entrepreneurs, a promising market and large pools of investable capital.

1.5 In total, India has produced about 50 or so unicorns – namely, startups that have gone on to exceed $1 billion in equity valuation. Each of these startups has been started by entrepreneurs with the backing of institutional investors such as venture capital and private equity funds. Startups are therefore quite different from companies started by established business groups, since they do not start with any built-in advantages and resources. Their business success is largely due to their proprietary intellectual property, innovative business models and entrepreneurial hustle.

1.6 These unicorns are now worth more than $500 billion collectively and have greatly contributed to job and wealth creation. Among these are well-known leaders in the IT services, telecom, financial services, airline, e-commerce, and retailing industries. In the past decade alone, India has created about 35 unicorns and 60 soonicorns. These startups have raised about $40 billion in equity financing from institutional investors. Therefore, to reach unicorn status (and to achieve national/global scale), startups typically have to raise hundreds of millions of dollars in equity financing. Simply stated, we will not be able to create global scale competitors in India if we are not able to put thousands of crores of equity financing into our top startups.

1.7 Industry data indicates that more than 80% of startup financing is coming through foreign capital, largely channelled through the venture capital and private equity industry. India's financial system must be strengthened so that much more domestic equity capital is available to scale up our startups. This will support our goal of building an Aatmanirbhar Bharat.

2. The Startup Ecosystem in India

2.1 The Startup India initiative, managed by the Ministry of Commerce (Department for Promotion of Industry and Internal Trade) was launched on 16th January, 2016 by the Honourable Prime Minister with an objective to build a strong ecosystem for nurturing innovation and startups in the country that will drive sustainable economic growth and generate large scale employment opportunities.

Entrepreneurial activity is gathering pace in the following six broad categories of Startups in India:

(a) Category I: Scalable in Emerging / Fast-businesses in growth sectors(Unicorns)
These ventures have scaled up with countrywide operations. Funding for scaling has been received in multiple rounds from venture capital funds. In search for scale and synergies these ventures have also made acquisitions of other ventures engaged in similar domains. Currently more than more than 80% of capital going into India's unicorns comes from foreign sources and China has investment of over Rs. 30,000 crore in India's growth companies and are currently investors in 18 of 30 unicorns.

(b) Category II: Hyper-growth technology businesses
These are ventures with innovative business models or which apply technology to create new markets or cater to existing markets. They aim for very high growth in revenue or in operating metrics such as number of users/customers.

(c) Category III: Innovation driven by Intellectual Property (IP)
Such ventures have long gestation periods and may produce low returns. They have a high focus on Research and Development (R&D) and innovation to create unique products and services and if successful, they can be disruptive and grow rapidly.

(d) Category IV: Priority Sector Enterprises
Such ventures focus on priority sectors such as agriculture, affordable housing loans, micro credit etc. Usually they work in rural/low-income markets and have low profitability.

(e) Category V: Me-Too Enterprise
Me-Too ventures aim to execute a previously-proven business model. Accordingly, they have less focus on innovation and new technology. The emphasis is on reducing cost and increasing revenues.

(f) Category VI: Grassroots Innovation
These ventures execute customized solutions incorporating local knowledge and tradition. Innovation is aimed at delivering everyday products and services at low cost.

2.2 India has the third largest startup ecosystem in the world and it is continuing to grow rapidly. Between the years 2012 and 2019, the number of startups have grown by

17% each year, while funded startups have shown a compounded annual growth of 19% during the same period. Among funded startups in India, typically 25% or more go on to raise subsequent rounds. Startups create value across multiple dimensions in a cascading fashion in the following manner:

(a) *Step 1*: Propelled by entrepreneurial drive and innovation, startups employ new business models, produce new products, create jobs and as they grow, pay direct and indirect taxes;

(b) *Step 2*: An SME ecosystem forms around a successful startup giving birth and impetus to more startups;

(c) *Step 3*: Given their own favourable experience and their network, entrepreneurs of successful startups are able to identify other promising startups to which they provide risk capital – a process known as 'Paying–it-Forward'. In addition, successful entrepreneurs serve as role models for new startups;

(d) *Step 4*: As more and more startup entrepreneurs pay-it-forward a cascading multiplier effect occurs, leading to greater economic growth, job creation, innovation, competitive economic dynamism and a favourable social impact; and

(e) *Step 5*: Successful entrepreneurs serve as a role model for new startups leading to a rising pool of entrepreneurial talent.

2.3 The Department for Promotion of Industry and Internal Trade (DPIIT) has taken several steps to promote a startup ecosystem in the nation. The introduction of the National IPR Policy, 2016 was a major step forward to spur creativity and stimulate innovation. The document lays the roadmap for the future of Intellectual Property Rights (IPRs) in India through its objectives to establish an IP framework in the country conducive to innovation and creativity not only in terms of IP awareness and creation, but also commercialization and enforcement. To this effect, DPIIT has created a professionally-run Cell for IPR Promotion and Management (CIPAM) to facilitate promotion, creation and commercialization of IP assets. Further, schemes such as the Startups Intellectual Property Protection (SIPP) scheme and Scheme for Pedagogy and Research in IPRs for Holistic Education and Academia (SPRIHA) have encouraged innovations in startups, colleges and universities. The department has also set-up four new National Institutes of Design and financial and administrative support is being extended to these institutes to foster an ecosystem for design education and innovation in the country.

2.4 To encourage the startup ecosystem in India, various direct tax and administrative reforms have been provided to companies in general and to startups in particular such as:

(a) Reduction in corporate tax rate for all existing domestic companies at the rate of 25.17% (including surcharge and cess) subject to the condition that such companies do not avail any specified exemption or incentive. Also, such companies are also not liable to pay Minimum Alternate Tax (MAT) and companies who do not opt for the above concessional tax rate regime the rate of MAT has been reduced from 18.5% to 15%;

(b) Dividend Distribution Tax (DDT) has been abolished to provide relief to a large class of investors in whose case dividend income is taxable at the rate lower than the rate of DDT. The Finance Act, 2020 removed the Dividend Distribution Tax under which the companies shall not be required to pay DDT with effect from 01.04.2020;

(c) To promote investments from certain notified Sovereign Wealth Fund (SWF), wholly owned subsidiaries of Abu Dhabi Investment Authority (ADIA) and certain notified Pension funds, the Finance Act, 2020 exempted the interest, dividend and capital gains income of such funds from Income-tax Act, 1961 subject to fulfilment of certain conditions, in respect of investment made in the infrastructure sector. Further incentives have been provided for offshore borrowing.

