

## **Guidelines for Startup India Seed Fund Scheme**

### **1. Introduction**

Easy availability of capital is essential for entrepreneurs at the early stages of growth of an enterprise. Funding from angel investors and venture capital firms becomes available to startups only after the proof of concept has been provided. Similarly, banks provide loans only to asset-backed applicants. It is essential to provide seed funding to startups with an innovative idea to conduct proof of concept trials.

Startup India Seed Fund Scheme (SISFS) aims to provide financial assistance to startups for proof of concept, prototype development, product trials, market entry and commercialization. This would enable these startups to graduate to a level where they will be able to raise investments from angel investors or venture capitalists, or seek loans from commercial banks or financial institutions.

The Seed Fund will be disbursed to eligible startups through eligible incubators across India.

### **2. The Requirement**

The Indian startup ecosystem suffers from capital inadequacy in the seed and 'Proof of Concept' development stage. The capital required at this stage often presents a make or break situation for startups with good business ideas. Many innovative business ideas fail to take off due to the absence of this critical capital required at an early stage for proof of concept, prototype development, product trials, market entry and commercialization. Seed Fund offered to such promising cases can have a multiplier effect in validation of business ideas of many startups, leading to employment generation.

### **3. Eligibility Criteria:**

#### **3.1 Eligibility Criteria for Startups**

The eligibility criteria for a startup to apply under the Startup India Seed Fund Scheme shall be as follows:

1. A startup, recognized by DPIIT, incorporated not more than 2 years ago at the time of application
2. Startup must have a business idea to develop a product or a service with market fit, viable commercialization, and scope of scaling
3. Startup should be using technology in its core product or service, or business model, or distribution model, or methodology to solve the problem being targeted
4. Preference would be given to startups creating innovative solutions in sectors such as social impact, waste management, water management, financial inclusion, education, agriculture, food processing, biotechnology, healthcare, energy, mobility, defence, space, railways, oil and gas, textiles, etc.
5. Startup should not have received more than Rs 10 lakh of monetary support under any other Central or State Government scheme. This does not include prize money from competitions and grand challenges, subsidized working space, founder monthly allowance, access to labs, or access to prototyping facility
6. Shareholding by Indian promoters in the startup should be at least 51% at the time of application to incubator for the scheme, as per Companies Act, 2013 and SEBI (ICDR) Regulations, 2018
7. Any startup will not receive seed support more than once each as per provisions of para 8.1 (i) and 8.1 (ii) respectively

### 3.2 Eligibility Criteria for Incubators

The eligibility criteria for an incubator to apply in the Startup India Seed Fund scheme are as follows:

1. Incubator must be a legal entity:
  - a) A society registered under the Societies Registration Act 1860, or
  - b) A Trust registered under the Indian Trusts Act 1882, or
  - c) A Private Limited company registered under the Companies Act 1956 or the Companies Act 2013, or
  - d) A statutory body created through an Act of legislature
2. Incubator should be operational for at least two years on the date of application to the scheme
3. Incubator must have facilities to seat at least 25 individuals
4. Incubator must have at least 5 startups undergoing incubation physically on the date of application
5. Incubator must have a full-time Chief Executive Officer, experienced in business development and entrepreneurship, supported by a capable team responsible for mentoring startups in testing and validating ideas, as well as in finance, legal and human resources functions
6. Incubator should not be disbursing seed fund to incubatees using funding from any third-party private entity
7. Incubator must have been assisted by Central/State Government(s)
8. In case the incubator has not been assisted by Central or State Government(s):
  - a) Incubator must be operational for at least three years
  - b) Must have at least 10 separate startups undergoing incubation in the incubator physically on the date of application
  - c) Must present audited annual reports for the last 2 years
9. Any additional criteria as may be decided by the Experts Advisory Committee (EAC).

#### **4. Experts Advisory Committee (EAC):**

An Experts Advisory Committee (EAC) will be constituted by DPIIT, which will be responsible for the overall execution and monitoring of the Startup India Seed Fund Scheme. The EAC will evaluate and select incubators for allotment of Seed Funds, monitor progress, and take all necessary measures for efficient utilization of funds towards fulfilment of objectives of Startup India Seed Fund Scheme.

