UK-India Development Cooperation Fund (“UKIDCF”)

Blueprint: Early Market Engagement on UKIDCF

Strengthening climate and technology investments for development with a view to make transformative impact by being an early investor in the following three programmes:

- **Pioneering Climate Investments in India**
- **Investments in Green Enterprises**
- **UK India Tech Start-up Fund**

April 2024

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A. Objective

The UK-India Development Cooperation Fund (UKIDCF), a Fund of Funds under the Securities and Exchange Board of India's (SEBI) Alternative Investment Fund (AIF) Regulations and managed by SBICAP Ventures Ltd (SVL), proposes to hold an Early Market Engagement ("EME"). The objective of this design exercise is to explore the market appetite from relevant and interested stakeholders and to seek feedback on its pipeline investment plans by hosting two hybrid events (i.e. physical + virtual). The events are proposed to be held in Mumbai and in London to ensure we cover the market broadly and are inclusive.

EME is a consultation with potential fund managers and other suitable stakeholders. It will help us refine the focus areas that form the core investment strategy, decide on the specifics of the design, and help us structure the number and nature of pipeline funds. We expect such an exercise will help us design the selection criteria which will help us more effectively achieve the intended outcomes.

Fund managers play an important role in ensuring effective delivery of UKIDCF's objectives. This document is indicative and sets out the background and key investment thesis under the pipeline investment plans. It is expected that the market feedback received through the EMEs will feed into the next step i.e. the Request for Proposals ("RFPs"), which is the stage at which we will request formal proposal(s) from the interested fund managers for selection.

EMEs are also an opportunity for participating fund managers to meet and explore collaboration opportunities to foster UK India collaboration. We intend to hold a similar event in London in the coming weeks.

Date: April 18, 2024, 14:00hrs to 17:30hrs IST

Venue: Trident BKC, Mumbai and will also have a virtual dial in option.

To ensure transparency, the inputs received during the EMEs will be published in due course and will be available on the UKIDCF Portal [www.ukidcf.com]. Fund managers interested in participating should register with UKIDCF to receive latest updates. The said web portal is being used as a mechanism to ensure access to a broad range of interested parties including those who may not be able to attend the EMEs for any reason. Further details of the EMEs and documents will also be sent though emails to prospective fund managers who have registered with us.

UKIDCF is a vehicle that was created to help achieve UK - India bilateral development cooperation objectives including those identified in the UK India 2030 Roadmap. UKIDCF's investors are the UK Government and SBICAP Ventures Limited. UKIDCF invests in sectors that promote inclusive and sustainable growth and contribute towards achievement of India's Sustainable Development Goals. The development cooperation partnership between India and the UK aims to generate jobs, help in mitigating climate change, stimulate growth, investment, and prosperity in both the countries. It supports businesses that can help us achieve poverty reduction – which is our statutory objective, open new markets, encourage new investors and promote inclusion. The UK and India have built a successful development investment partnership ("DevCap") which is now in its second decade. The focus going forward is to pioneer investments in climate and technology for development. Further details can be seen here.

B. Pipeline Investments:

UKIDCF's investment pipeline continues to build on the innovative and pioneering nature of its current portfolio in India. The next phase of "DevCap" investments is expected under three new programmes as noted below *(together to be referred as "the Programmes"):*

1) Pioneering Climate Investments in India ("PCII").
2) Investments in Green Enterprises ("InGreen")
3) UK India Tech Start-up Fund ("Start-up")

Under each of the above, the Fund(s) would be expected to adopt the investment strategy of individual programmes completely. This may mean new Fund (s) or those which are flexible and early in their establishment might be better suitable. We expect that the fund manager (s) selected would be best suited to deliver the outputs and outcomes of the individual programmes.