(d) 100% deductions to the profit of the startups has been provided under the Finance Act, 2020 wherein eligible startups will be able to avail for 100% profit linked deduction for three consecutive years out of ten years from the year in which such startup is incorporated if the total turnover of its business does not exceed one hundred crore rupees (as opposed to twenty five crore rupees earlier) in any of the previous years beginning from the year in which it is incorporated. The benefit is available to startups incorporated on or after the 1st day of April 2016 but before the 1st day of April, 2021 and are engaged in innovation, development or improvement of products or processes or services, or a scalable business model with a high potential of employment generation or wealth creation. Further, investment in startups has been exempted from capital gains and relaxations have been introduced for an eligible startup to carry forward and set-off losses if the original shareholders continue to hold their shares.

(e) Units set up in International Financial Services Centre (IFSC) have been provided several incentives such as 100% profit-linked deduction for 10 years out of a block of 15 years, exemption of interest income of non-resident on money lent to a unit located in IFSC from tax, transfer of specified capital asset made by a non-resident on a recognised stock exchange in IFSC is exempt from capital gains tax and pass through of income and losses are allowed to Category-I and Category-II AIFs

(f) In order to ease the compliance burden of startups, several administrative measures such as a dedicated Startup Cell to redress grievances and address various tax related issues in the cases of startups has been set up. Also, simplified assessment procedure for the startups has been initiated and outstanding income-tax demand relating to additions made under angel tax are now not to be pursued and no communication in respect of outstanding demand be made with the Startup entity.

3. About Venture Capital/ Private Equity And Its Contribution

3.1 VC/PE funds invest in young and fledging startups as well as more mature companies and provide equity risk capital. They can be categorized as Onshore and Offshore funds i.e Alternative Investment Funds (AIFs) and Non AIFs.

Alternative Investment Funds (AIFs)

3.2 Securities and Exchange Board of India (SEBI) regulates and defines the Alternative Investment Fund as any fund established or incorporated in India in the form of a Trust, or a Company or a Limited Liability Partnership or a Body Corporate which is a privately pooled investment vehicle which collects funds from investors, whether Indian or foreign for investing.

3.3 The Alternative Investment Funds (AIFs) have been categorised into three classes:

(a) *Category-I AIF*– which invests in startup or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators may consider as socially or economically desirable and include the following:

(i) Venture capital Fund (including Angel Fund)

Venture capital funds invest primarily in unlisted securities of startups, emerging or early-stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property right based activities or a new business model and include an angelfund.

(ii) Angel Funds

To provide a framework for registration and regulation of angel pools and to develop the startup-system, in year 2013, SEBI amended AIF regulations to include Angel Funds.

Angel funds under AIF regulations are to invest in Venture Capital Undertaking which:

- satisfies the age criteria specified by the DPIIT
- has turnover not more than Rs. 25crores
- is not sponsored by an industrial group with turnover more than Rs. 300 crores
- is not company with family connection with its angelinvestors

(iii) Social Venture Fund

Social Venture Fund invests primarily in securities or units of social ventures and satisfies social performance norms laid down by the fund and whose investors may agree to receive restricted or mutedreturns.

(iv) SME Fund

SME Fund invests primarily in unlisted securities of investee companies which are SMEs or securities of those SMEs which are listed or proposed to be listed on a SME exchange or SME segment of anexchange.

(v) Infrastructure Fund

Infrastructure Fund invests primarily in unlisted securities or partnership interest or listed debt or securitized debt of investee companies or special purpose vehicles engaged in or formed for the purpose of operating, developing or holding infrastructureprojects.

(b) Category-II Funds – which does not fall in category I and category III and does not undertake leverage. This includes PE funds, debt funds,etc.

(c) Category-III Funds – which employ diverse or complex trading strategies and are allowed to employ leverage. This category includes hedge funds etc.

Non-AIFs

3.4 Funds that are domiciled outside India/foreign funds, that invest in Indian companies.

3.5 <u>Some Investment Stage Definitions:</u>

<u>Venture Capital</u>

Early rounds of institutional investments into companies that are typically less than five years old, with the Investment amount typically less than $20 M

<u>Private Equity</u>

(a) *Growth-PE*: Investing growth and expansion capital in companies with proven business models.
(b) *Late Stage*: Investment growth and expansion capital into mature companies, typically over 10 years old.
(c) *PIPEs*(Private Investment in Public Equity): PE investments in publicly-listed companies via preferential allotments / private placements, or acquisition of shares by PE firms via the secondary market.
(d) *Buyout*: Acquisition of controlling stake via purchase of stakes of existing shareholders
(e) *Special Situation Funds/ Distressed Asset Funds*: Investing in debt and equity instruments of companies facing temporary dislocation in business, balance sheet mismatch, closure, litigation, bankruptcy etc.
(f) *Credit Funds*: Referred to as direct lending or private lending funds, and invest in debt instruments in private & public companies
(g) *Real Estate Funds*: Specialised funds investing in residential and commercial real estate properties across strategies
(h) *Infrastructure Funds*: Specialised funds investing in infrastructure sector

3.6 At US$48 billion (in aggregate including infrastructure, real estate, PIPE and credit investments), Indian VC/PE investments grew by 28% y-o-y in 2019. The VC/PE industry has provided risk capital of over ₹10 Lakh Crore over the last 15 years. VC/PE is today the single largest source of FDI to the country, exceeding all other sources put together. Almost 80% of the money that PE/ VC funds raise is from foreign sources with US accounting for approximately 50% and most of the money comes from pension funds, insurance companies, banks, foundations and endowments plus fund-of-funds.

