

MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY**(Department of Electronics and Information Technology)****NOTIFICATION**

No.:8(9)/2011-IPHW

New Delhi, 6th January 2015**Subject: Policy for setting up of Electronics Development Fund (EDF Policy)****1. Background**

1.1 Electronics permeates in all sectors of economy and has great economic and strategic importance. A major characteristic of the electronics sector is the importance of R&D and innovation due to high velocity of technology change. Intellectual Property is the most critical differentiator and a determinant of success for an electronics company. The "Digital India" programme of the Government envisions developing Electronics System Design and Manufacturing (ESDM) with the objective of net zero import and setting up of Electronics Development Fund (EDF) as a step in this direction. The National Policy on Electronics (NPE) also envisages setting up of an EDF. The NPE proposes that EDF will be set up as a "Fund of Funds" to participate in "Daughter Funds". This Policy, hereinafter called the "EDF Policy", is proposed to realize the aforesaid objectives.

2. Objective

2.1 The objective of the EDF policy is to support Daughter Funds including Early Stage Angel Funds and Venture Funds in the area of Electronics System Design and Manufacturing, Nano-electronics and IT. The supported Daughter Funds will promote innovation, R&D, product development and within the country in the specified fields of ESDM, nanoelectronics and IT. They will also support acquisition of foreign companies and technologies for products imported in India in large volume. The core focus of the Daughter Funds would be to develop domestic design capabilities. The Daughter Funds supported will create a resource pool of IP within the country in the specified fields.

3. Target Beneficiaries

3.1 Any Daughter Fund which is registered in India and abides with relevant rules and regulations including the SEBI regulations on Venture Funds and is set up to achieve the objectives mentioned above will be eligible for support from the EDF.

4. Salient Features of EDF Policy

4.1 The Electronics Development Fund (EDF) shall be created in a financial institution like SIDBI or a similar organization.

4.2 The EDF should make investments in Daughter Funds which would invest in ESDM, nanoelectronics and IT sectors. This fund should act as a catalyst to attract private venture fund investors to such Daughter Funds.

4.3 The EDF participation in a Daughter Fund would be on a non-exclusive basis.

4.4 The corpus of a Daughter Fund may be determined by market requirements and the capacity of its Fund Manager to cater to the requirements of the Fund. The EDF would typically take minority participation in the Daughter Fund. The entire responsibility of raising the fund, investing and monitoring individual investments would be the responsibility of the Fund Manager of the Daughter Fund.

4.5 Since government is only one of the participants, and a minority participant in Daughter Funds, the market dynamics should determine the demand for the Daughter Funds.

4.6 In the ESDM sector, the EDF participation in Venture Capital Funds shall be available across the value chain of ESDM sector and its ecosystem including fabless semiconductor start-ups, research & development, the materials technologies required for electronic devices, design and manufacturing and product design.

4.7 The EDF may, in certain cases, choose to cap its return from a Daughter Fund provided the EDF is given seniority on payments out of the said Daughter Fund.

4.8 The EDF may also set up Daughter Funds with **100%** funding if the products are of strategic importance and for which either there is not adequate commercial interest to participate or for which it is in national interest to have fully Government owned fund for strategic reasons.

4.9 As per SEBI, AIF Regulations, 2012, the manager or sponsor for a category I and II AIF shall have a continuing interest in the AIF of not less than 2.5% of the initial corpus or Rs.5 crore, whichever is lower and such interest shall not be through the waiver of management fees.

5. Governance Mechanism

5.1 A Daughter Fund, to be eligible for support by the EDF, should be created within India, as per Indian laws and regulations. The Fund Manager of the Daughter Fund shall ensure that the laws of the land are fully complied with, in respect to setting up and operation of the Fund. Offshore funds may ensure that necessary RBI / FIPB approval are obtained before they participate in any Venture Capital Fund in India.

5.2 The Daughter Funds supported under the EDF should be professionally managed.

5.3 The policy of providing funding to Daughter Funds and how they should invest in the venture undertaking shall be decided by the EDF.

5.4 EDF Management Board. The financial institution housing the EDF will set up a High Level EDF Management Board including representatives of Department of Electronics and IT, Government of India. The roles and responsibilities of the High Level EDF Management Board would, inter alia, include:

- i. Appraise and make recommendations to the Government for participation in the Daughter Funds
- ii. Make recommendation to the Government for release of funds to participate in the Daughter Funds.

iii. High level monitoring of the progress and performance of the Daughter Funds.

5.7 The Daughter Funds should have a track record and investment experience in the relevant sector. The experience should be commensurate with the activities of the proposed Daughter Fund.

5.8 The Funds realized on exit from Daughter Funds would be recycled through the EDF.

6. Time Period

The policy would be available for approval of new Daughter funds upto 31.3.2017. However funding support to Daughter funds approved upto 31.3.2017 will be provided as per the approval till complete drawdown.

7. The Department of Electronics and IT shall identify the financial institution to house the EDF and issue detailed guidelines for implementation of this policy after its approval.



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