<u>Overview of each programme</u>:

1) **Pioneering Climate Investments in India (PCII):** *To demonstrate the viability of investing in climate adaptation and resilience (eg. water, agriculture, cooling solutions), and in emerging mitigation areas (eg. green hydrogen).* PCII will invest in Indian enterprises with potential to help India adapt and build resilience to climate change, and in emerging mitigation technologies. This programme builds on the success of the UK India Green Growth Equity Fund (GGEF), which invested and mobilised additional capital in mitigation sectors primarily such as renewable energy and electric transport. PCII's primary aim is to demonstrate to private and institutional investors that development and financial returns can be made by investing in climate adaptation and new low carbon technologies. PCII will predominantly target to invest in large scale enterprises, albeit a smaller proportion may be invested in path-breaking adaptation solutions.

2) **Investment in Green Enterprises (InGreen):** *To invest in scaling climate smart enterprises and have a strong focus on women entrepreneurs and jobs.* This builds on the success of the Neev Fund which has shown the impact of investing in climate enterprises. The primary focus of InGreen will be to demonstrate viability of high potential and innovative green (climate oriented) small and medium enterprises; to attract new investors in this area and to help reduce greenhouse gas emissions. It will also promote women's economic empowerment through women led enterprises and create new jobs. Some of the sub-sectors will include e-mobility (supply chain for electric vehicles, charging infrastructure), waste to value, sustainable energy (biofuels, decentralised solar, wind), carbon capture from atmosphere and storage, energy efficiency, sustainable agriculture (water efficient irrigation, monitoring systems).

3) **UK India Tech Start up Fund:** *To back early-stage tech start-ups with a focus on under-invested sectors like climate and environment, agriculture, health and education which can create breakthrough development impact.* These investments are expected to create jobs and demonstrate that it is possible to achieve development impact and secure a return. This also aims to mobilise private investments with a focus on gender equality. The Programme is operational and has already backed two climate tech funds. There is a focus on start-ups which use technology and innovation to solve complex development challenges.

Each of the three programmes will have focus on development impact with strict ESG adherence. UKIDCF investee fund(s) must comply with the requirements to ensure that they are governed to high standards and international best practises and deliver Value for Money.

C. Key objectives of the programmes and indicative investment metrics:

Investment focus	PCII	InGreen	Start-up
Focus Theme	**Climate Adaptation and emerging mitigation**	**High potential green Enterprises**	**Breakthrough technology for development**
Target Sectors (indicative)	Sustainable agriculture, cooling solution, water treatment/ desalination, green hydrogen	E-mobility, waste to value, sustainable energy, cold chain, sustainable agriculture	Climate-tech, Agri-tech, Health-tech, Edu-tech

Investment focus	PCII	InGreen	Start-up
Indicative Anchor Funding	Up to £150 million	Up to £125 million	Up to £110 million
Focus Stage	Large scale enterprises	Growth and Expansion stage	Early stage (Seed, Pre-Series A/Series A)
Expected investment size	£15-50 m *However, ticket size could be smaller for path-breaking adaptation solutions*	£5-15 m	£2-10m *However, this amount can be lower in case of early-stage start-ups.*
Instruments	Equity and equity linked for primary investments		
Impact created / proposed to be created	-100,000 new jobs, - help 4 million people cope with climate change - reduce 4 million tonnes of greenhouse gas emissions	-Increase in income for 15,000 men and women -promote women empowerment through women as decision makers - reduce ~4 Mt in GHG emissions	-Directly support upto 100 tech start-ups benefitting 5m women and men -Directly creating 3000 new jobs -Already supported 2 climate tech funds (Neev 2 and Avaana Sustainability Fund)
Number of funds	Fewer larger funds are preferred for greater influence and impact		

D. Key Governing Principles

Given the large amount of capital being invested where UKIDCF may have a larger share as an early investor, we expect significant influence in setting the investment strategy of the Fund(s) we invest in and how that shapes the core business model of each investment made from it. This is because UKIDCF is backed by public capital and places a high bar on every rupee spent. UKIDCF is meant to crowd-in private capital and not crowd-out private capital under any circumstance.