Contributions

3.7 VC/PE investments are significant catalysts of economic growth and socioeconomic value creation. They can play a meaningful role in helping solve some of the problems facing the country today and provide the right momentum to the Indian economy where the companies backed by them champion innovation, create new jobs, mentor new entrepreneurs and bring the right solutions to help promote financial inclusion, build better infrastructure, increase renewable energy, promote capital efficiency in the Indian economy and give companies the much needed capital at critical times. Some of the major contributions are listed as follows:

(a) Portfolio companies of VC/PE funds have contributed significantly to India’s economic development through outcomes such as:
- Stronger Job Creation Record
- Superior Financial Performance
- Greater Export Earnings
- More Acquisitive and Global Mind-set
- Superior Corporate Governance and Higher Tax Contribution

(b) Thanks to VC/PE, capital for the right idea, the right team and the right business is now more easily accessible. The new businesses funded by VC/PE investments are in turn creating employment opportunities and skill development, which is central to the various initiatives of the Government such as Make in India, Startup India and the recent reinstated emphasis on being “Vocal about Local” and “Aatmanirbhar Bharat”, thus playing a meaningful role in the growth and development of the country.

(c) VC/PE investments aid in technological innovation as new technology accompanies the inflow of private capital and leads to technological advancement which can have spill-over effects on other sectors as well and thus lead to increase in productivity of the economy.

(d) VC/PE investments mitigate dependence on external leverage from portfolio companies' perspective which is critical in the context of current economic environment.

(e) The risk appetite of the VC/PE asset class has helped shape several new industries. They provide long term and high-risk capital to a wide variety of ventures at all stages of their evolution, creating stability and entrepreneurial capability. This includes risk capital in the form of equity capital for pre-revenue stage companies, early and late stage ventures, growth companies that wish to scale their operations, and even companies facing distress.

(f) As a result of VC/PE funding, the Indian startup ecosystem has emerged as one of the largest in the world with some of the major startups being OYO, Big Basket, Swiggy, Ola, Zomato etc. Between 2012 and 2019, the number of startups has grown by 17% each year, while funded startups have shown a compounded annual growth of 19% during the same period.

(g) Investments are ramping up in advanced technology sectors like AI / ML (Artificial intelligence and Machine Learning), IoT (Internet of things), Biotech and Fintech thus paving the way for an advanced digital economy.

4. Way Ahead to Strengthen the Financing of the Startup Ecosystem

4.1 Representatives from the VC/PE industry and members of the startup community over the course of Committee meetings and a study tour put forward their views on increasing flexibility in funding instruments for channelizing capital from investors particularly attracting the money into transactions which are commensurate with risk and reward of investing in the current situation; investments mobilization of domestic institutional funds into the market and certain suggestions under the Income-tax Act and GST law. They also highlighted different mechanisms through which mature companies and high networth individuals (HNIs) could support startups.

4.2 Startup ecosystem representatives are of the opinion that these measures will act as a catalyst to enhance liquidity in the market and boost capital influx in the economy, which is a critical requirement to tide over the liquidity crunch during the ongoing Covid crisis. Some of the major points deliberated upon are listed below:

Investments in Listed vs. Unlisted Securities

4.3 Currently, there is considerable benefit for investing in listed shares than unlisted shares in terms of taxes levied. Startup ecosystem representatives expressed that in order to further channelize domestic and foreign risk capital; there is a need for complete tax parity for investments between listed and unlisted securities.

The Ministry of Finance (Department of Economic Affairs) in their comments furnished that, "The capital gains regime for the listed equity share under the Act cannot be compared with the capital gains regime for unlisted shares. This is due to the fact that the transactions of unlisted shares are not subjected to Securities Transaction Tax (STT) and computation of capital gains are allowed indexation benefits unlike in the case of listed securities."

Taxation of Long Term Capital Gains Of Foreign Vs Domestic Investors

4.4 Industry representatives submitted, that the disparity between taxation of Long term capital gains (LTCG) of foreign and domestic investors should be resolved as under the current scenario LTCG earned by foreign investors in private companies attracts taxation at concessional rate of 10%, in comparison to the domestic VC/PE investments being taxed at 20% (for LTCG) with an enhanced surcharge of 37%.

Pass-Through Status to AIF under GST Regulations

4.5 Industry representatives pointed out that if the pooling vehicle is formed offshore, then the services provided to such offshore pooling vehicle are regarded as export of services for the service provider. Accordingly, the fund manager is not charged any GST to the offshore fund and is also eligible to claim a refund of GST paid on any input services. In comparison, a domestic/onshore AIF suffers from GST which is an additional cost. Given the above anomaly, offshore VC/PE Funds are encouraged to pool funds outside India, resulting in growth of the Asset Management industry abroad and not in India.

Treatment of Management Fees as Cost of Investment

4.6 Under the current GST legislation, AIFs are largely set up as contributory trusts which are considered as distinct persons from overseas investors with its location being in India. Thus, any services (from Fund Manager and any other service provider) availed by the AIF are liable to GST, and typically the fund management fee is the most significant service and since AIF is only a pooling vehicle for investments and does not provide any service, the GST paid on fund management fees is a sunk cost even though it is consumed by the non-resident investors of the AIFs for their investment activity. Thus, industry representatives feel that the levy of GST is emerging as a challenge in attracting foreign investments to AIFs thereby impeding the onshoring of investment in India and the growth of the Indian asset management industry.

The Ministry of Finance (Department of Revenue) in their background note submitted to the Committee that, "...... the investment manager uses several input services, like renting, financial services, advisory services, IT services, portfolio services, security services and other business and professional services for supplying output services to an AIF. The investment manager is entitled to avail input tax credit on such input services and set off the same against his output liability.

...investment manager provides service to AIF, and both of them are located in India. Thus, as per the place of supply provisions, the place of supply of such service is in India. It does not violate principle of destination-based consumption tax under GST Law."

Mobilisation of domestic institutional funds

4.7 OECD economiessuch as USA, have hundreds of professionally managed fund-of-funds attracting institutional capital which help mobilize greater capital across the economy. Although there are large pools of domestic capital available with pension funds, provident funds, and charitable organizations, they are not being used as investment sources in the country. The industry representatives opine that these funds should be allowed to invest in private equity and venture capital by setting up of fund-of-funds platforms.

4.8 Different sets of institutions/corporations should be encouraged to constitute different fund-of-funds programs through public private partnership model as has been successfully seen in the case of National Investment and Infrastructure Fund (NIIF). This will make possible diversity of strategies with diverse players and will eliminate the current limitation of each institution to evaluate each AIF for making contributions thus helping in fund the capital needs of businesses across sectors and decrease the dependence on foreign capital.

