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India’s Dearth of Drug R&D Investment Creates Innovation Bottleneck

BOSTON - India faces a lacuna in research and development funding, with lags in government investment and venture capital activity that are creating roadblocks to accelerating the country's growth in the pharmaceutical sector, experts said at the USA-India Chamber of Commerce BioPharma & Healthcare Summit in Boston.

Venture capital firms invested $49.2 million in India during the first quarter of 2009, down 58 percent from the corresponding period in 2008, and the average size of deals fell from $6.4 million to $3.5 million, analysts at McKinsey said in a report prepared for the summit.

"The perceptions are that there are great opportunities to invest in India … but the reality is that most investors outside of India perceive investments there still to be high risk," Pappas Ventures Executive-in-Residence Jeff Collins said.

Aside from current economic conditions and concerns over regulations and intellectual property protections, Collins said many VCs are nervous about entering India without being able to join forces with local Indian investors to mitigate risk. Until that happens, Collins said foreign investors are "going to be swimming upstream."

McKinsey analysts and Collins note that VC inroads are being made, and cite the launch of Orbimed's $150 million pan-Asia life sciences fund in 2008. ***[Editor's note: PharmAsia News spoke with Orbimed Asia Managing Director Jonathan Wang as part of an interview with the founders of BayHelix (PharmAsia News, Feb. 2, 2008).]***

Potential investors all are concerned with the Indian government's lackluster funding for pharma R&D, especially when other Asian nations are ramping up their drug industries.

India spends less than $100 million on pharmaceutical R&D, while China and Singapore each invest more than $1 billion, according to the McKinsey report.

Singapore has channeled billions of dollars into developing its biotech sector, which has included building the Biopolis R&D center and drawing scientific leaders by funding their research programs (PharmAsia News, March 23, 2009).

India is considering a "2020 initiative" to increase government spending to $1-2 billion annually to expand innovation in such areas as new drug discovery, life cycle R&D, biosimilar R&D and holistic medicine.

As part of the initiative, the country aims to upgrade the education system in terms of scientific training, create a world-class research infrastructure - as China and Singapore have done - improve hospitals, and foster private-public partnerships.

Speakers at the Boston summit talked about a "talent bottleneck" in India. Without expanding the ranks of India's experienced biologists, principal investigators and other researchers, the country could have trouble reaching its 2020 goal of becoming a R&D hub.

The McKinsey report encourages India to develop public-private partnerships, as the country did with the prime minister's initiative for petroleum, chemicals, and petrochemical investment regions, to create a hub for the pharmaceutical sector through common infrastructure and support services.

And while the global economic crisis dries up others sources of funding, public-private partnerships can draw U.S. investors to India with tax incentives and asymmetric profit/loss sharing, the McKinsey report suggests.

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