The key governing principles for the Investee Fund(s) that UKIDCF will invest in are outlined below:

1) Additional (i.e. demonstrate results which would not be possible without UKIDCF funding)
2) Developmental (i.e. poverty reduction is the statutory objective, helping in achieving objectives laid out earlier across focus sectors, gender and inclusion; support inclusive economic growth and achievement of India's SDGs)
3) Sustainable (i.e. support enterprises that are socially and economically sustainable)
4) Ability to Mobilise (i.e. attract both domestic and international capital into the fund as well as into investee enterprises)
5) Replicable (i.e. replicates new investment funds with similar investment thesis without public capital)
6) Governed in line with best practices and highest standards.

In addition, we expect each Fund to be able to create a wider systemic impact and help in building the ecosystem around each investment.

E. Key design parameters for market feedback

UKIDCF is seeking views from the market on each of the programmes and will welcome suggestions on how the design of the interventions can be improved, keeping in view the objectives set out above. We welcome responses to the following questions:

I. Investment Strategy

a. Whether the combination of proposed sectors/sub-sectors in the table above presents a feasible option keeping in view both the developmental and commercial aspects?
b. What are the high potential sectors within the above programmes that should be targeted?
c. Are there any design adjustments necessary to improve developmental/commercial returns and mitigate risks?
d. What levers can ensure that Fund Managers stay at the cutting edge of development impact i.e. no 'mission drift'?

II. Investment Pipeline

a. What traction are you seeing in the market on climate and tech sectors?
b. What size and stage of enterprises should these programmes target? What is the appropriate ticket size to consider?
c. **PCII:** Is there an investible pipeline in adaption sectors? How can we increase the same?
d. **Ingreen:** Is there a sufficient pipeline of women led enterprises? How can we increase the number of such green enterprises?
e. **Start-up:** Is it viable to have a large single sector tech fund e.g. in climate? Is there a market for a dedicated AI focused fund for development?

III. Fund Structure

a. What would be the viable fund size under each programme for a substantive market impact? For this fund size, what share would be considered as appropriate from UKIDCF?
b. Given the spread of sectors within each programme, can it coherently fit under one fund or needs diversified strategy through multiple funds?
c. How can we legally ringfence the investment strategy without exposure to wider investments?
d. Given that business models in adaptation sectors are nascent, do you think there is a need for concessionality to attract private capital. If so, how could it be structured?

IV. Mobilisation:

a. What is the potential for mobilisation in each of these programmes?
b. Which category of investors would find it attractive to invest in these segments?
c. How could we attract more global investors, especially global/UK investors or bring in specific UK expertise?

V. Expected Returns

a. What are the typical returns that can be expected in each of the above programmes?
b. What are the key risk factors specific to these programmes?

VI. Gender, Equality, Diversity and Inclusion

a. What are some of the ideas to integrate inclusion, in particular, women's economic empowerment?
b. Can we have earmarked investment component for gender investment? What would be a stretching proportion of the fund to earmark for this?
c. Can you share few examples of successes or failures in your experience?

VII. Selection Criteria

a. What additional selection criteria would you suggest beyond evaluating the fitment with mandate, performance track record, team strength, experience in raising capital, processes, alignment of interest and commercials?
b. Are there innovative remuneration models linking development impact?

VIII. Policy enablers

a. What are key policy enablers to catalyse investments under the target sectors?
b. What are the barriers for investments to scale? How can UKIDCF support in unlocking these barriers?

IX. Strengthening India-UK Corridor

a. What are the opportunities and challenges you see in the UK-India corridor (in terms of investment and tech partnerships)?
b. How can we increase mobilisation from the UK?
c. What role can Government play in strengthening the linkages between UK and India?

X. Risks and Mitigation

a. What are the key risks that you see in implementation of these programmes? Which ones are beyond the control of the fund manager?
b. How can these be actively managed by the fund manager?

A questionnaire shall be shared subsequently to seek written responses to the above design questions.