4.9 Traditionally, institutions in India such as banks, insurance companies and pension funds have shied away from taking exposure to alternative asset classes and their investments are limited to public markets, while globally such institutions make significant contributions in alternative asset classes. The global model can be replicated in India by removing certain regulatory hurdles surrounding investments by these institutions.

4.10 Startup ecosystem representatives expressed desire for the government to encourage banks, insurance companies and pension funds to channelize a portion of their corpus into AIFs.

The Ministry of Finance (Department of Economic Affairs) in their comments furnished that, "...pension sector is in a nascent stage, exposing the funds of subscribers to too much risk at this stage is not prudent. However, the same will be reviewed in calibrated manner considering the security and risk of investment of fund meant for old age pension at appropriate time and decision will be taken accordingly.

...DPIIT had arranged a meeting on l8th June, with representatives from IVCA and IRDAI to discuss the issues pertaining to insurers' investments in AlFs. ln the meeting it was decided that IVCA would prepare a Concept Note and submit to IRDAI"

Allowing Category I AIFs to invest in NBFCs

4.11 Startup ecosystem representatives put forward the case to allow Venture Capital Funds (VCFs) to invest in non-banking finance companies (NBFCs). They stated that as the ecosystem in India is still developing and most of the companies are in early growth stage, VCFs have been categorized specifically under the AIF Regulations to invest only in startups or early stage ventures or other sectors or areas which the government or regulators consider as socially or economically desirable.

The Ministry of Finance (Department of Economic Affairs) in their comments furnished that, "SEBI has informed that, the proposal on permitting Category I AIF-VCFs to invest in NBFCs registered with RBI was discussed in the 15th meeting of AIPAC held on January 10, 2020. Various aspects of the proposal are being examined by SEBI including review of rationale of not allowing Category I AIF-VCFs to invest in NBFCs, concerns regarding taxation, etc. and the matter is under examination in SEBI."

Permanent Capital Vehicle

4.12 Startup ecosystem representatives submitted that Alternate Investment Funds should be allowed to be listed on capital markets, thereby creating a permanent source of capital for investee companies.

The Ministry of Finance (Department of Economic Affairs) in their comments furnished that, "...a proposal on 'Mid-Market Permanent Capital Vehicles'/ 'Permanent Capital Vehicles' was discussed in three meetings of AIPAC held on July 23, 2018, February 26, 2019 and January 10, 2020.

...However, no revised proposal was submitted by industry representatives. Accordingly, it was decided in the 15th meeting of AIPAC held on January 10, 2020 that, the proposal may not be pursued further. No further action is required on this at this stage."

Funds for follow-on Investment under FFS Scheme

4.13 Small Industries Development Bank of India (SIDBI) is the leading government financial institution which supports the growing startup ecosystem through its capital infusions. But, startup ecosystem representatives submitted that funds having capital commitment from SIDBI have not received the drawdown capital in the past 2-3 months and that such a delay has repercussions for the whole industry.

The Ministry of Commerce (Department for Promotion of Industry and Internal Trade) in their background note to the Committee submitted that, "As of 2ndJuly 2020, SIDBI has committed Rs. 3,798.20 Cr to 53 SEBI registered Alternative Investment Funds (AIFs). These funds have raised a corpus fund of Rs. 29,128 Cr. and Rs. 1,080.53 Cr. have been drawn from the FFS and Rs. 3,810.44 Cr. have been invested into 342 startups."

Expansion of the list of eligible sectors under the FVCI route

4.14 Startup ecosystem representatives submitted that there is a need to expand the list of permitted sectors allowed for investment under the Foreign Venture Capital Investor (FVCI) route in line with FDI policy as this route provides a flexible investment framework and hence will be able to attract significant capital in the economy. Currently, it is permitted in the below listed items and this significantly restricts the flow of money under this route.

(a) securities, issued by an Indian company engaged in any sector mentioned below and whose securities are not listed on a recognised stock exchange at the time of issue of the said securities :-

   i. biotechnology;
   ii. IT related to hardware and software development;
   iii. nanotechnology;
   iv. seed research and development;
   v. research and development of new chemical entities in pharmaceutical sector;
   vi. dairy industry;
   vii. poultry industry;
   viii. production of bio-fuels;
   ix. hotel-cum-convention centres with seating capacity of more than three thousand;
   x. Infrastructure sector wherein the term "Infrastructure Sector" has the same meaning as given in the Harmonised Master List of Infrastructure sub-sectors approved by Government of India vide notification F. No. 13/06/2009- INF, dated the March 27, 2012 as amended or updated.

(b) units of a Venture Capital Fund (VCF) or of a Category I Alternative Investment Fund (Cat-I AIF) or units of a scheme or of a fund set up by a VCF or by a Cat-I AIF.

(c) equity or equity linked instrument or debt instrument issued by an Indian startup irrespective of the sector in which the startup is engaged wherein the definition of startup is as per Department for Promotion of Industry and Internal Trade's Notification No. G.S.R. 364(E), dated the 11 April 2018.

The Ministry of Finance (Department of Economic Affairs) in their comments furnished that, "Under the FDI route, only Indian startups are allowed to raise funds through issuance of Convertible Notes to foreign investors. Further, as per Schedule VII of FEM NDI Rules, Foreign Venture Capital Investors (FVCIs) are allowed to acquire any permissible security/instrument, at a price that is mutually acceptable to the buyer and the seller/ issuer."

Long term capital gains exemption on fresh investments made by Private Equity and Venture Capital funds for certain period

4.15 The current law governing the taxation of long-term capital gains is highly complex due to varying tax treatment of income from capital gains based on varied parameters such as holding, tax rates that range from 10% to 40% and allows indexation only in respect of certain assets. For instance, the capital gains tax rates for investment in unlisted shares by domestic investors can range from 28.49% to 42.74%. As per industry representatives the complex tax regime dampens the enthusiasm of investors in the PE/VC fund space eyeing Indian investments and there is a need to incentivise large PE/VC funds to invest in the private sector and provide necessary capital to cash crunched companies. In contrast, various developed jurisdictions, such as US, UK and other EU countries do not tax capital gains earned by foreign investors. Even closer to home, countries such as Singapore do not have any capital gains tax, which attracts investors to pool/ invest in Singapore.