The Experts Advisory Committee (EAC) will comprise of the following members:

1. Chairman, an individual of eminence
2. Financial Advisor, DPIIT or his representative
3. Additional Secretary/ Joint Secretary/ Director/ Deputy Secretary, DPIIT (Convener)
4. Representative of Department of Biotechnology (DBT)
5. Representative of Department of Science & Technology (DST)
6. Representative of Ministry of Electronics and Information Technology (MeiTY)
7. Representative of Indian Council of Agricultural Research (ICAR)
8. Representative of NITI Aayog
9. At least three expert members nominated by Secretary, DPIIT from the startup ecosystem, investors, experts in the domain of R&D, technology development and commercialization, entrepreneurship and other relevant domains.

#### **5. Guidelines for Assistance to Incubators**

- 5.1 Experts Advisory Committee (EAC) shall evaluate incubators for grant assistance. A Grant of up to Rs. 5 (five) crore would be provided to a selected incubator in milestone-based three (or) more installments. The exact quantum of grant and instalments for each incubator will be decided by the Experts Advisory Committee (EAC) based on its evaluation

- 5.2 Incubators shall use the grant only for disbursement to eligible startups and shall not use the grant for facility creation or any other expenses
- 5.2 A component of Management Fee @ 5% of Seed Fund grant to the incubator will be provisioned (i.e. if an incubator is granted Rs. 1 crore of Seed Fund, then by including management fee @ 5%, the total assistance would be Rs. 1.050 crore)
- 5.3 The Management Fee provisioned for incubators shall not be used by the incubator for facility creation or any other administrative expenses. The Management Fee will be utilized for administrative expenditure, selection and due diligence of startups, and monitoring of progress of beneficiary startups
- 5.4 Installments shall be released to incubators upon submission of proofs of achievement of milestones as decided by EAC. Proportionate Management fee shall also be released with each installment
- 5.5 The quantum of first installment may be up to 40% of total approved commitment. When the cash-in-hand of the incubator goes below 10% of the total commitment by EAC, the Incubator may request for the next installment, which shall be released to incubator within 30 days of submission of proof of achievement of milestones
- 5.6 The grant should be utilized fully by the incubator within a period of three years from the date of receipt of the first installment of funds.
- 5.7 If the Incubator has not utilized at least 50% of the total commitment within the first 2 years, then the Incubator will not be eligible for any further drawdowns. It will return all unutilized funds along with interest.
- 5.8 Interest earned on all unutilized funds available with incubators shall be taken into account and adjusted at the time of next release.

- 5.9 The financing of beneficiaries will be done with efficiency and care. Selected incubators would be responsible for proper management and disbursement of the Seed Fund
- 5.10 Selected incubator shall maintain a transparent process of selection, monitoring, and disbursement mechanism for the fund. Seed Fund would be disbursed to selected startups after due diligence by the incubator
- 5.11 The incubators shall be responsible for providing physical infrastructure to the selected startups for regular functioning, support for testing and validating ideas, mentoring for prototype or product development or commercialization, and developing capacities in finance, human resources, legal compliances, and other functions. They are also expected to provide networking with investors and opportunities for showcasing in various national and international events. If the selected startup does not want to utilize the physical infrastructure of the incubator, the incubator shall offer all other resources and services to the startup
- 5.12 A startup selected by an incubator for assistance under this scheme shall not be charged any fees

## 6. Selection of Incubators

- 6.1 Online Applications will be invited from incubators across India to participate in the scheme on <https://www.startupindia.gov.in> or any other platform specifically designated for the purpose.

Incubators shall be selected on the basis of the following parameters:

- a. Fulfillment of eligibility criteria
- b. Quality of the team of Incubator
- c. Available infrastructure, testing labs etc.
- d. Composition of ISMC (as defined in para 7)
- e. Incubation support provided by incubator in last three years:
  - No. of startups incubated

- No. of startups graduated, i.e. progressed from one stage of business development cycle to the next
  - No. of startups that raised follow on investments
  - No. of startups that crossed a revenue of Rs 1 Cr in last 1 year
  - 2-year survival rate of startups from the date of joining incubator
- f. Funding support extended to incubatees in last three years:
- Investment agreements signed between incubator and startups
  - No. of startups invested in
  - Total corpus allocated to incubatees
  - Total investments raised by incubatees from external sources
- g. Mentoring provided to incubatees in last three years:
- No. of mentors hired
  - Average mentoring hours allocated per startup per month
  - No. of IP (patents, copyrights, designs, and trademarks) registered by incubatees
- h. Other support extended to incubatees in last three years:
- Industry/Corporate connects
  - Events held for stakeholder engagements
  - Participation in other events
- i. Number of startups that the incubator intends to support
- j. Quantum of funds applied for, along with fund deployment plan with timelines
- k. Any other relevant parameters that decided by the EAC
- 6.2 The Call for Applications for incubators will be open online throughout the year
- 6.3 Experts Advisory Committee (EAC) will convene at least quarterly to:

