

## **Blue Print: Early Market Engagement on UK-India Development Cooperation Fund (UKIDCF): Start-up Investment Programme**

### **Objective**

UKIDCF is proposing to invest development capital in a small number of early-stage impact funds ('Investee Funds') under the Start-up Investment Programme (referred to as SIP). UKIDCF proposes to hold an Early Market Engagement (EME) event to explore market appetite and seek feedback on its current investment plans through hosting a virtual event. The EME is a consultation with potential fund managers and other stakeholders to refine the focus areas and selection process.

Investment fund managers play an important role in ensuring effective delivery of UKIDCF's objectives. This document is indicative and sets out the background, current key investment thesis and broad selection parameters under SIP intended to be used to select the Investee Funds. The document will be updated and feed into the Request for Proposal (RFP) based on market feedback post the EME.

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## A. Background – UK India Development Cooperation Fund (UKIDCF)

- I. **Inception and objective** - The investment objective of the Fund is to carry on the activity of a Category II AIF – fund of funds, as permissible under the AIF Regulations, for making one or more portfolio investments focussed on achieving UK - India bilateral development cooperation objectives as identified in the UK India 2030 [Roadmap](#). The Fund shall seek to achieve its investment objectives by investing in Category I AIF's and Category II AIF's which seek to invest in, or are engaged in, sectors that promote sustainable economic development and contribute towards achievement of India's SDGs.
- II. **Target industries/ sectors** - The Fund will invest in portfolio entities which invest in the themes where investments are being piloted and new business models are emerging. These will include areas and sectors agreed between UK and India under bilateral development cooperation.
- III. **Investors** - The Fund has commitments from UK Government and SBICAP Ventures Limited (SVL). The Fund is also managed by SVL. In future, it may accept commitments from other investors interested in the capital investments for development purposes with a double bottom-line motive for India's economic development.
- IV. **Term and corpus** - The term of the Fund will be 25 years with a target fund size of up to GBP 500 million.
- V. **Investment strategy** - The investment strategy of the Fund comprises of investing in various Investment Programmes under UK India partnership. "Investment Programmes" are broad investment themes/ sectors which are conceptualized and approved by the Government of the United Kingdom and in line with the UK-India bilateral development cooperation priorities. The Fund is expected to invest in Portfolio Entities, i.e. Category I AIF's and Category II AIF's in line with the themes of these approved Investment Programmes.  
To start with, Fund will invest in a portfolio of early stage impact Funds, i.e. Category I AIF's and Category II AIF's (2-3 Portfolio Entities). Start-up programme will look at investing into start-ups in emerging technology sectors such as climate and environment, health-tech, fin-tech, edu-tech, agri-tech and tech driven manufacturing.

In addition, UKIDCF may conceptualize and design other Investment Programmes from time to time for investment satisfying the investment objective of the Fund.

The Fund will focus on investments which will lead to:

- a. Increased flow of capital to relatively under-funded job-creating sectors across India ;
- b. Increased jobs (including green jobs), improved access to goods and services;
- c. Mobilising additional finance (including green finance), both at Portfolio and investee level;
- d. Making enterprises viable and climate resilient; lowering production and transaction costs; and protecting and rehabilitating the environment;
- e. Positive impact on climate, sustainability, gender and inclusion;
- f. Improved market access for Portfolio entities;
- g. Assisting the Portfolio entities in strengthening their ESG capability;
- h. Inputs to government stakeholders and regulators and assisting through capacity building;
- i. Strengthening UK-India linkages which could include but not be limited to,
  - encouraging investors, including from the UK, to enter or diversify their portfolio in the high-growth sectors in Indian market,
  - scaling investee companies to the UK,
  - technology transfers/strategic partnerships between Indian and UK firms and institutions to help address sectoral issues,

- sharing knowledge, best practices and expertise from the UK and
- to improve compliance with ESG standards.

## B. UKIDCF Investors' Overview

### I. SBICAP Ventures Limited (SVL)

SBICAP Ventures Limited (SVL) is the flagship alternative asset management arm of State Bank of India and is a wholly owned subsidiary of SBI Capital Markets Limited. It manages capital for both direct and fund of fund investments.