4.16 Furthermore, the Finance Act, 2020 introduced an exemption for income on investments made before 31 March, 2024 subject to the investment being held for a period of at least 36 months and is likely to encourage investment in infrastructure related projects in India. While infrastructure is one of the primary sectors for PE/VC investment, various other sectors such as financial services, technology, e-commerce, telecommunication etc. are also sectors that have been focused on by PE/VC investors. Given that the Indian economy is reeling under the post COVID – 19 crisis and various sectors need capital to recover, such exemption should be provided to long-term and patient capital invested across all sectors.

Rationalize pricing guidelines under various regulations for investors

4.17 There is no consistent valuation approach prescribed across different laws, thereby creating complexity in interpretation of laws and unintended challenges in compliance requirements on investment by foreign investors and AIFs.Investment by foreign investors under the FDI route is subject to pricing regulations and has to comply with the pricing methodologies prescribed under the multitude of laws – SEBI, IT Act, Companies Act, FEMA. Investment by domestic AIFs is also subject to pricing regulations under IT Act and Companies Act.

Expanding financing sources for startups

4.18 Startup ecosystem representatives highlighted that multiple other sources of capital could also be encouraged to invest in startups. Listed companies should be allowed to invest in startups directly, not necessarily indirectly through VC/PE funds. However, listed companies run the risk of being classified as NBFCs if their assets or revenues from startups exceed 50% as per RBI's current rules. They are also not treated on par with angel investors and cannot utilise tax loss carry forwards.

Similarly, limited liability partnerships (LLPs) could be an effective financing vehicle for HNIs, family offices, and companies. LLPs can also accept foreign direct investments. However, LLPs can also be classified as NBFCs by RBI if their investment assets or revenues exceed 50%. SEBI could also classify them as collective investment schemes. Due to these considerations, LLPs are not used as investment partnerships in India even though they are widely used in OECD countries.

Establishing IFSCs in multiple cities

4.19 Startup ecosystem representatives put forward the case that the International Financial Services Centre (IFSC) needs to be closer to the financial and industrial markets, and thus there is a need to create more IFSCs on the lines of GIFT City in Gujarat.

The Ministry of Finance (Department of Economic Affairs) in their comments furnished that, "Since the first IFSC is in a nascent stage it has been decided that we may optimally utilize the first IFSC before setting up more such centres."

PART - II

Observations/ Recommendations

<u>Role of Startups and their Financing</u>

1. The ongoing Covid-19 pandemic has drastically impacted the global economy. There has been significant demand contraction, supply chains have been disrupted, and investment has stalled. Under such circumstances, the Committee believe that the ability to grow and show resilience after the pandemic will be dependent on building a strong startup ecosystem that can propel investment, jobs, and demand creation. A startup ecosystem stands on the pillars of startup accelerators, venture capitalists, private investors, foundations, entrepreneurs, universities, government, corporations, mentors, and the media. They all play a significant role in creating value in the larger ecosystem by transforming new ideas into reality through knowledge generation, its diffusion and use; domestic and international regulatory environment; training; product market conditions and availability of finance.

2. **The Committee further believe that the startups and innovators are driving the next wave of innovation and new ideas need support and financing now more than ever and the role of Private Equity/ Venture Capital, larger companies, HNIs, family offices, and other institutional investors needs to be encouraged. These entities invest in young and fledging startups as well as mature companies in the form of risk capital and are significant catalysts of economic growth and socio-economic value creation. They have the potential to increase the economy's total factor productivity and improve the quality of economic growth itself by providing the right momentum to the Indian economy where companies backed by them champion innovation, create new high quality jobs, bring improved products and services to the mass market, mentor new entrepreneurs, drive financial inclusion,**

build better infrastructure, promote capital efficiency and enhance digital economy.

Expanding the Startup Ecosystem

2. The Committee note with satisfaction the steps taken so far to promote innovation and foster a conducive startup ecosystem in the nation through various Government schemes. The Committee desire that the scope of startups may be further widened, encouraging and supporting young people and expanding the startup culture at the rural level too. The startup culture across multiple sectors should be promoted on a much larger scale.

Scaling up Unicorns

3. The Committee note that substantial growth capital is required to scale up startups in India and for unicorns in particular. Unicorns initially require seed capital of hundreds of crores, and then as they grow they need thousands of crores to build global scale businesses. The Committee note in this regard that capital going into India's unicorns comes mainly from foreign sources such as US and China. The Committee believe that this dependence be reduced so that India becomes self-reliant by having several large domestic growth fundspowered by domestic capital to support India's unicorns. Further, the Committee are of the opinion that Small Industries Development Bank of India (SIDBI) Fund-of-Funds vehicle should be expanded and fully operationalised/utilised to play an anchor investment role. SIDBI should play a pivotal role in disbursing more funds that would help startups and Unicorns to scale up significantly, enabling the nation to become more self-reliant and be in a better position to control its economic destiny. It is further desired that these funds be managed by top quality professional management teams who specialise in different sectors such as healthcare, e-commerce, agritech, cyber security etc.

<u>Expansion of Securities Transaction Tax (STT) to collective investment vehicles (CIVs)</u>

4. The Committee note the administrative and taxation reforms effected so far with respect to companies in general and startups in particular.In addition to these reforms, the Committee would like to strongly recommend that tax on Long Term Capital Gains be abolished for all investments in startup companies (as designated by DPIIT) which are made through collective investment vehicles (CIVs) such as angel funds, AIFs, and investment LLPs. At a minimum, this should be done for at least the next 2 years to encourage investments during the pandemic period. After this 2 year period, the Securities Transaction Tax (STT) may be applied to CIVs so that revenue neutrality is maintained. Investments by CIVs are transparently done and have to be done at fair market value. Thus it is easy to calculate the STT associated with these investments. This can be done in lieu of imposing LTCG on these CIVs and to make the taxation system fairer, less cumbersome, and transparent. This will also ensure that investments in unlisted securities are on par with investments in listed securities.

<u>Undoing Punishing of Risk Capital</u>

5. The Committee are of the opinion that there should be no punishing of domestic risk capital at any level,as the current tax disparity is proving advantageous to foreign capital through low tax jurisdictions and low taxes for fund management services. This will establish a level playing field for domestic investments *vis-a-vis* foreign investments and domestic listed *vis-a-vis* unlisted securities. The Committee recommend that to encourage domestic investments in unlisted debt and equity securities, and once the pandemic period concessions

are lifted, CIV capital gains should always be taxed at the same rate as listed securities.

