



# GLOBAL INNOVATION PARTNERSHIP

## Early Market Engagement Summary Note

On 1 February 2023, the Government of India, represented by the Ministry of External Affairs (MEA), the UK Government, represented by the Foreign, Commonwealth and Development Office (FCDO) and SBICAP Ventures Ltd. (SVL), the investment manager to both Trilateral Development Cooperation Fund (TDCF) and UK-India Development Cooperation Fund (UKIDCF) – the investment vehicles of MEA and FCDO, respectively, – convened an Early Market Engagement (EME) event for Investments under Global Innovation Partnership (GIP) programme. MEA and FCDO shall be known as the anchor investors.

The FCDO and MEA, on behalf of the Joint Steering Committee of GIP, set out the envisaged results and parameters of the GIP programme. As per the background document and slides, the team explained that the overall programme would be up to ~£75m (INR 750 Cr.), wherein MEA and FCDO will be contributing equally as the anchor investors across components.

The elements of GIP falling within the remit of the EME include:

- **Investments** – Up to £50 million to back Indian private sector enterprises to scale up and transfer innovation. The Investments pillar has 2 components:
  - Component 1.1 – Investment of up to £35m (~INR 350 Cr.) for the growth stage investments i.e., innovations that are at a more advanced stage but lack access to capital for expansion to other developing countries.
  - Component 1.2 – Investment of up to £15m (~INR 150 Cr.) to support earlier-stage and higher risk enterprises businesses, an additional investment component that can be combined within the pillar 1.1 on further deliberation.

The element of GIP falling outside the remit of the EME is:

- **Grants** – up to £10 million (INR 100 Cr.) to support not-for-profits and small enterprises to transfer and scale up innovations. This component builds on the successful pilot.
- **Technical Assistance** – up to £11.5 million (INR 115 Cr.) to work across regions & countries for policy, regulatory and procedural reforms to facilitate innovation transfer and deepen investment impact. TA will also support setting up and managing a digital platform (E-Bazaar).
- **Impact Assessment** – up to £3.5 million (INR 35 Cr.) to provide continuous monitoring, evaluation, and analysis to enable GIP to learn from the ground, be flexible and adapt to the need and demand.

MEA and FCDO will expect close coordination between all delivery partners during the programme period to achieve maximum coherence across programme activities and results.



## Programme Objective

The main objective of GIP is to foster, transfer and scale up demonstrated and sustainable, climate-smart innovations from India to select Third Countries to promote and improve the economic development, accelerate the implementation of SDGs, and primarily improve the lives and livelihoods of Base of Pyramid populations in the recipient countries. A focus of the programme will be on women, people with disabilities, and those with climate and health vulnerabilities.

Further details of the programme can be found in the 2 MoUs signed between the two governments <http://www.mea.gov.in/TreatyDetail.htm?3743> and <https://mea.gov.in/TreatyDetail.htm?3852>.

The purpose of EME was to conduct a discussion with potential investment fund managers to the “Investments” component pillar of the GIP, or the GIP Fund (Fund), to share information and seek feedback on design related aspects. The event saw a good turnaround – with 40+ external stakeholders/ fund managers and was an interactive session.

## Key market feedback/ suggestions consolidated through the EME and the responses to the Questionnaire sent to the participants ahead of the EME:

### 1.1 What are some of the sectors and drivers that would be relevant for meeting the objectives of GIP Fund?

- Digital & financial inclusion, climate change & clean energy, health & wellbeing, agriculture & nutrition, and education are some of the sectors considered favourable by the participants. Other sectors include - Fintech, Gender, Women led businesses, Livelihoods and Enterprises, electric mobility, air pollution and solutions to mitigate the air pollution problems, IT and product industry companies. Water and Sanitation as a sector is important but could be challenging due to its nascent stage of development.
- Key drivers include - tailwinds in the sectors originating from demand created by the new age customer and catalysed by government and regulator push; domestic and international institutional funds flowing to some of these sectors; higher offtake and opportunities; successful (impact and profit) exits; digitization, R&D and new innovation in both products and services.