Direct funds managed by SVL include Neev, SVL-SME Fund (Neev II) & Special Window for Affordable and Mid-Income Housing (SWAMIH) Fund. Neev was launched by Honourable Prime Ministers of the two countries viz. India (Mr. Narendra Modi) and UK (Mr. David Cameron). Neev II targets' investments in start-ups and SMEs focusing on climate, environment and sustainability. SWAMIH Fund provides last-mile funding to enable construction of stressed housing projects.

SVL is also the fund manager for Self-Reliant India Fund, a Fund of Funds anchored by Government of India for investment in MSMEs with a corpus of INR 10,000 Cr.

### II. Foreign Commonwealth and Development Office (FCDO)

FCDO, formerly Department for International Development (DFID), is a department of the Government of United Kingdom, responsible for promoting the interests of British citizens, safeguarding UK's security, defending their values, reducing poverty and tackling global challenges with international partners. The development cooperation partnership between India and the UK aims to generate jobs, stimulate growth, investment and prosperity in both the countries.

Currently, FCDO has Development Capital Investment (DCI) commitments of c.£310m across equity and debt, in India. DCI programmes refer to programmes that channelize risk capital (e.g. equity, debt, mezzanine) in private enterprises with an objective of development and financial returns.

## C. Key investment objectives/ metrics of Start-up programme:

Investment focus	Start-up Programme
Sectors	<b>Emerging Technology sectors</b> (E.g. Climate action sectors, Health-tech, Fin-tech, Edu-Tech, Agri-tech, other sectors which can be powered by technology, etc), manufacturing with a focus on IP/ technology driven product Exclusion list – IT companies, ecommerce/aggregators
Geography	Pan-India (focus on pro-poor development)
Focus Stage	Early stage (Seed, Pre-Series A/Series A). Typical investment size in the range of GBP 1-5 mn, however this amount can be lower in case of early stage start-ups
Instrument	Equity funds, venture debt fund, mezzanine funds
Other metrics	Start-up Programme
Number of funds that can be supported	2-3 funds to diversify across stages and fund managers

SIDBI commitment from FFS	Required
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Since SIDBI and UKIDCF will come in as anchor co-investors under the Start-up programme, the funds should comply with the requirements in the Fund of Funds for Start-ups (FFS). More details are available the brochure <http://www.sidbi.in/files/Fund-of-Funds-Brochure.pdf>

One of the requirements is that funds supported under FFS shall invest twice the amount of contribution received from FFS in 'Start-ups' qualifying as per notification issued by Government of India and as amended from time to time. The same criteria will be applicable to commitment from UKIDCF – thus twice the amount of contribution from UKIDCF has to be invested in start-ups. Additionally, Funds which have received commitments from UK Government including CDC<sup>1</sup> will not be eligible to apply for UKIDCF funding.

*Note: We propose to have an Early Market Engagement with potential fund managers to seek their feedback on the thesis and highlight the process for application to investment funds. The indicative process and selection criteria is subject to change/amendment by UKIDCF and it reserves the right to do so at any point.*

## **D. Objective of the Early Market Engagement (EME) exercise**

UKIDCF is seeking views from the market on the programmes through an Early Market Engagement Exercise. We will welcome suggestions on how the concepts can be improved, keeping in view the objectives set out above. In particular we welcome responses to the following questions:

### **Investment Strategy**

1. Whether the combination of proposed sectors/sub-sectors presents a feasible option keeping in view both the developmental and commercial aspects? Are there any adjustments necessary to improve developmental/commercial returns and mitigate risks?
2. What specific sectors with respect to climate and environment can be a focus area to maximise impact? Is there evidence emerging pointing towards changing outlook towards these sectors?

### **Investment Pipeline**

3. Whether there is sufficient pipeline in the sectors included to deliver the development impact for the poor and marginalized? What are your views on investment opportunities and expected returns?
4. What are the number and value of deals that you have broadly seen in the target sectors in this stage of investment over the past 12-18 months?

