



Innovation Vouchers for MSMEs

ASIA Policy Brief

By Shivani Singh & Farheen

JUNE 2025

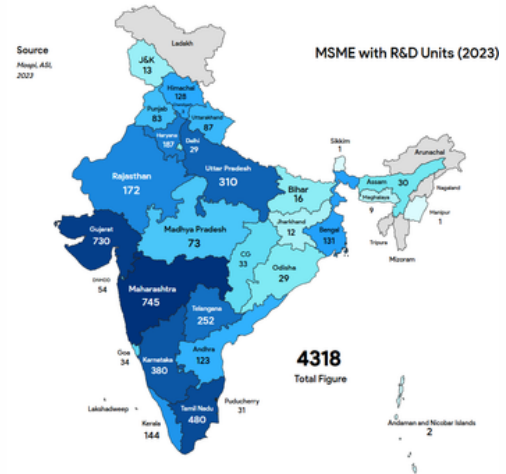


Innovation Vouchers for India's MSMEs

Democratising R&D

1. Problem Statement:

India's small businesses are essential to its economic story, but not its innovation one. Micro, small, and medium enterprises (MSMEs) make up 30% of GDP and employ more than 25 crore people. Yet fewer than 4% report having any R&D activity. In 2019, 97% of firms had no in-house innovation function. By 2023, that figure remained nearly unchanged. Most MSMEs cannot afford to invest in formal R&D. The risks are too high. Profit margins are low. Expertise is hard to find. Even incremental product improvements or technical problem-solving feel out of reach. For these firms, innovation is a luxury, not a growth strategy.



MSME with R&D Units in 2023, MOSPI, ASI. Advanced Study Institute of Asia.

Even among early-stage tech startups, the challenge persists. Despite the government's push for self-reliance and scientific innovation, access to labs, testing support, prototyping tools, and IP assistance is extremely limited, especially for non-metro firms. Most academic and research institutions do not engage with private sector innovators. Among public R&D labs, only 16% support deep tech startups. India's own data show that while large R&D allocations exist, there is no distributed mechanism to help small firms access the system. In short, India's innovation potential is blocked at the base. The lack of accessible, flexible, and outcome-driven support means most firms never even try to innovate.

2. Policy Context and Rationale:

India has recently signalled strong intent to promote innovation. The 2025–26 Union Budget allocated ₹20,000 crore to the Department of Science and Technology to promote private-sector R&D. A Deep Tech Fund of Funds worth ₹10,000 crore was also announced to attract capital into frontier technology sectors like AI, semiconductors, robotics, and biotech. These are important moves. But funding alone will not solve the problem. Innovation is not just about capital. It is about access. India's innovation ecosystem is fragmented, centralised, and inaccessible to most small firms. Reports by the Office of the Principal Scientific Adviser show that only one in four publicly funded R&D institutions provide startup incubation support. Global industry collaboration is extremely limited. There are few platforms for MSMEs to engage with technical experts, and even fewer that focus on real-time, short-cycle problem-solving.

The result is a widening gap between India's innovation potential and actual productivity on the ground. By enabling MSMEs and startups to access problem-solving expertise through innovation vouchers, India can unlock firm-level improvements that boost competitiveness, upgrade supply chains, and make its growth more inclusive.

Internationally, other countries have responded with flexible policy tools such as innovation vouchers. Between 2016 and 2019, some 190,000 innovation vouchers were issued in EU Member States. While long-term evaluations are still limited, early results from countries like Ireland and China are promising. In Ireland, every €1 invested through the Innovation Voucher Programme generated €8.29 in additional sales and €2.95 in economic value, while creating over 800 jobs. Nearly all participating firms said they would recommend the scheme. In China, voucher-receiving high-tech SMEs filed more patents than non-recipients and saw stronger financial outcomes. The impact was especially notable among firms with weaker social networks, showing that vouchers can help bridge gaps in access to knowledge and innovation support. These figures highlight the popularity of innovation vouchers to encourage involvement in R&D, especially among companies that are short of in-house capacity. More recently, these vouchers are being adapted to support deeptech innovation as well. For example, Portugal's Deep2Start program offers vouchers ranging from €30,000 to €60,000, while the European Innovation Council's ACCESS+ program provides €60,000 in service grants.

India has also implemented innovation vouchers at the state level. Tamil Nadu's Entrepreneurship Development and Innovation Institute (EDII) has issued vouchers to over 230 MSMEs across sectors like agriculture and health. Kerala's Startup Mission also has an Innovation Voucher Program (IVP). The evidence shows there is demand for new and flexible policy tools that can increase MSME participation in R&D. These examples are also promising but remain limited in scale and national visibility.

A national innovation voucher scheme would address a critical market failure: the high barriers MSMEs face in accessing formal R&D. By enabling small firms to tap into technical expertise and solve specific problems without large upfront investment, vouchers create a low-risk, high-leverage entry point into the innovation ecosystem. They don't replace major R&D programs; they complement them by crowding in private participation and de-risking early-stage innovation. International evidence shows strong returns on investment, with significant gains in sales, economic value added, and patent activity. In contrast, India's existing voucher pilots remain small in scale and unevaluated, limiting policy learning. As India targets global leadership in deep tech and frontier sectors, a modular, scalable, and outcome-oriented voucher mechanism is not just desirable; it is economically necessary to expand innovation capacity from the ground up.

3. Proposed:

Several states, such as Tamil Nadu and Kerala, have initiated innovation voucher programs to support MSMEs. These efforts, while promising, remain limited in scale and lack structured evaluation. There is an opportunity to strengthen these models through a coordinated pilot and learning framework.

We propose the following components:

- **Voucher Grants (₹3–5 lakh):** Small, co-funded, milestone-based grants that enable MSMEs to access external technical expertise from accredited labs, universities, or consultants.
- **Digital Matchmaking Platform:** A shared portal to list verified service providers, streamline MSME applications, and enable transparent disbursement and reporting.
- **Evaluation:** Voluntary partnerships with interested states to develop common indicators, monitor outcomes, and assess cost-effectiveness.

Together, these elements can form the foundation for a scalable, evidence-led national innovation voucher model. By reducing the transaction costs of accessing technical know-how, especially in Tier 2 and 3 regions, this framework can unlock demand-led R&D among MSMEs. Crucially, it can also serve as a gateway to promote early-stage adoption of deep tech solutions like AI/ML, IoT, and advanced materials by embedding academic expertise into the innovation pipeline of small firms.