



GOVERNMENT OF INDIA

MINISTRY OF MICRO, SMALL & MEDIUM ENTERPRISES

OFFICE OF THE DEVELOPMENT COMMISSIONER(MSME)

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SCHEME

OF

“Support for Entrepreneurial and Managerial Development of SMEs:

Through Incubators”

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Scheme of “Support for Entrepreneurial and Managerial Development of SMEs: Through Incubators”

1. Background

- 1.1 World over, Micro and Small Enterprises (MSEs) are recognized as an important constituent of the national economies, contributing significantly to employment expansion and poverty alleviation. Recognizing the importance of micro and small enterprises, which constitute an important segment of Indian economy in terms of their contribution to country’s industrial production, exports, employment and creation of entrepreneurial base, the Central and state Governments have been implementing several schemes and programmes for promotion and development of these enterprises. Among the six basic principles of governance underlying the National Common Minimum Programme (NCMP) of the Government, “sustained economic growth in a manner that generates employment” has a pride place. The NCMP also describes the MSEs as “the most employment-intensive segment”.
- 1.2 Finance Minister’s Budget speech of 2005-06 specially mentions: “Worldwide, it is manufacturing that has driven growth. In order to revive the manufacturing sector, particularly small and medium enterprises and to enable them to adjust to the competitive pressure caused by liberalization and moderation of tariff rates, new scheme is proposed to be launched that will help them strengthen their operations and sharpen their competitiveness. The design of the scheme will be worked out by the National Manufacturing competitiveness Council (NMCC) in consultation with the industry.” The Finance Minister’s speech of 2006-07 states “NMCC along with relevant stake-holders like the Ministry of MSME has conceptualized and finalized the components of the programme incorporating suitable inputs from the stake-holders”.
- 1.3 This component-scheme of the NMCP envisages selection of a large number of academic and training institutes and provision of financial support to set up at least 100 business incubators to host about 1000 micro and small enterprises.

2. Objective

2.1 The main objective of the scheme is to promote emerging technological and knowledge-based innovative ventures that seek the nurturing of ideas from professionals beyond the traditional activities of Micro, Small & Medium Enterprises (MSMEs). Such entrepreneurial ideas have to be fostered and developed in a supportive environment before they become attractive for venture capital. Hence the need arises for incubation centres: to promote and support untapped creativity of individual innovators and to assist them to become technology based entrepreneurs. It also seeks to promote networking and forging of linkages with other constituents of the innovation chain for commercialization of their developments. This initiative is now being taken up by the Ministry of MSME – the nodal Ministry for the development of entrepreneurship and creation of self-employment and more employment avenues.

2.2 Under this scheme, 100 “Business Incubators” (BIs) are to be set up under Technology (Host) Institutions over the next 4 years [@ say 25 per year] and each BI is expected to help the incubation of about 10 new ideas or units. For this service, which includes the provision of laboratory/workshop facilities and other assistance/guidance to young innovators, each BI will be given between Rs.4 lakh and Rs.8 lakh per idea/unit nurtured by them, limited to a total of Rs.62.5 lakh for the ten. In addition, each BI or each Host Institution may get :

<u>Items</u>	<u>@ per BI</u>
(a) Upgradation of infrastructure	Rs. 2.50 lakh
(b) Orientation/Training	Rs. 1.28 lakh
© Administrative Expenses	Rs. 0.22 lakh.
Thus the total assistance per BI -	Rs. 66.50 lakhs.

3. Implementing Agencies

3.1 The incubational support will be provided by Host Institutions, like:

- i) Indian Institutes of Technology (IITs)
- ii) National Institutes of Technology (NITs)
- iii) Engineering Colleges
- iv) Technology Development Centres, Tool Rooms, etc
- v) Other recognised R&D&/or Technical Institutes/Centres, Development Institutes of DIP&P in the field of Paper, Rubber, Machine Tools, etc.

3.2 The geographical areas, the disciplines and the infrastructure-providers listed above will be reviewed midway during the implementation, for any corrective action needed to make the scheme more effective with better outcome.

4. Targets

It has been proposed that in each Business Incubator, efforts will be made to reach the ratio of 4:1 between the incubated micro and small enterprises, respectively i.e. efforts will be made to incubate 8 micro enterprises and 2 small enterprises in each BI on an average in an ideal situation. However, flexibility on this count would be permissible. There will also be flexibility in having more than one BI in the same host Institution, and where required, there may be less than 10 or more than 10 enterprises hosted in each BI.