### **ESG<sup>2</sup>**

5. How can ESG add to the value of your portfolio? What are the opportunities and challenges you see in implementation of ESG at early stage? What are your current capabilities under ESG?

### **Expected Returns**

6. What are the typical returns in the above sectors (tech start-ups, early-stage companies)?

<sup>1</sup> CDC is wholly owned by FCDO but operates through an independent board with an agreed mandate. More details here <https://www.cdcgroup.com/en/>

<sup>2</sup> Environmental, Social and Governance

7. What are the key risk factors specific to this asset class which drives returns?

#### **Role of Government**

8. What are your views on what the Governments of India and UK could do beyond capital to facilitate the operation of the fund and strengthen the start-up ecosystem? How could we attract more global investors, especially global/UK investors or bring in specific UK expertise?
9. How do you see impact of association with Government on your Fund? What specific impact do you see on the funds which Governments support?

#### **Strengthening India-UK Corridor**

10. What are the opportunities and challenges you see in the UK-India corridor (in terms of trade, technology, investments, risk with view to commercialize in India) as compared to US-India, Middle East-India, and Singapore-India corridors?
11. What role can Government play in strengthening the linkages between UK and India?

#### **Risks and Mitigation**

12. What are the key risks and how can these be actively managed through fund manager role?

Full details of the Early Market Engagement events will be published in due course and be available on the UKIDCF Portal [[www.ukidcf.com](http://www.ukidcf.com)]. Investment Fund managers interested in participating should register with UKIDCF to receive updates and the latest information. The said web portal is being used as a mechanism to ensure access to a broad range of interested parties. The details of the EME and documents will also be sent through emails to prospective fund managers.

The EME is proposed to be held on October 20, 2021. The event will be organized virtually from 10.30 AM to 1:00 PM.

## E. Key Governing Principles

The key governing principles for the funds that UKIDCF support are outlined below:

- Additional (i.e. demonstrate results which would not be possible without UKIDCF funding)
- Developmental (i.e. helping in achieving objectives laid out earlier across focus sectors, gender and inclusion)
- Sustainable (i.e. creates start-ups become commercially viable)
- Leverageable (i.e. attract both Indian and global, including UK capital, into the fund as well as into investee companies)
- Replicable (i.e. attract private investors to successive funds without government capital)
- Governed in line with best practices and high standards

The potential fund managers will be selected through a transparent and robust screening and selection process which will be set out clearly in the RFP or UKIDCF website, the link to which will be provided later. Indicative evaluation parameters will include:

- Portfolio Construction and Investment Process
- Fit with UKIDCF mandate (e.g. sectors, tech, development orientation and ESG focus)
- Manager and Investment Team Evaluation
- Performance Track Record
- Capital Raising (incl. from UK)
- UK-India linkages
- Alignment of Interest (Fund Manager's investment in the fund)
- Commercial terms (Fee structure and charges)

## F. TA associated with Start-up Programme

The investment programme may also have accompanying technical assistance (TA) funds mainly to develop initiatives that address market failures in focus sectors, foster entrepreneurship and strengthen linkages with the UK and lesson learning. The Fund Managers will be expected to work with UKIDCF to facilitate initiatives under TA, provide technical inputs, share information and collaborate with stakeholders to achieve specific objectives.

## F. Other Key Requirements

UKIDCF investee funds have to comply with a number of requirements to ensure our programmes are governed in lines with international best practises and deliver Value for Money for UK tax payers. Some of these include: the UK Bribery Act; Safeguarding for the prevention of sexual exploitation; UK Government Communication and Branding; Aid Diversion; Intellectual Property; Transparency Standards. In addition, funds supported by UKIDCF will need to adhere to ESG compliance and regular monitoring of development indicators/results. The investee funds will need to comply with standard Terms and Conditions of investments which will be conveyed via the RFP.

The objective is to have robust processes in place to ensure that the UKIDCF funds reach the intended beneficiaries to deliver the key objectives laid out above.