

# Funding Innovation: Assessing India's New RDI Scheme

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On July 1, the Union Cabinet, chaired by PM Modi, announced the Research, Development and Innovation (RDI) scheme. The scheme is part of the larger Startup India initiative launched in 2016. The scheme aims to “[jumpstart](#)” the private R&D ecosystem in India through long-term, government-backed, affordable, and accessible financing options for private players.

The RDI scheme's primary focus is on [sunrise sectors](#), such as Electronics and Semiconductors, Electric Vehicles, Renewable Energy, Healthcare and Pharmaceuticals, etc. The scheme also targets boosting R&D in sectors relevant for economic security, strategic objectives, and self-reliance.

A corpus of approximately USD 11.5 billion has been allocated for the RDI scheme. Apart from the sectoral focus, its other [objectives](#) include:

- To finance transformative projects at high levels of

Technology Readiness Levels (TRL);

- To support the acquisition of technologies that are critical or of high strategic importance; and,
- To facilitate the setting up of a Deep Tech Fund of Funds. This is an aggregator fund that reduces risk for spending in an otherwise risky sector.

The objectives of the scheme are in line with the government's realization of the need to develop domestic technologies and capabilities to foster true self-reliance. This comes after difficulties in procuring technological components like [automobile magnets](#) from China, [jet engines](#) from the USA, etc. The Indian government has prioritized the domestic development of such technologies to reduce dependency on others. The RDI scheme is one of many other initiatives aimed at holistic self-reliance.

### **The RDI scheme's independent funding mechanism may only be apparent**

The RDI scheme will be managed by the Anusadhan National Research Foundation (ANRF), chaired by PM Modi. An [executive council](#) under ANRF will set operational guidelines for the RDI scheme, approve its second-level fund managers, and the scope of its projects. The funding through this scheme will function on a two-tiered system. The first is a Special Purpose Fund (SPF) that will function under the purview of the ANRF. This SPF will manage the government-allocated corpus and channel funds downstream to selected second-level fund managers. These managers will then drive the final investment through equity financing for startups, capital finance for innovation projects, etc. These [fund managers](#) will comprise Alternate Investment Funds (AIFs), Non-Banking Financial Companies (NBFCs), and Experts from Industry and Academia. Focused Research Organizations (FROs) can also be second-level fund managers under the RDI scheme; these are organizations where industry leaders and research experts come together to

develop crucial technology-oriented platforms.

The Department of Science and Technology (DST) of the Government of India will be the nodal agency for implementing the scheme, and it will also be responsible for the effective recycling of capital and for including new technologies based on the suggestions of other ministries. Furthermore, oversight for the RDI scheme will be provided through an Empowered Group of Secretaries ([EGoS](#)) under the Cabinet Secretary. This group will be responsible for performance reviews of the scheme, approvals for the type of projects to fund, and for approvals regarding scheme changes. The government has already allocated [USD 2.4 billion](#) out of the USD 11.5 billion earmarked for this scheme in the Financial Year (FY) 2026. This has been done in the form of a 50-year interest-free loan.

While this funding mechanism seemingly gives independence to the second-level fund managers to allocate money as they deem appropriate, the type of projects that they can invest in and the scope of this investment remain subject to government approval. Therefore, only some pre-approved projects will be funded in a faster, decentralized fashion. This means that projects that seek to develop new technologies/platforms need another layer of approvals from the government. The funding approval for these projects may be bogged down by the bureaucratic tradition of delayed funding approvals. This also curtails the independence of the second-level fund managers when it comes to funding critical new projects.

### **Why the scheme matters: Looking at its wide-ranging impact**

The RDI scheme's potential multi-sectoral impact makes it one of the most important initiatives of the Indian government in recent history. The scheme crucially seeks to privatize and boost a historically public and governmental affair. For many years, India's private sector has viewed R&D as a cost instead of an investment. The RDI scheme aims to change this

perspective through government-backed financing.

Globally, countries spent [2.67%](#) of their GDP on R&D (2022 Data). India has historically lagged behind on this front. In 2024, India spent a mere [0.6-0.7%](#) of its GDP on R&D. This is in comparison to China (2.4%), the USA (3.5%), and Israel (5.4%). The RDI scheme aims to increase India's performance in this area by promoting private R&D initiatives.

### **The RDI scheme is only step one in solving a historical problem**

The RDI scheme sets the financial foundation for restructuring and “jumpstarting” India's R&D ecosystem. While it is a crucial step in the right direction, it is only the first step in addressing an issue that has plagued the Indian economy for decades. India needs to supplement this initiative with further structural changes from the government and more initiatives from the private sector to invest in R&D and employ scientific talent.

India has had a shaky history with Intellectual Property Rights (IPR) protection. The United States Trade Representative's 2024 [Special 301](#) report continues to place India on the “Priority Watch List” column for failing to “provide adequate and effective IP protection and enforcement”. While the Indian government has taken several positive efforts to modernize and strengthen IP infrastructure, more has to be done to safeguard innovation. These include steps like easing [legislative pipelines](#) for IPR enforcement, adequately staffing and allocating resources to commercial courts, developing national interest in patent and design registration, etc.

In light of the RDI scheme and its promises, the need for better IPR infrastructure is magnified as Indian scientists and innovators will need appropriate government-guaranteed IPR protections to foster domestic R&D growth.

Additionally, the RDI scheme's current scope allows only projects that have reached a Technology Readiness Level 4 ([TRL-4](#)) to be eligible for funding. There are 9 levels of TRL; the first signifies a basic level of research, while the last suggests market readiness. Allowing only TRL-4 projects for RDI funding means that projects in the initial level of development, where there is constant trial and error, will not be eligible for funding. The government's focus on funding only those projects that are halfway across the finish line diminishes the aim of the scheme and may lead to scientists' reluctance to conduct R&D in India.

The RDI scheme may be an opportunity for India to attract [foreign innovators](#) to conduct R&D domestically. While detailed information on the scope and possibilities of the RDI scheme continues to be finalized, the two-tiered fund allocation system does make it possible for these second-level fund managers to independently allocate RDI funds to foreign entities or joint ventures that meet the requirements and objectives of the scheme (for instance, the transfer of critical technology). Hence, it remains to be seen how the RDI scheme can create opportunities for global R&D talent to come to India and drive its pursuit of self-reliance and growth.

The RDI scheme has indicated the government's recognition of the costs that companies need to bear to undertake R&D. It has set a financial foundation for the private sector to lead Indian R&D and reverse the current ratio, where the government accounts for 70% of India's R&D expenditure. One of the most important challenges for India to ensure the success of private sector-driven R&D will be its ability to mobilize human resources to conduct this research.

The RDI scheme is an unprecedented opportunity for India to curtail its historic "brain-drain". It opens up a variety of opportunities for the Indian government to foster long-term growth in multiple sectors. However, the scheme is only one crucial step in what needs to be a well-planned implementation

to foster holistic self-reliance.