

SPEECH BY THE PRESIDENT OF INDIA, SHRI PRANAB
MUKHERJEE AT ROUNDTABLE ON FINANCING OF
INNOVATIONS WITH LEADERS OF BANKING AND FINANCIAL
SECTORS

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1. I am happy to attend this summarization session of the Roundtable on “financing of innovations” with leaders of the banking and finance industry. This Round-table is a part of the ongoing Festival of Innovations 2016. I congratulate National Innovation Foundation and the organizers of this Roundtable – NABARD and SIDBI – for smooth conduct of this programme.

2. NABARD has played an important role in India’s development process. Through credit support, institution development and other activities, NABARD has been promoting sustainable and equitable agriculture, and rural prosperity. SIDBI has etched a very crucial role for itself in India’s industrial economy. As the principal financial institution for the promotion, financing and development of the MSME sector, it has been contributing to production, jobs and exports in no small measure. These two entities have a key part to play in an innovation-filled India.

Ladies and Gentlemen:

3. Innovation is the harbinger of socio-economic development. It facilitates growth and creates job opportunities. Innovation

holds great promise in uplifting the living standards of people. A novel idea if transformed into a useful product can usher in progress for the society. But the path to convert novelties into new products or services is riddled with challenges.

4. Any new business venture require resources for investing in factors of production like capital, workforce and technology. A well laid-out structure exists for conventional enterprises to access resources from the market including financial institutions. But in the case of innovation-led entrepreneurial set-ups, there are unique circumstances that cause certain constraints. For one, innovation-oriented firms mainly have intangible assets in the form of knowledge base embedded in human capital.

Distinguished participants:

5. As per a study, ninety percent of new ventures that don't attract investors fail within three years. Investors prefer a proven business model before investing and scaling it up. Innovation-based projects have a high degree of uncertainty. It is not only difficult to ascertain the probability of their desired outcomes; even the form of the outcome is hard to predict. The true potential of any innovation activity cannot be gauged clearly at the start.
6. Returns from innovation processes are skewed. Every start-up has to confront the "valley of death". It is that early phase

comprising the 'seed' and 'start-up' stages in which: (i) a novel idea or a concept is developed; (ii) its technical feasibility, market potential and economic viability are determined; (iii) a product prototype is designed; and (iv) a formal business organization is established. These early stage activities result in sunk costs being incurred leading to negative cash flows for the nascent firm. Innovation start-ups having lesser developmental expenses to incur up-front – like website and smart phone applications - have a higher chance of surviving the 'death valley'.

Ladies and Gentlemen:

7. Once an innovation enterprise takes off bringing in revenues, the degree of difficulty in accessing financial resources reduces. In the 'growth' and 'expansion' phases where the goals are scalability and market penetration, norms to secure bank loans become easier to fulfill. It is, however, the preliminary stage which posits a bigger challenge for innovators, entrepreneurs, financiers and policy-makers alike. To my mind, there has to be a hybrid model rather than a one-stop solution for financing of innovations. New-age financing options like angel investors, venture capitalists, crowd funding, seed finance, and 'innovation on technology' funds can meet the special requirements of innovation projects at formative stages.

8. Having said that, the banking sector remains crucial for an innovation culture to take deep roots in the country. A thriving and supportive financial sector is the key to a nation's performance on the innovation front. We cannot allow the many innovations taking place at grassroots level to languish for want of financial support. I have said earlier that the trinity of innovator, entrepreneur and financier has to be linked through a strong network mechanism. A cooperative spirit can help in the flowering of many budding ideas.

Distinguished participants:

9. Many potential innovators require technical expertise to take their novel ideas to the market. Banks and other financial institutions, over and above their financing function, can also play a facilitatory role in this regard. They can help innovators tie up with entrepreneurs interested in their ideas and with relevant institutions for assistance on validation, design, market feasibility, and setting up of enterprise. They can identify a pool of mentors to assess and meet the needs of innovators. This role in establishing linkages between creative minds, entrepreneurs, and technical institutions can result in greater turnover of innovative ideas in the country. A monitoring mechanism to ensure managerial facilitation for innovators may also be in order. Financial institutions need to create greater awareness about the institutional mechanisms in place for innovators.

10. Central institutes of higher learning like central universities, IITs and NITs have set up innovation clubs and hubs to act as a platform for exchange of thoughts and ideas between students and faculty, and grassroots innovators. Many of these central institutions have also established innovation incubators for ideas-to-market transformation. Banks and other financial institutions may join hands with these innovation clubs and incubators for greater synergy.

Ladies and Gentlemen:

11. Focused attention by the government, and public and private organizations, has seen several initiatives being launched for the promotion of innovation and entrepreneurship in India. The Atal Innovation Mission (AIM) is being set up as a platform involving academics, entrepreneurs and researchers to foster a culture of innovation and promote a network of world-class innovation hubs. The Self- Employment and Talent Utilization (SETU) mechanism is a techno-financial, incubation and facilitation programme to support start-up businesses and other self-employment activities, particularly in technology-driven areas. The Micro Units Development and Refinance Agency Bank (also called MUDRA Bank) has been set up to provide fillip to entrepreneurship in India through the funding of non-corporate small business sector.
12. The Start-up India programme was recently launched with an action plan which includes the creation of a dedicated start-up fund of Rs. 10,000 crore for funding start-ups. Funds for

promoting innovation have also been launched by industry bodies, corporate players and educational institutions. NABARD has a Rural Innovation Fund to support innovative, risk-friendly and unconventional experiments in farm, non-farm and micro-finance sectors. This scheme has the potential to boost income and promote livelihood opportunities in rural areas.

13. I am happy to have launched today an online platform, 'SIDBI-STARTUP-MITRA' that will act as a one-stop solution to meet the financing and other needs of early stage and start-up enterprises. I compliment Department of Financial Services and SIDBI for conceptualizing this national innovation finance programme. The integration of start-ups with investors, angel funds, mentor funds, and other service providers will help create an inclusive innovation eco-system in the country.

14. With these words, I now conclude. Let me thank the representatives from the banking and financial sectors for their enthusiastic participation in this platform. All the concerned agencies must consider the recommendations that have emerged from the deliberations and start working on them. I once again compliment the National Innovation Foundation, along with NABARD and SIDBI, for organizing this fruitful

dialogue on financing of innovation. Wish you all the very best
for the future!

Thank you.

Jai Hind.