5. Expectations

The term 'innovation' covers a very wide domain and in so far as micro and small enterprises are concerned, it could signify any activity and new/ingenious procedure or product that is likely to be of use to society (or to specific segments thereof) and therefore marketable in the long run. The purpose of the small dose of assistance proposed under the present scheme is to support students/ ex-students of science and technology and entrepreneurs try out their innovative ideas (processes and products) at the laboratory or workshop stage and beyond (to the extent possible) – to carry forward the idea from its mere conception to 'know-how' and then to 'do how' stage. Even Special Purpose Machine (SPM) would clarify as 'innovations' under this low cost scheme as long as they lead to better, more competitive and economical operations- and are marketable by the small and medium enterprises that are to be formed by the successful innovators. In the case of many Host Institutions, where other similar programmes for enriching and incubating innovations are already on, this MSME assistance could be dovetailed within them, by way of an additional encouragement/ sustenance, without leading to duplications or unnecessary double benefits. It would be left to each Host Institution or its BI to benchmark the expectations from its students and entrepreneurs (and their ideas) at the level that is considered appropriate and to provide the level of assistance that is actually required to operationalise ideas. It is needless to mention that the level of success that each BI or Host Institution

achieves through this scheme would enhance its own reputation and vice versa in case of repeated failures.

As explained, this scheme is designed for sustaining, at some basic or introductory level, the incubation of ideas that would have otherwise been lost for want of support. The expectations are that a sizeable percentage of the grantees/incubates would be graduating to higher levels of operation, that would then require other levels of support under other schemes/ organisations and from Venture Capital or Angel Funding. Some indicative areas of operation have been mentioned at Annexure.

6. Financial Assistance

6.1 As stated, 100 Business Incubators are to be set up to incubate about 1000 ideas, many of which are likely to lead to the setting up of Small and Micro Enterprises at a cost of Rs 62.50 Crore in four years time period.. Financial target in terms of expenditure has also been indicated to match the physical target. Another Rs. 4 Crore are earmarked for minor components and the total cost of the project is to be Rs. 66.5 Crore. BIs will maintain separate accounts of the funds received and expenditure incurred on various activities. An audited Statement of Accounts or the statement certified by the Chief Financial Officer of the Host Institution will also be obtained.

6.2. Direct Expenditure on Business Incubators:

Table :Expenditure Details (Cost to Government)

Sl. No.	No. of Incubators to be set up	No. of MSEs to be incubated in each Business Incubator and the cost implications.	Total expenditure (cost to Govt.) per year (Rs in crore)
1	100 incubators @ 25 each year for the last four years of XI Plan	i)10 entrepreneurs to be supported @ Rs. 6.25 lakh per enterprise (cost could vary between Rs.4.0 to Rs.8.0 lakh).(Details in Table A2) ii) Cost of up-gradation or enhancing of components of Infrastructure. iii) Cost of Orientation & Training of personnel. iv) Administrative expenses	15.625 0.625 0.320 0.055
			Total 16.625

Total for 4 years Rs. 66.50 crore (Cost to Government)

6.3 The cost may vary between Rs.4 -8 lakh for each incubatee/idea, subject to the overall ceiling of Rs.62.5 lakh for each BI. An illustrative list of supporting activities and the likely assistance for an incubatee is at Annexure II.

7. Participation in a Public Private Partnership Mode (PPP Mode)

To ensure the participation of the entrepreneurs in a PPP mode, it has been proposed that 15% and 25%, as the case may be, of the cost of intervention, will be borne by Micro and Small Enterprises respectively, wherever applicable. The proposal is in the form of pointed interventions to demonstrate the efficiency of superior technologies/procedures that are more conducive to the fast-changing environment in industrial competitiveness. In other words, other innovative options are being considered, with considerable degrees of private participation, in order to implement the schemes that are proposed under the PPP mode. The traditional government driven, government-managed, subsidy-oriented activities have to give way to user-driven and user managed options – based on their felt needs and faced challenges of stakeholders.

The innovative options ensuring that private participation in the programme is on a proportionate basis and govt. contribution of 75% to 85% towards the project cost will be utilized for technology fee, common facilities and hiring/lease of machinery etc. The incubatee will deposit his / her share to the host institute after completing the formalities of Tripartite Agreement, to be signed between the Government, the host Institute (operationalising the incubator) and the aspiring incubatee, clearly laying down the obligations from and expectations of each of the three signatories. The approach has been framed in such a manner that the stakeholders / Micro and Small Enterprises are in a position to carry on these activities after the incubation period is phased out.