### 1.2 Is there sufficient market for scaling-up innovations from India that may be relevant for other countries?

- Yes, being the hub of innovations, India offers huge market opportunities to solve problems through disruptive solutions. Especially in areas such as battery swapping / electric mobility, emission / pollution control, digital technology, cookstoves, rooftop solar, solar lanterns, tele-medicine, sustainability, drones, resource utilization, etc – where there are real-life examples in India that can be relevant to other countries. There were views that tech solutions could be easier to transfer than physical infrastructure businesses.
- It would also be helpful that the innovations conform to international standards for easier acceptance.



**1.3 Within Africa, South Asia and Indo Pacific (target geographies of GIP), what are the success stories from particular geographies and the underlying drivers for success? Were these drivers regulatory, market driven?**

- One idea could be to look at countries where the climatic context is similar to India for transfer of climate innovations. Products with limited customization can expand easily to other markets. Specifically, Africa can be an attractive market – more specifically select countries such as Kenya, Uganda and Ghana. To test early successes in such a Fund, batching of countries where adaptability would be easier will be beneficial. Further, stage of the enterprises being transferred and product market fit/ proven technologies may also be considered.
- Much of the drivers would be market demand, regulatory, local knowledge, networks. Government support is also a strong driver.

**1.4 What are the typical modes of expansion to specific geographies i.e. Africa, South Asia and Indo Pacific?**

- Expansion modes could include establishing partnerships in other countries i.e. Partnership with private incubators, partnering with quasi government entities, partnership agreements with local players, partnerships and collaborations in sales and Distribution.

**1.5 What could be the typical return profile of the Fund? How different would these returns be for the stated objective of GIP to transfer to other geographies?**

- Given the various factors and novelty of the thesis, return expectations need to be calibrated to have modest expectation than other commercial funds. It will also be important to attract like-minded investors who share similar developmental & return objectives and time horizons.

**1.6 Is the proposed fund tenor appropriate to meet the development and commercial objectives? What should be the minimum fund size in order to meet the objective? What should be the target corpus? Will it be able to attract global investors?**

- Market Feedback indicated that:
  - Fund Tenor –
    - The fund life envisaged is appropriate given that the fund managers shall have to identify innovations that can be fostered, transferred and scaled up in third countries. Further, there are regulations on extensions. However, the same might be a bit too long for commercial investors/ LPs that typically tend to have shorter tenor vehicles – hence like-minded investors (such as other Sovereigns, DFIs) should be sought to invest in the Fund.
  - Fund Size –
    - Participants asked the hosts for an approximate size of the Fund. The hosts explained that the Fund size could be at least 2x of the commitment by both Governments i.e., upto INR 700 Cr. / c.£ 70 million (including the commitments from the two anchor investors) and that the investment manager to the Fund is expected to mobilise the balance corpus from like-minded investors.
    - Market participants stated that given the objectives and geographic focus of the fund, the fund size should be higher not only to provide sufficient incentive to the IM but also to achieve efficiency in deployment of capital.



- Market participants further stated that both Governments may consider increasing the anchor commitment, providing innovative structuring (like first loss guarantees/ risk layering / lower returns/ dynamic waterfalls) to de-risk and attract other investors.
- It was highlighted that the feasibility of suggestions would be assessed under the existing regulatory framework.

### **1.7 What are some of the criteria to evaluate the fund manager that should be kept in mind?**

- Market responded that manager should be asked to present the overall approach, experience of portfolio construction, how they will add value and bring sustainability in addition to other things.

