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Info Capsule

CREDIT GUARANTEE FUND FOR STARTUPS[1]

Government is formulating a Credit Guarantee Scheme for Startups (CGSS) with a corpus contribution of INR 2000 crores that will enable Startups to raise loans without any collateral for their business purposes. The proposed scheme will provide credit guarantee upto INR 500 lakhs per case inclusive of term loan, working capital or any other instrument of assistance extended by Member Lending Institutions (MLIs) to finance an eligible borrower i.e. a Startup recognized by Department of Industrial Policy and Promotion (DIPP).

The main norms and preconditions of the CGSS are as follows:

- Scheme will provide benefit to a Startup recognized by DIPP as per Gazette Notifications issued from time to time.
- For all resident Directors/Partners, Aadhaar shall be mandatory and for non-resident directors/partners, the passport number shall be a mandatory part of KYC norms.
- Member Lending Institutions (MLIs) under the scheme can be Scheduled Commercial Banks and Financial Institutions, RBI registered Non-Banking Financial Companies (NBFCs), SEBI registered AIFs, etc.
- The scheme will function under the trusteeship management of the National Credit Guarantee Trustee Company (NCGTC).
- Scheme shall provide portfolio- based credit guarantee. Each portfolio shall comprise at least 10 eligible start up loans, during a particular Financial Year.
- Coverage would be extended to the portfolio and the portfolio loss would be reckoned against the "net cash losses" during the portfolio life.
- Instruments of assistance could be in the form of Venture debt, working capital, debentures, Optionally Convertible debt, etc.
- MLIs may provide loans to up to any amount required by an eligible borrower. However, under the scheme the exposure for availing credit guarantee shall be limited to Rs.500 lakh per eligible borrower. Such loan will be extended by MLIs without any collateral security and/or third party guarantee.
- The Management Committee (MC) shall be responsible for the overall supervision and monitoring of the Credit Guarantee Scheme for startups.
- A Risk Evaluation Committee (REC) shall also be formed to address conflict of interest issues.

[1] Available at: http://pib.nic.in/newsite/erelease.aspx

LABOUR CODE ON SOCIAL SECURITY, 2017[2]

The Second National Commission on Labour has recommended that the existing Labour Laws should be broadly grouped into four or five Labour Codes on functional basis. Accordingly, the Ministry has taken steps for drafting four Labour Codes on Wages; Industrial Relations; Social Security & Welfare; and Safety and Working Conditions respectively, by simplifying, amalgamating and rationalizing the relevant provisions of the existing Central Labour Laws. Ministry of Labour and Employment has prepared a preliminary draft on Labour Code on Social Security 2017 by simplifying, amalgamating and rationalizing the relevant provisions of the 15 existing Central Labour Laws and placed on the website of the Ministry on 16.3.2017, inviting comments of the public/stakeholders. The provisions of the Code on Social Security 2017 are under consideration.

BENEFITS OF GST FOR THE TRANSPORT SECTOR[3]

The transport sector stands to benefit from the recently rolled out GST in several ways. Pre- GST, the complex tax structure and paper work forced the transport industry to spend a lot of resources on tax compliance and deposit of interstate sales tax. Monitoring and collection of sales tax at interstate check posts led to major traffic congestion at these points, resulting in slower movement of freight and passenger, and consequently higher costs and pollution. An average Indian truck covers only about 50,000-60,000 km a year as against 3 lakh km done by a truck in US.

The unified tax regime has obviated the need for inter state check posts. This will result in reducing the travel time of long-haul trucks and other cargo vehicles by at least one-fifth. This, coupled with the proposed E-way bill that will require online registration for movement of goods worth more than Rs 50,000, will ease the movement of freight further, and bring in more transparency in the whole process. Efficient freight movement will also boost the demand for high tonnage trucks, which will in turn reduce the cost of transportation of freight.

A single GST also means an optimized warehousing structure. Earlier, companies had to maintain warehouses in every state due to different taxation slabs. GST does away with the need to have a separate warehouse for every state. This means a leaner and smarter logistics chain. This will also encourage more investment in the warehousing business.

Pre- GST, the statutory tax rate for most goods worked out to about 26.5%. Post GST most goods are expected to be in the 18 % tax range. India currently has very high logistics cost – about 14% of the total value of goods as against 6-8% in other major countries. GST will serve to bring down the logistics cost to about 10-12 % by facilitating efficient inter-state flow of goods and accelerating the demand for logistics services.

According to Shri Nitin Gadkari, the Minister for Road Transport & Highways and Shipping, India's logistics sector would gain the most from the Goods and Services tax as costs would fall by almost 20%. He has also said that logistics parks are being set up at various places across the country to act as freight aggregation and distribution hubs. These logistics parks will enable long haul freight movement between hubs on larger sized trucks, rail and waterways. This will not only reduce freight transportation costs, but also throw open many employment opportunities and reduce pollution levels.

The Ministry of Road Transport and Highways has prepared a booklet on the benefits of GST for the transport sector.

Team ICSI

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[2] Available at: http://pib.nic.in/newsite/erelease.aspx
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