Growth of Asset Management Industry

6. The Committee understand that most nations waive or commute GST on overseas funds pooled onshore, as the ultimate investors in these funds are located overseas, which ultimately results in the government earning incremental revenues from local ecosystem employment in banking, consulting, finance and law firms, and from the secondary effects of their consumption. However, the current domestic scheme of taxation for the AIFs / investors results in inconsistency in the commercial gains of the investors and the amount on which the investors are required to discharge taxes i.e. it entails higher tax implications on the investors. The Committee are in agreement with the plea of the industry representatives for setting-off management fees on returns to investors, that is AIF management fees be deducted before computing capital gains, as otherwise they have a negative impact on overall returns. Moreover, asset management services provided to foreign investors should be treated as an export service and should not be subjected to GST. This would also encourage the growth of the Asset Management industry in the country instead of fostering the current scenario, where funds are being pooled offshore and not within the country.

Mobilisation of Domestic Institutional Funds

7. The Committee recommend that in line with the global practices, large financial institutions in India should be encouraged to channelise a proportion of their investible surplus into domestic funds which would bring in much-needed additional domestic capital for startup investments. Towards this end, the Committee would recommend the following specific measures:

(i) Pension Fund Regulatory and Development Authority (PFRDA) and National Pension Scheme (NPS) may be encouraged to invite bids from professional fund managers for running a fund-of-funds program. SIDBI would be eligible to participate as well. Further, the removal of restrictions such as the minimum corpus of AIF being an eligibility criteria for pension fund investment and requirement to invest only in listed AIFs, would considerably ease roadblocks for investment by NPS in AIFs. The Committee would also like to recommend that pension funds can start by allocating small percentage of their corpus into AIFs currently and then gradually increase it as they gain more experience.

(ii) Major banks should join hands to float a fund-of-funds. Furthermore, the current exposure limits applicable to banks need to be enhanced and permission be granted to invest in Category III AIFs also.

(iii) Insurance companies (both life and non-life) must be given latitude to invest in fund-of-funds by IRDAI as well as directly in VC/PE funds along with a higher exposure cap. The Committee desire that the Concept note on the issues pertaining to insurers' investments in AIFs by the industry be submitted to Insurance Regulatory and Development Authority of India (IRDAI) at the earliest so that positive measures in that direction can be worked upon quickly. Further, the Committee recommend that investments by insurance companies in AIFs must be carved out under a separate category while calculating the applicable exposure limits and must not be clubbed with other investments under 'unapproved investments'.

(iv) Foreign Development Finance Institutions may also be encouraged to participate with local asset management companies to set up fund-of-funds structure or direct VC/PE funds, particularly in social impact, healthcare and venture/startup sectors.

The Committee believe that these steps will not only infuse more capital in the economy but also help India move closer in achieving some of the Sustainable Development Goals (SDGs) set for the country.

Investment by AIFs in Non Banking Financial Companies (NBFCs)

8. The Committee desire that Securities and Exchange Board of India (SEBI) should allow Venture Capital funds to invest in Non-Banking Financial Companies (NBFCs) which would help enhance their capital base. The Committee note that successful Initial Public Offerings (IPOs) of Real Estate Investment Trusts (REITs) and Infrastructure Investment Trust (InvITs) have already shown that asset portfolios can be packaged together to attract specific investor type and thus would like to recommend that NBFCs also be allowed to list on stock exchanges to be able to draw in a larger investment pool.

Permanent Source of Capital

9. The Committee would like to point towards the need for Alternate Investment Funds to be allowed to be listed on capital markets, thereby creating permanent source of capital for the startup ecosystem.The Committee desire that the proposal on 'Mid-Market Permanent Capital Vehicles/ Permanent Capital Vehicles' be pursued further and proposal in this regard be submitted by industry representatives to the Ministry so that necessary action can be taken on this front. Also, the need to create more domestic Development Financial Institutions (DFIs) on the lines of International Finance Corporation (IFC) and The German Investment and Development Company (DEG) should be emphasised for financing various sectors of the economy. Further, allowing for University

endowments to invest into AIFs can prove to be highly beneficial in the long run to bring the economy on the trajectory of sustained growth.

Expansion of Sectors under Foreign Venture Capital Investor (FVCI) route

10. The Committee desire that the sectors in which Foreign Venture Capital Investor (FVCIs) are allowed to invest should be expanded to include all sectors where Foreign Direct Investment (FDI) is permitted, as this route provides a flexible investment framework and hence will be able to attract significant capital in the economy. The Committee feel that this inflow of capital will play a significant role in boosting the economy. The Committee are also of the opinion that since foreign investors/ pooling vehicles are allowed to invest in equity capital or instruments which are compulsorily convertible into equity under the FDI route, there is now a need to allow issuance of hybrid securities, which bear characteristics of both debt and equity under the FDI route, at least for a limited period to enhance the fund-raising capabilities of the companies to raise capital at commercially suitable terms in this difficult time.

Incentivising Long Term and Patient Capital

11. Given that the Indian economy is reeling under the post COVID – 19 crisis and various sectors need capital to recover, the Committee recommend that the exemption for income on investments made before 31 March, 2024, subject to the investment being held for a period of at least 36 months as incentivised in the Finance Act, 2020, should be provided to long-term and patient capital invested across all sectors.

Rationalising Pricing Guidelines

12. Under the current environment, given that the businesses are stressed for liquidity and valuations of businesses have softened, there is a need to adopt a more pragmatic approach on applying fair market value principles in transactions between independent parties. Hence, the Committee strongly recommend that the pricing guidelines prescribed under the various laws and regulations by SEBI, Income Tax Act, Companies Act, Foreign Exchange Management Act (FEMA) should be made more consistent to provide a certain, coherent and simple framework for facilitating large-scale investments in India. The Department of Economic Affairs in the Ministry of Finance may set up an expert committee to provide pricing guidelines to government authorities.

Expansion of Financing Sources

13. The Committee are of the opinion that more sources of capital should be made available for startup financing. Companies and LLPs should be allowed to invest in startups without being classified as NBFCs by the RBI. This can be done by allowing only debt-free companies and LLPs to be kept out of the NBFC designation. Thus companies and LLPs cannot borrow and then use those borrowed funds to make investments. Their investments will have to be made by either through equity contributions from investors or through internal accruals. This will ensure that no leverage is built up in the financing system through these vehicles. Additionally, as long as LLPs have less than 20 members, they should not be classified as collective investment schemes by SEBI.