### **1.8 Apart from capital, what support do these companies seek in order to expand to other developing countries?**

- Market participants stated the following challenges:
  - The Fund is ambitious in the developmental objectives, focus areas and sectors which it seeks to support and impact.
  - There are several layers of risk for the Fund given its geographies and sector focus in addition to the traditional risks that any fund carries. In addition, there would be increased overheads for the manager to source, monitor and manage investments.
  - A separate support vide other pillars of the GIP programme would be essential to provide direct support to companies, overcoming some of the risks/challenges such as legal, tax, forex, intellectual property, impact measurement such as gender and climate; market research (to understand customer profile, industry landscape), access to networks, capacity building, industry collaborations, market access, trade barriers.

### **1.9 What are some of the examples of incentivizing fund managers progressively in line with development?**

- The incentives could include - higher fees, lower hurdle rates / higher carried interest, linking incentives (fees, hurdle, covenants) to financial and impact returns.

### **1.10 What are some of the key risks that can be envisaged?**

- Key risks could include – political/geopolitical, financial, liquidity/exit, regulatory/tax across jurisdictions, business/scalability, economic, forex, limited knowledge around impact measurement, high overheads, local knowledge, operational (capacity, infrastructure, information, logistics), social (inequality etc), environmental.

### **1.11 Does the market prefer a one-stage or two-stage RFP process?**

- A two-stage process may be a good option to gather interest; however market is open.



## Questions asked by market participants and responses thereon:

### **1.12 Given that lots of climate funds are starting in India and it is still in a nascent stage, do we see any opportunity to invest in these funds as part of this initiative? Can GIP Fund invest in other climate-focused funds?**

- GIP Fund is envisaged to be a direct fund and is not currently envisaged to make Fund-of-Fund investments.

### **1.13 Will the GIP Fund have both component 1.1 and component 1.2?**

- The Fund is currently envisaged to only comprise of component 1.1 with anchor commitment of upto INR 350 Cr. / £35 million. The hosts may, solely at their discretion, decide to include component 1.2 in the same fund.

### **1.14 Has there been a thought process on having Social Venture Fund in place?**

- The Fund is currently envisaged as a category II AIF based on legal/tax analysis as the category allows for greater flexibility. Further, other components i.e. TA, Grant and IA pools are not proposed to be housed in the same fund. These components will have different service provider(s).

### **1.15 Will capital be invested in Indian companies or companies outside India?**

- The capital will be majorly invested in Indian companies and will be further guided as per regulations.

### **1.16 Will there be different RFPs for the procurement process of the GIP Fund?**

- Currently only one RFP is being envisaged and the interested bidder shall have to bid for that.

### **1.17 Can Investment Managers bid jointly / in-consortium for the GIP Fund as the scope mentions various sectors and geographies.**

- Yes, IMs can bid jointly / in-consortium to expand the scope for participation in the process.

### **1.18 Can first time fund managers apply for the GIP Fund?**

- Yes process is open for first time managers. Historical investing experience and expertise of key persons of the IM shall be considered as part of the assessment.

### **1.19 Will Fund manager be able to implement TA?**

- Technical Assistance facility will be implemented by a separate agency. However, the agency will be responsible to collaborate with all partners (including the fund manager) and seek demand for further assessment.



**1.20 What are the instruments envisaged to support enterprises under the Fund?**

- Instruments will be as per SEBI Regulations.

**1.21 What are the next steps in the RFP process and timelines for selection of fund manager?**

- GIP's Joint Steering Committee has collected insights from the participants, shall deliberate and communicate the due process of the RFP to the bidders through invitation. The entire process is estimated to take around 6-8 months for selection.

**1.22 How can the anchor investors support the Fund over and above the capital commitment?**

- The GIP Fund is designed to support the Investments pillar using other enabling pillars such as technical assistance, grants and impact assessment that are being supported by the anchor investors. The anchor investors will also support partners with their global network and reach.
- The market highlighted the need for Government to provide support to pool interest from other investors into the GIP Fund to make the platform larger. In addition, the Governments could help in establishing cross border linkages eg. between UK & India through their networks. Also, they could help to in showcasing work to other countries.