

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA
UNSTARRED QUESTION NO. 2211

TO BE ANSWERED ON 11th DECEMBER, 2015/ AGRAHAYANA 20, 1937 (SAKA)

FUNDING FROM PRIVATE SECTOR

QUESTION

2211: **SHRI MUTHAMSETTI SRINIVASA RAO (AVANTHI): SHRI M. MURALI MOHAN**

Will the Minister of **FINANCE** be pleased to state:

- (a) whether the panel headed by Prof. Tarun Khanna has submitted its report to review the existing initiative aimed at promoting investors and entrepreneurship in India;
- (b) if so, the details thereof and the recommendations made therein;
- (c) whether the panel suggests funding from the private sector for Research and Development project and create a Fund of Funds to seed the early stage of venture funds with the corpus of Rs. 5000 crore; and
- (d) if so, the details thereof and action taken by the Government thereon?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI JAYANT SINHA)

- (a) Yes, Sir.
- (b) The Expert Committee on Innovation and Entrepreneurship under the Chairmanship of Prof. Tarun Khanna, Director, South Asia Institute, Harvard University, USA has submitted its report in October, 2015. The Committee has made wide ranging recommendations for short term (where action can be taken relatively quickly to deliver almost immediate payoffs), Medium term (that can be addressed within a 5-7 year time frame) and Long term, which are likely to have long gestation periods, but will lead to a profound transformation in the entrepreneurial fabric of the country. A gist of the recommendations of the Expert Committee is at **Annexure-I**.
- (c)& (d) One of the recommendations of the Expert Committee is as under:
“1% of corporate profit could be directed towards research labs in universities and/ or industry-university collaborative research. The government could provide some tax benefits against this. Monitoring of this rule should focus not only on the absolute amount channelled into universities, but also on the efficiency of spending, that is, it needs to be output-rather than input-oriented. The idea here is that universities become the breeding ground for

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new technology/ ideas that can be used by the corporate sector. Firms would implicitly be outsourcing R&D financing development of products/ services that can be bought by them. In that sense, this financing would be perceived as absolutely core and fundamental to a firm's operations, rather than as a CSR-related activity. Though the actual development of R&D may take some time, beginning the involvement of the corporate sector in the financing of universities could be achieved relatively quickly.”

The Expert Committee has also recommended as under:

“Government could establish a "fund-of-funds (FOF)" to seed other early stage venture funds, with a corpus of Rs. 5000 crore. This FOF will invest as an anchor investor in a number of Alternative Investment Funds (AIF). These AIFs will raise capital from other sources - domestic and foreign - thereby creating a multiplier effect. This could result in capital flow of up to Rs. 25,000 crore over the next 10 years. The India Opportunities Venture Fund, set up under SIDBI by the Government of India should also play this role.”

Gist of the recommendations of the Expert Committee on Innovations and Entrepreneurship

The Recommendations of the Expert Committee on Innovation and Entrepreneurship, constituted by NITI Aayog under the Chairmanship of Prof. Tarun Khanna, to accelerate the entrepreneurship agenda in the country, have been categorized in to short, medium, and long-term recommendations.

(A) Short Term - Providing Adequate Support to Early-Stage Ventures

1. Utilisation of AIM Funds: The AIM budget should be used entirely towards introducing competitions to solve pressing economic and social problems (12 Grand prizes/Grand Challenges annually) through the Incentivize Innovation in India (i3) programme for finding out ultra-low-cost solutions.

2. Harnessing Corporate Funds to Finance R&D by (i) Incentivizing the Corporates to invest a part of their profits in research labs in universities and/or industry-university collaborative research and towards corporate venture capital funds, for the purposes of investment in start-ups and/or incubators; and (ii) Introducing a clause for directing 5% of the value of all contracts with foreign defense companies, to fund R&D in universities.

3. Improving the Efficiency of Incubators by (i) Increasing public investment in incubators and roping in private sector funding; (ii) Creating Virtual Incubators; (iii) Keeping Incubators Up to Date; (iv) Linking Funding of Incubators with an Institutionalized Annual Ranking; (v) Introducing Specialized Sector-based Incubation Services; and (vi) Strengthening Linkage between the Corporate Sector and Incubators.