Providing a Strong Support System for India's Startups

14. The Committee firmly believe that India is one of the few large economies that has the potential to deliver high economic growth for a sustainable future and this can only be made possible by providing adequate growth capital (debt and equity) to India's dynamic entrepreneurs.With adequate risk capital backing them, they can provide innovative new services which can have a multiplier effect on the economy. The Committee therefore believe and would urge that a strong support system to finance the startup ecosystem should be put in place to drive a sharp post-pandemic revival and sustainably high economic growth thereafter.

New Delhi;	**SHRI JAYANT SINHA,**
8 September 2020	**Chairperson,**
17 Bhadrapada, 1942 (Saka)	**Standing Committee on Finance**

Minutes of the Fifth sitting of the Standing Committee on Finance (2019-20)

The Committee sat on Friday, the 3rd January, 2020 at 1130 hrs. to 1315 hrs. in Committee Room '2', Parliament House Annexe Extension Block 'A', New Delhi.

PRESENT

Shri Jayant Sinha - Chairperson

LOK SABHA

2. Shri Vallabhaneni Balashowry
3. Shri Shrirang Appa Barne
4. Smt. Sunita Duggal
5. Shri Gaurav Gogoi
6. Shri Manoj Kishorbhai Kotak
7. Shri Pinaki Misra
8. Shri P.V. Midhun Reddy
9. Prof. Saugata Roy
10. Shri Gopal Chinayya Shetty
11. Dr.(Prof.) Kirit Premjibhai Solanki
12. Shri Manish Tewari
13. Shri Parvesh Sahib Singh Verma
14. Shri Rajesh Verma
15. Shri Giridhari Yadav

RAJYA SABHA

16. Shri Rajeev Chandrasekhar
17. Shri A. Navaneethakrishnan
18. Shri Praful Patel
19, Shri Amar Patnaik
20. Shri Mahesh Poddar
21. Shri G.V.L. Narasimha Rao
22. Dr. Manmohan Singh
23. Smt. Ambika Soni

SECRETARIAT

1.	Shri Vinod Kumar Tripathi	-	Joint Secretary
2.	Shri Ramkumar Suryanarayanan	-	Director
3.	Shri Kulmohan Singh Arora	-	Additional Director

WITNESSES

Experts

i. Shri Padmanabh Sinha, Chairman, Indian Private Equity & Venture Capital Association (IVCA) and Managing Partner, Tata Opportunities Fund

ii. Shri Rajat Tandon, President, IVCA

iii. Ms. Renuka Ramnath, Vice Chairman, IVCA
Founder, MD & CEO Multiples Alternate Asset Management

iv. Shri Ashley Menezes, Partner and COO, Chrys Capital

v. Shri Arun Natarajan, Founder, Venture Intelligence

vi. Shri Rahul Bhasin, Founder, MD, Baring Private Equity Partners India

2. At the outset, the Chairperson welcomed the Members and the witnesses to the sitting of the Committee and conveyed greetings for the new year.

3. After the customary introduction of the witnesses, the Chairperson initiated the discussion on the subject 'Performance and Regulation of Capital Markets - Private Equity in India'. The major issues discussed include increasing the level of participation of private equity in our economy; reforms, change of norms and desired wishlist of the industry to widen and expand itself; industry specific investment and job creation; tackling of fixed return deals pretending to be private equity deals; skill development initiatives taken up; tapping opportunities offered by tourism sector; status of GIFT city and scope of opening IFSCs in other parts of the country; share of private equity sectorwise & experience thereof in sectors like manufacturing, social infrastructure etc; cash net returns generated over the decade or so, pooling of capital and relocation of fund management activity from offshore locations to India to boost the economy.

4. The witnesses responded to the queries raised by the Members on the subject. The Committee desired the witnesses to furnish written replies to the queries which could not be readily replied by them during the sitting within a week.

The Committee then adjourned.

Minutes of the Thirteenth sitting of the Standing Committee on Finance (2019-20)
The Committee sat on Tuesday, the 28 July, 2020 from 1500 hrs. to 1730 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri Jayant Sinha - Chairperson

LOK SABHA

2. Shri Subhash Chandra Baheria
3. Shri Shrirang Appa Barne
4. Dr. Subhash Ramrao Bhamre
5. Smt. Sunita Duggal
6. Shri Gaurav Gogoi
7. Shri Sudheer Gupta
8. Shri Manoj Kishorbhai Kotak
9. Shri Pinaki Misra
10. Shri Gopal Chinayya Shetty
11. Dr. (Prof.) Kirit Premjibhai Solanki
12. Shri Manish Tewari
13. Shri P. Velusamy
14. Shri Rajesh Verma

RAJYA SABHA

15. Shri Rajeev Chandrasekhar
16. Shri A. Navaneethakrishnan
17. Shri Praful Patel
18. **Shri C.M. Ramesh**
19. Shri G.V.L Narasimha Rao
20. Smt. Ambika Soni

SECRETARIAT

1.	Shri V.K Tripathi	-	Joint Secretary
2.	Shri Ramkumar Suryanarayanan	-	Director
3.	Shri Kulmohan Singh Arora	-	Additional Director

WITNESSES

Ministry of Finance (Department of Revenue)

1. Shri Ajay Bhushan Pandey, Finance Secretary and Secretary (Revenue)
2. Shri P.C. Mody, Chairman (CBDT) & Ex-Officio Special Secretary
3. Shri M. Ajit Kumar, Chairman, CBIC
4. Shri Anil Kumar Jha, Additional Secretary
5. Shri Ritvik Pandey, Joint Secretary (Revenue / Parliament)
6. Shri Rajesh Bhoot, Joint Secretary, TPL-2, CBDT
7. Shri G.D Lohani, Joint Secretary, TRU, CBIC

Ministry of Finance (Department of Economic Affairs)

1. Shri Anand Mohan Bajaj, Additional Secretary, Financial Market Division
2. Shri. K. Rajaraman, Additional Secretary (Investment), DEA
3. Dr. Madnesh Kumar Mishra, Joint Secretary, DFS