1. Evaluate the applications received during the period
  2. Select incubators for funds under the Scheme
  3. Decide the total amount of fund and number of installments in which it is to be allocated to each incubator
  4. Specify milestones to be achieved by each incubator for release of installments
- 6.4 EAC shall also monitor progress of incubators against sanctioned funds under the Scheme and take further actions as may be required
- 6.5 EAC may lay down improved guidelines for selection of incubators under the scheme from time to time

## 7. **Selection of Startups**

- 7.1 Each of the incubators applying for the Startup India Seed Fund Scheme will constitute a committee called the Incubator Seed Management Committee (ISMC), consisting of experts who can evaluate and select startups for seed support. The composition of ISMC would be as follows:
- i. Nominee of Incubator (Chairman)
  - ii. Representative from State Government's Startup Nodal Team
  - iii. Representative of a Venture Capital Fund or Angel Network
  - iv. A domain expert from Industry
  - v. A domain expert from academia
  - vi. Two successful Entrepreneurs
  - vii. Any other relevant Stakeholder

The final composition and members of ISMC of each incubator shall be approved by EAC and will be a critical parameter in selection of incubators

- 7.2 The startups shall be selected through an open, transparent and fair process, comprising, inter-alia:



- i. An online call for applications shall be hosted on an ongoing basis on the Startup India portal
- ii. Applicants can apply for seed fund to any three incubators selected as disbursing partners for this scheme in order of their preference
- iii. All applications received will be shared online with respective incubators for further evaluation
- iv. The applicant may be asked to submit details on team profile, problem statement, product/service overview, business model, customer profile, market size, quantum of funds needed, projected utilization plan for funds, etc.
- i. The incubators shall shortlist applicants as per eligibility criteria given in para 3.1.
- v. Eligible applications will be evaluated by ISMC using the following criteria:

	<b>Criteria</b>	<b>Details</b>	<b>Weightage (%)</b>
1	<b>Is there a need for this Idea?</b>	Market size, what market gap is it filling, does it solve a real-world problem?	p
2	<b>Feasibility</b>	Feasibility and reasonability of the technical claims, methodology used/ to be used for PoC and validation, roadmap for product development	q
3	<b>Potential Impact</b>	Customer demographic & the technology's effect on these, national importance (if any)	r
4	<b>Novelty</b>	USP of the technology, associated IP	s

5	<b>Team</b>	Strength of the team, Technical and business expertise	t
6	<b>Fund Utilization Plan</b>	Roadmap of money utilization	u
7	<b>Additional Parameters</b>	Any additional parameters considered appropriate by incubator	v
8	<b>Presentation</b>	Overall assessment	w
			<b>100%</b>
Weightages for criteria (p, q, r, s, t, u, v, w) may be assigned by each incubator differently			

- vi. Incubator may shortlist applicants based on their evaluation for a presentation before ISMC
- vii. ISMC shall evaluate applicants based on their submissions and presentations and select startups for Seed Fund within 45 days of receipt of application
- viii. All incubators shall provide information about progress of evaluation of startups real-time to Startup India portal
- ix. Selected startups shall receive seed funding under the respective incubator that selects them as beneficiaries as per their preference shared during application (for example, if incubators at Preference 1 and Preference 2 both select a startup, the funding shall be given by Preference 1 incubator. If Preference 1 incubator rejects and Preference 2 incubator selects, the funding shall be given by incubator at Preference 2, and so on.)
- x. All applicants will be able to track the progress of their application on the Startup India portal on a real-time basis
- xi. Applicants who are rejected will also be notified through email

xii. An applicant, if rejected once, may apply afresh

7.3 EAC may lay down improved guidelines for selection of startups under the scheme from time to time

## **8. Guidelines for Disbursement of Seed Fund to Startups by Incubators**

8.1 Seed Fund to an eligible startup by the incubator shall be disbursed as follows:

1. Up to Rs. 20 Lakhs as grant for validation of Proof of Concept, or prototype development, or product trials. The grant shall be disbursed in milestone-based installments. These milestones can be related to development of prototype, product testing, building a product ready for market launch, etc.
2. Up to Rs. 50 Lakhs of investment for market entry, commercialization, or scaling up through convertible debentures or debt or debt-linked instruments
3. Seed fund shall strictly not be used by startups for creation of any facilities and shall be utilized for the purpose it has been granted for