4. Utilisation of SETU Funds: To jumpstart innovation, Rs. 500 crore from SETU funds should be used for upgrading the existing incubators in the country and the remaining Rs. 500 crores for setting up 500 Tinkering Labs across the country for introducing a “Make in Universities” program with one 3D printer per institute and trained people.

5. Fostering a National Entrepreneurship & Innovation Movement by (i) Instituting a National Entrepreneurs’ Day; (ii) Creation of National Action Brigade- on the lines of the “Teach for India” or the National Cadet Corps (NCC); (iii) Harnessing the NRI talent pool; and (iv) Introducing “faculty entrepreneurial fellowships” to encourage professors to be stakeholders/partners of the entrepreneurial and incubation eco-systems in universities.

(B) Medium Term - Creating an Enabling Environment for Innovation

1. Embracing the Platform Mindset: by (i) Creating digital platforms, similar to Aadhaar to inspire innovation & entrepreneurship (ii) Building sector-specific searchable digital platforms like: Health Care records, Pensions, Insurance, and Education; and (iii) Digitization of government processes. AIM may be empowered to appoint India’s Chief Information Officer to manage the Digital Platforms programme.

2. Reforming the Education System and Upskilling Workers: by adopting a multi-layered approach which include: Reorienting school curricula; Annual assessment of schools and faculty; Providing easy access to entrepreneurship education courses at secondary and tertiary levels; Focusing on technology-based solutions to education; and Opening up the market to global education providers.

3. Strengthening the Intellectual Property (IP) Rights Regime including Setting up of Dedicated IP Courts to improve the efficiency and speed in IP judgement; Increasing the number of Patent Examiners; and Establishment of National Virtual IP Platform containing a database of all the resolved IP cases in India, as well as details of those under litigation.

4. Improving the Ease of Doing Business through a series of measures which include: (i) Digitization of government permits; (ii) Creation of a Central ID for enterprises; (iii) Revisiting the Companies Act to distinguish between closely held private companies, public companies, and publicly listed companies; (iv) Revisiting Section 56 of the Income Tax Act that has greatly impacted fair market valuation norms on angel investments; (v) Moving service tax back to actuals rather than accruals; (vi) Improving access to capital; (vii) Labour market reforms; (viii) Creation of an online nationwide real estate registry- Registration for all real-estate transactions should be made mandatory within 48 hours, with strict penalties for non-compliance; (ix) Creation of an AIM Entrepreneurship Index for measuring entrepreneurial activity in India; (x) Creation of a separate regulatory category for new business; and (xi) Creating an enabling environment for social enterprise by involving the corporate sector to fund social enterprise.

(C) Longer Term: Addressing the Cultural Context: To expedite cultural changes, the Expert Committee has made the following recommendations:

1. Attach Entrepreneurship to Large Scale Economic and Social Programs like: “Swacch Bharat” to encourage and promote social entrepreneurs focused on the areas of cleanliness, hygiene and civic responsibility.

2. Promote New, High-Potential Sectors via the “Make in India” Campaign - set-up incentive structures to develop a few chosen high-potential industries as part of the “Make in India” initiative.

3. Foster and encourage a Culture of Coordination and Collaboration between ministries, departments, enterprises and incubator cells across the country.

4. Redefine Success: Innovation-centred organisations within the government system must be allowed to pursue projects and experiments that are high risk and may fail. Different measures of accountability and success must be outlined.

5. Make Entrepreneurship Part of the Social-inclusion Agenda - Bringing in more women, dalits, rural population and the urban underprivileged into the fold of new Indian entrepreneurs and innovators.

(D) Proposed Structure of the AIM

The Expert Committee has recommended establishment of a ‘Not for Profit’ ‘Section 8’ Company for implementation of the Atal Innovation Mission with Vice Chairman, NITI Aayog as the Chairman, four independent directors from Industry, Civil Society, Academia and Judiciary. In addition, there will be seven more Directors (Secretaries to GOI of various Ministries/Departments) on the Board of the Company.
