



## Fund of Funds for Startups (FFS)

**For Prelims:** Startup, Government Intervention & Schemes in Startup Sector

**For Mains:** Startup Ecosystem and its Significance, Government Intervention

### Why in News?

Recently, the Government of India has committed Rs. 7,385 crores under [Fund of Funds for Startup India Investment](#), launched in 2016, for 88 [Alternative Investment Funds \(AIFs\)](#).

- These AIFs, in turn, have invested Rs. 11,206 crores in 720 [startups](#).

### What is Fund of Funds for Startup?

#### ▪ About:

- Fund of Funds is a mutual fund scheme that invests in other [mutual fund](#) schemes.
  - In this, the fund manager holds a portfolio of other mutual funds instead of directly investing in equities or [bonds](#).
- Under FFS, support is extended to [Securities and Exchange Board of India \(SEBI\) registered Alternative Investment Funds \(AIFs\)](#), which in turn invest in startups.
- FFS was announced with a corpus of Rs. 10,000 crore.
  - The corpus is to be built up over **14<sup>th</sup>** and **15<sup>th</sup>** [Finance Commission Cycles](#) (FY 2016-2020 and FY 2021-2025) through budgetary support by the **Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce & Industry**.
- FFS has made capital available for startups at **early stage, seed stage and growth stage**.
  - It has also played a role in facilitating **raising of domestic capital, reducing dependence on foreign capital** and **encouraging home grown and new venture capital** funds.

#### ▪ Performance:

- The amount committed under FFS has **grown** over the years recording a [CAGR \(Compound Annual Growth Rate\)](#) of **over 21%** since the launch of the Scheme.
- [Small Industries Development Bank of India \(SIDBI\)](#), which is responsible for operationalising the Scheme, has undertaken a **series of reforms** recently to expedite the drawdowns to **enable AIFs assisted under FFS to avail accelerated drawdowns**.
  - This has resulted in a **year-on-year surge of 100%** in the amount of drawdowns.
- FFS has helped anchor 67 AIFs out of 88 AIFs supported.
  - 38 of these are first time fund managers which is in line with FFS's core objective of **anchoring venture capital investments for Indian startups**.
- Performing startups supported through FFS are showing valuation increase by more than 10 times with a number of them even achieving **unicorn status** (valuation of over USD 1 billion).

## What is Alternate Investment Funds AIF?

### ▪ About:

- **Alternative Investment Fund or AIF** means any fund **established or incorporated in India**, which is a **privately pooled investment vehicle** which collects funds from sophisticated investors, whether Indian or foreign, for **investing it in accordance with a defined investment policy** for the benefit of its investors.
- **Regulation 2(1)(b) of Securities and Exchange Board of India (SEBI) Regulations (AIFs), 2012** lays down the definition of AIFs.
- Through a company, or a Limited Liability Partnership (LLP), an **Alternative Investment Fund can be established.**

### ▪ Categories:



## What is the State of Startups in India?

### ▪ About Startup:

- The term startup refers to a **company in the first stages of operations**. Startups are founded by one or more entrepreneurs who want to develop a **product or service for which they believe there is demand**.
- These companies generally **start with high costs and limited revenue**, which is why

they look for capital from a variety of sources such as venture capitalists.

▪ **Status in India:**

◦ **National Figure:**

- India has become the **3<sup>rd</sup> largest start-up ecosystem** in the world after the US and China.
- India is home to as many as **75,000 Startups**.
- **49% of start-ups** are from tier-2 and tier-3 cities.
- There are currently **105 unicorns**, out of which **44 were born in 2021** and **19 in 2022**.
- Startups are also emerging in the fields like **IT, agriculture, aviation, education, energy, health and space sectors**.

◦ **Global Innovation Index:**

- India has been ranked in its global ranking of **Global Innovation Index (GII)** from **81<sup>st</sup> in the year 2015 to 46<sup>th</sup> in 2021** among 130 economies of the world.
- India ranks **2<sup>nd</sup> among 34 lower-middle-income** economies and **1<sup>st</sup> among 10 Central and Southern Asian economies** in terms of GI.

◦ **Other Rankings:**

• **Publications:**

- Globally ranked **3<sup>rd</sup> (2021)** from **6<sup>th</sup> in 2013** based on the **National Science Foundation** database.

• **Patents:**

- **Globally ranked 9<sup>th</sup> (2021)** in terms of **resident patent filing**.

• **Quality of Research Publications:**

- Globally ranked **9<sup>th</sup> (2021)** from **13<sup>th</sup> in 2013**.

▪ **Initiatives for Startup:**

- **National Initiative for Developing and Harnessing Innovations (NIDHI)**
- **Startup India Action Plan (SIAP)**
- **Ranking of States on Support to Startup Ecosystems (RSSSE)**
- **Startup India Seed Fund Scheme (SISFS):** It aims to provide financial assistance to startups for proof of concept, prototype development, product trials, market entry and commercialization.
- **National Startup Awards:** It seeks to recognize and reward outstanding startups and ecosystem enablers that are contributing to economic dynamism by spurring innovation and injecting competition.

## UPSC Civil Services Examination, Previous Year Questions (PYQs)

### Q. What does venture capital mean? (2014)

- (a) A short-term capital provided to industries
- (b) A long-term start-up capital provided to new entrepreneurs
- (c) Funds provided to industries at times of incurring losses
- (d) Funds provided for replacement and renovation of industries

**Ans: (b)**

#### Explanation:

- Venture capital is a form of fund for a new or growing business. It usually comes from venture capital firms that specialize in building high risk financial portfolios.
- With venture capital, the venture capital firm gives funding to the startup company in exchange for equity in the startup.
- The people who invest this money are called venture capitalists (VCs). Venture capital investment is also referred as risk capital or patient risk capital, as it includes the risk of losing the money if the venture does not succeed and takes a medium to long term period for the investments to

fructify.

- Therefore, option (b) is the correct answer.

**Source: PIB**

PDF Referenece URL: <https://www.drishtiias.com/printpdf/fund-of-funds-for-startups-ffs>