Ministry of Commerce and Industry (Department for Promotion of Industry and Internal Trade)

1. Shri Guruprasad Mohapatra, Secretary
2. Shri Shashank Priya, Additional Secretary & Financial Adviser
3. Shri Anand Singh Bhal, Senior Economic Adviser
4. Shri Ravindra, Joint Secretary

2. At the outset, the Chairperson welcomed the Members and the witnesses to the sitting of the Committee. After the customary introduction of the witnesses, the Chairperson initiated the discussion on the subject 'Financing the Innovation Ecosystem and India's growth companies'. The major issues discussed include prioritizing domestic capital as equity capital for financing start-ups and MSMEs; achieving tax parity between listed companies and Alternative Investment Funds (AIFs) for investing in start-ups; registration of start-ups, its trend and ways to ramp it up further; mobilization of a portion of the corpus of domestic institutional funds such as pension funds and funds of insurance companies into AIFs; status of National Research Foundation with respect to funds provided, disbursed etc; disbursement by SIDBI and NABARD and the share of funding towards larger start-ups; familiarizing and encouraging start-ups in rural India; promoting start-ups in sectors other than IT, assessment of the impact of the pandemic

on the start-up sector; post Covid-19 approach for attracting foreign capital; expansion of IFSCs in other cities; focusing on new needs of the consumer and new challenges to the economy post the pandemic.

3. The witnesses responded to the queries raised by the Members on the subject. The Committee directed the witnesses to furnish written replies to the queries which could not be readily replied by them during the sitting within a week.

The witnesses then withdrew.

The Committee then adjourned.

A verbatim record of the proceedings has been kept.

Minutes of the Sixteenth sitting of the Standing Committee on Finance (2019-20)
The Committee sat on Tuesday, the 8th September, 2020 from 1500hrs. to 1600 hrs in Main Committee Room, Parliament House Annexe, New Delhi.

PRESENT

Shri Jayant Sinha – Chairperson

LOK SABHA

2. Shri Subhash Chandra Baheria
3. Shri Vallabhaneni Balashowry
4. Smt. Sunita Duggal
5. Smt. Darshana Vikram Jardosh
6. Shri Manoj Kishorbhai Kotak
7. Shri Gopal Chinayya Shetty
8. Shri Manish Tewari
9. Shri Rajesh Verma

RAJYA SABHA

10. Shri Rajeev Chandrasekhar
11. Shri Amar Patnaik
12. Shri G.V.L Narasimha Rao
13. **Smt. Ambika Soni**

SECRETARIAT

1.	Shri V.K Tripathi	-	Joint Secretary
2.	Shri Ramkumar Suryanarayanan	-	Director
3.	Shri Kulmohan Singh Arora	-	Additional Director
4.	Shri Kh. Ginlal Chung	-	Under Secretary

PART I

(1500 hrs – 1545 hrs)

WITNESSES

LIFE INSURANCE CORPORATION OF INDIA (LIC)

1. Shri Raj Kumar, Managing Director
2. Shri Masil Jeya Mohan P, Executive Director (INVMA)
3. Shri Ashwani Ghai, Chief (Invo)

PENSION FUND REGULATORY AND DEVELOPMENT AUTHORITY (PFRDA)

1. Shri Supratim Bandyopadhyay, Chairperson
2. Shri A.G. Das, Executive Director
3. Shri Sumit Kumar, General Manager

2. At the outset, the Chairperson welcomed the Members and the witnesses to the sitting of the Committee. After the customary introduction of the witnesses, the Chairperson initiated the discussion on the subject 'Financing the Startup Ecosystem'. The major issues discussed include the steps that can be taken to mobilize domestic pension and insurance funds into Alternate Investment Funds (AIFs); the dichotomy in experience of global and domestic pension and insurance funds in respect of investment made in AIFs and returns reaped; exploring the idea of pooling a fund-of-funds and ways to minimize the gap between what is being currently invested and how it can be enhanced so that the economy gets the desired impetus to grow. The witnesses responded to the queries raised by the Members on the subject.

The witnesses then withdrew.

PART II

(1545 hrs onwards)

4. The Committee thereafter took up the following draft reports for consideration and adoption:

(i) Draft Report on the subject 'Financing the startup ecosystem'.

(ii) Draft Action Taken Report on the recommendations contained in 1st Report on Demands for Grants (2019-20) of the Ministry of Finance (Departments of Economic Affairs, Financial Services, Expenditure and Investment and Public Asset Management).

(iii) Draft Action Taken Report on the recommendations contained in 2nd Report on Demands for Grants (2019-20) of the Ministry of Finance (Department of Revenue).

(iv) Draft Action Taken Report on the recommendations contained in 3rd Report on Demands for Grants (2019-20) of the Ministry of Corporate Affairs.

(v) Draft Action Taken Report on the recommendations contained in 4th Report on Demands for Grants (2019-20) of the Ministry of Planning (NITI)

(vi) Draft Action Taken Report on the recommendations contained in 5th Report on Demands for Grants (2019-20) of the Ministry of Statistics and Programme Implementation.

(vii) Draft Action Taken Report on the recommendations contained in 7th Report on Demands for Grants (2020-21) of the Ministry of Finance (Departments of Economic Affairs, Financial Services, Expenditure and Investment and Public Asset Management).

(viii) Draft Action Taken Report on the recommendations contained in 8th Report on Demands for Grants (2020-21) of the Ministry of Finance (Department of Revenue).

(ix) Draft Action Taken Report on the recommendations contained in 9th Report on Demands for Grants (2020-21) of the Ministry of Corporate Affairs.

(x) Draft Action Taken Report on the recommendations contained in 10th Report on Demands for Grants (2020-21) of the Ministry of Planning (NITI)

(xi) Draft Action Taken Report on the recommendations contained in 11th Report on Demands for Grants (2020-21) of the Ministry of Statistics and Programme Implementation.

(xii) Draft Action Taken Report on the 50th Report (16th Lok Sabha) on the subject ''Review of NSSO and CSO and Streamlining Of Statistics Collection Machinery in the Country, including Management Information System for Project Monitoring/Appraisal'

After some deliberations, the Committee adopted the above draft Reports and authorised the Chairperson to finalise them and present the Report to the Hon'ble Speaker / Parliament.

The Committee then adjourned.

A verbatim record of the proceedings has been kept.