8.2 Not more than 20% of the total grant to an incubator shall be given as grants to start-ups by incubator. Rate of interest (as defined under GFR) on unutilized funds available with incubator would also be taken into account and adjusted at the time of next release by DPIIT.

8.3 For startups being supported through convertible debentures, or debt, or debt-linked instruments, funds shall be provided at a rate of interest of not more than prevailing repo rate. The tenure should be fixed at the time of sanctioning the loan by the incubator, which shall be not more than 60 months (5 years). A moratorium of up to 12 months may be provided for the startups. Because of the early stage of the startups, this shall be unsecured and no guarantee from promoter or third-party will be required.

8.4 The incubator shall execute a legal agreement with the selected startups before the release of the first installment. The incubators shall ensure that the necessary terms and conditions, including milestones, related to the Seed Fund are clearly detailed in the agreement

- 8.5 Subsequent disbursement would be linked to the achievement of previously-specified milestones as per agreement between the startup and incubator
- 8.6 Startups will receive the funds in their company bank accounts
- 8.7 For grants, the first installment to any selected startup shall be released not more than 60 days from receipt of application from the startup. The startup shall submit the interim progress update and utilisation certificate to initiate the release of subsequent installment of grant.
- 8.8 Startup shall submit final report and audited utilisation certificate at the end of the project duration. For failed ventures, the entrepreneur will share his/her learnings and the reasons for failure in the report and submit this along with the utilisation certificate for the fund amount
- 8.9 The incubator or any of its staff members shall not charge any fee in cash or in kind from applicants or beneficiaries under the scheme for any process of selection, disbursement, incubation, or monitoring
- 8.10 A grievance cell shall be set up at DPIIT for the scheme to address issues of applicants, such as delayed evaluation of applications, delayed disbursements by incubators, etc.

## **9. Accounting and Utilization of funds**

- 9.1 The incubator shall maintain an exclusive, project-specific Trust and Retention Account (TRA) with any nationalized bank. Funds under this scheme shall be released into that account in milestone-based three (or) more installments.
- 9.2 Any net return received from beneficiary startup can be used for further funding in startups as per guidelines of this scheme (net returns shall include principal, interest, and profits). In case of no further funding of startups using this money for three years, this shall be returned to DPIIT

9.3 Each incubator shall report the funds sanctioned, received, and disbursed to each startup for each financial year

9.4 Incubators would also submit detailed report on status of utilization of funds and audited expenditure for each financial year

## **10. Indicators of Successful Implementation**

10.1 The following shall be tracked and recorded by incubators for all beneficiary startups:

1. Progress of proof of concept
2. Progress of prototype development
3. Progress of product development
4. Progress of field trials
5. Progress of market launch
6. Quantum of loan, angel or VC funding raised
7. Jobs created by startup
8. Turnover of startup
9. Any other appropriate parameter

10.2 Selected startups shall furnish details on above parameters to incubator in all progress reports

10.3 The incubator shall provide the above information real-time to Startup India through their online dashboards and shall present the same to EAC on a quarterly basis

10.4 Incubator shall also report return on investment for each Startup. Appropriate matrix may be devised for this purpose.

10.5 It is understood that every startup cannot be successful

**11. Repeat Incubator Applicants for Seed Fund**

An incubator can reapply for funds under the Scheme when it has disbursed or committed its entire previously released grant

**12. Progress Monitoring**

- 12.1 Experts Advisory Committee (EAC) will review the progress of the scheme with the Incubators selected under the scheme
- 12.2 The Incubators will provide the reports as may be directed by the EAC for objective evaluation
- 12.3 In case of poor performance of any selected incubator, EAC may decide to discontinue seed fund support to the incubator and take further action as may be required
- 12.4 Appropriate legal action will be taken against the selected incubator in case it uses the grant for purposes other than those for which it has been awarded

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