8. Financial Implications for the XI Plan

Cost Details Per Year

		Rs. in crore)
1.	250 entrepreneurs @ Rs.6.25 lakh each	15.625
2	Cost of up-gradation or enhancing of components of infrastructure	0.625
3	Cost of Orientation Training	0.320
4	Administrative expenses	0.55
5	Total (for 25 BIs each year)	16.625
	Total (For 4 years)	66.50

9. Implementation of the scheme

9.1 The scheme is proposed to be implemented from financial year 2008-09.

9.2 The Selection Committee headed by DC(MSME) shall comprise of –

1. Representative from DST/DSIR
2. CEO, SVCL(SIDBI Venture Capital Ltd.)
3. CMD, NSIC
4. Economic Adviser, MoMSME
5. FA of MoMSME
6. Representative from DIPP

9.3 The request for proposals from the Institutes / Implementing agencies will be invited by the selection committee through advertisements in News Papers and web sites, Letters to Implementing agencies, etc., to select the host institutes for setting up of BIs.

9.4 The Selection Committee will be entitled to constitute sub-committees for specific product groups to vet the feasibility of ideas and proof of concepts, option of the entrepreneur for host institute , access to workshop & laboratory, etc., and to lay down the procedure to release the fund directly to the host institutions as also to formalize the tripartite agreements to this effect. A sub-committee headed by IA of DC (MSME) (i/c of the specific product group promotion) shall comprise of-

1. Director of Apex Scientific / Industrial Research Institute in respective field or his representative
2. Incubation Executive nominated by Director , MSME-DI in the area of Incubation Center .
3. Representative of Lead Bank in the area of Incubation Centre
4. Representative of Host Institute.

10. Mode of Finance Releases

As would be laid down in the tripartite agreement between the Government, the host institution and the aspiring entrepreneur, the Government would release finances to the Host Institution. Initially, the host institution would be released 30 per cent of the expenditure expected to be incurred in the establishment and operation of the incubators during the ensuing financial year. The balance would be released to the host institution in one or more instalment, once the earlier amount is reported to have been utilised by the host institution.

11. Monitoring & Evaluation

11.1 The project would be monitored and guided by the Ministry of MSME. Emphasis needs to be given to ensure continuation of the scheme through documentation in monitoring of the implementation. A monitoring and advisory committee headed by Additional Secretary and Development Commissioner (MSME) comprising of

1. Representative of NMCC,
2. Representative of Technology Information Forecasting and Assessment Council (TIFAC)
3. Representative of the Lead Bank of the State where the incubator is established.
4. Representative of Industries Associations represented on the Advisory Committee constituted under the MSMED Act 2006

would be constituted to review and guide the implementation of the programme periodically. Necessary mid-term corrections arrived at by the Committee will be applied to make the programme more effective).

Indicative Areas

Annexure – I

The indicative areas of operation for innovative projects could be in the following fields:

Hi-tech Activities

- i) Bio-technology
- ii) Pharmaceuticals
- iii) Information Technology
- iv) Nano-technology
- v) Polymer Products

Other Possible Areas-1 .

- vi) Fruit Processing
- vii) Ceramics Industry
- viii) Glass Industry
- ix) Herbal Medicines
- x) General Stores
- xi) Auto Components
- xii) Electrical appliances

Other Possible Areas-2 .

- xiii) Ready-made Garments
- xiv) Sports Goods
- xv) Wet Grinders
- xvi) Metal Utensils
- xvii) Surgical Instruments
- xviii) Agriculture Implements
- xix) Cane and Bamboo Products
- xx) Leather Goods
- xxi) Engineering Industries

Annexure- II

Table: Illustrative list of Supporting activities & the likely expenditure for an incubatee (cited in Column 3 (i) of Table : Expenditure Details- Cost to Government)

Sl. No.	Items	Likely expenditure per annum (Rs. in lakh)
1	Technology fee	2.00
2	Telephone, Fax, Computer facility, etc.	0.25
3	Machinery hiring or leasing from outside	1.00
4	Guidance fee per annum for mentors/ handholding persons, etc.	2.00
5	Electricity, accommodation charges , etc.	1.00
	Total	6.25

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Proforma for submission of proposal

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- 1. Name of the Host Institution/Organisation.**
2. Head of the Institution/organization (with address for correspondence).
3. Mentor/Guide for the proposed Business Incubator (BI) (Details of his/her academic accomplishments, publications, area of specialization and experience in guiding BIs to be given).
4. **Project requirements.**
5. Number of units/ideas proposed under BI.
6. Specific area(s) of operation for the innovative project.
7. Cost profile of the units under BIs (Detailed item-wise break up of cost to be given).
8. Cost proposed to be borne by the incubatees (Under the PPP mode) with details (unit-wise).
9. Facilities proposed to be provided by the Host Institution.
10. Technical details of the proposed BI. (Detailed project profile of the new idea, existing technology, outlines of the new idea proposed to be further developed, relevance for the micro and small enterprises, commercial adaptability etc. may be given).
11. Perceived benefits of the new technology in terms of cost, energy efficiency, higher productivity and other relevant particulars may be highlighted with supporting data, (wherever possible) to facilitate decision by the Selection Committee.