

## **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).

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

5.1 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
- 52 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.
- 53 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.
- 54 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

- 55 Subsequent disbursement would be linked to the achievement of previously-specified milestones as per agreement between the startup and incubator
- 56 Startups will receive the funds in their company bank accounts
- 57 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.
- 58 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
- 59 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
- 5.10 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.