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The India Innovation Lab for Green Finance: Final Report

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1. Introduction

[Climate Policy Initiative](#) (CPI) has been the Secretariat for the [Innovation Lab for Climate Finance](#) since 2014. The Lab accelerates financial instruments that can unlock billions for energy efficiency, renewable energy, sustainable transport, climate smart agriculture, and curbing deforestation, while also reducing private investors' risks and improving their financial returns. The Lab is a public-private partnership that brings together and catalyzes government and private sector efforts to scale up climate finance. As of October 2019, instruments endorsed by the Lab mobilized \$ 2 billion of private capital, implying a leverage of more than 250 times on every dollar spent by CPI on managing the initiative.

As part of the ongoing India Lab cycle, CPI shall continue to work on select instruments endorsed in the previous Lab cycles. At the same time, we strive to improve the India Lab in terms of instrument success rates, quality of new instruments coming in, the depth of India Lab membership, refining the process of shortlisting new instruments, amongst others – to generate greater impact in the upcoming cycles.

In this report, we highlight the progress made with respect to these objectives since the inception of the project. We have divided the report into two segments:

- The first segment, Section 2, focuses on updates on each of the four chosen instruments – Battery Subscription Facility (BSF), Financing for Low-Carbon Autorickshaws, Rooftop Solar Accelerator (RSA), and Solar Investment Trust (SEIT).
- The second subsequent segment, Section 3, highlights the steps we have taken to improve the efficacy and impact of the Lab, based on stakeholder outreach and internal analyses in the preceding months.

2. Instrument Updates

A brief update on each of the instruments is as follows:

2.1 Battery Subscription Facility

2.1.1 OVERVIEW

The Battery Subscription Facility aims to lower the upfront cost of electric buses in India by investing in batteries and providing them to bus operators as a subscription, to be charged on daily or per kilometer basis. The Facility can reduce the upfront cost of electric buses to achieve parity with diesel buses. It can also lead to estimated savings of 13-16% in the total cost of ownership over the bus's lifecycle, and a reduction of 250,000 tons in carbon dioxide emissions for 1,000 buses.

The idea was submitted by Mytrah Mobility Private Limited (MMPL), previously known as NN4Energy. MMPL had submitted a program concept note to Green Climate Fund (GCF) in 2016 under their 'Pitch for Planet' call for ideas initiative. The concept note was to establish an electric bus deployment program in India. This note was selected by GCF as one of the most innovative concepts and was the only proposal shortlisted from India under the 'Pitch for Planet' initiative. The BSF instrument is one of the components of the proposed program.

MMPL is currently preparing the full funding proposal which will be submitted to GCF.

2.1.2 UPDATES SINCE ENDORSEMENT:

- The proponent has launched a platform called 'MOZEV' that provides solutions to accelerate deployment of e-buses in India. One such solution is the 'Long Term Financing for Traction Battery' which is specific to a battery subscription model.
- The proponent has proposed three business models to its prospective clients – complete ownership model (CAPEX), the e-bus on lease model, and the hybrid model (BSF model). There has been an interest in the hybrid model, but no formal agreement or on-ground transaction has yet taken place. Most of the contracts signed so far by the proponent are applicable to the model wherein the e-bus is purchased by the operator while MMPL provides support services, such as asset management, battery charging and tracking. In some other cases, the e-buses are also owned by MMPL.
- The proponent has also secured commercial vehicle loans from a bank to purchase electric buses to be owned by MMPL. However, the tenor and the proportion of the loan are not competitive for e-bus financials to be viable. (Please note that the details of the loan cannot be disclosed as per the proponent's request).
- Piloting e-buses – The proponent is running pilots of e-buses in Delhi-NCR, which will be used as proof of concept during fundraising. All of the e-buses are owned by MMPL and are being provided on an operating lease basis (INR/km) to bus-operators. These include:
 - Daily Service on Route No 473 (Anand Vihar to Badarpur) with heavy passenger load.
 - Delhi Airport Bus Operations: First private contract for e-buses operating 24x7

- An intercity bus between Delhi and Jaipur will be launched soon.

2.1.3 SCOPE OF WORK

After extensive work and feedback from various stakeholders such as commercial bankers, we have come to the conclusion that the BSF instrument is nascent and complex. The overall electric bus financing market first needs to develop before this idea can take off. Once the market develops, then solutions such as BSF can get traction in 1-3 years' time. This is also in line with the implementation pathway suggested to the proponent by the Lab Secretariat.

Keeping this in mind, we have assisted the proponent on two fronts:

i. Funding Proposal for Green Climate Fund (GCF) to enable BSF:

- Assessment, evaluation of design and development of the GCF funding proposal for electric bus financing. This included structuring, finalizing the business offering, identifying and justifying concessionality, and reviewing the financial model within the proposal.

ii. Development of the Battery Subscription Facility (BSF) Idea:

- Review on-ground progress of electric bus deployment using the hybrid BSF model.
- Assist the proponent in investor connections related to fund-raising for the idea.
- Review financial models and instrument design for the pilot and catalytic phases.
- Develop and review investor pitchbook/press releases/presentations.

2.1.4 INDIA LAB UPDATES

A brief update on key lab activities performed since the inception of the Lab cycle is as follows:

- i. Green Climate Fund (GCF) Funding Proposal:** CPI has supported the proponent in submitting a funding proposal to Green Climate Fund (GCF). This is in addition to the work that the India Lab was required to perform for the BSF idea. The GCF proposal is for a program that will finance all the components of electric bus deployment, in order to ensure that e-bus market can grow in India in the requisite manner. Financing of the entire electric bus -inclusive of batteries, would be a pre-requisite for creating financing mechanisms for more advanced ideas such as BSF. As part of the latest India Lab cycle, we engaged in the following activities with the proponent:

- **Reviewing and Re-writing of GCF Funding Proposal:** CPI assisted the proponent in rewriting and modifying sections in the funding proposal to GCF. We have reviewed the proposal and provided detailed feedback to the proponent.

Status – Completed from CPI's end.

Output – CPI wrote major sections in the latest draft of the funding proposal which has been submitted to GCF/SIDBI for review.

- **Revision of the investment amount from GCF:** GCF has requested the proponent to reduce the funding proposal investment size to US\$ 300 million (from \$1 billion originally). CPI assisted MMPL in revising the investment numbers and the financial model as per the new requirement.

Status – *Completed*

Output – CPI has modified the content and computations, based on reduced investment numbers.

- **Financial Model Review:** CPI has reviewed the financial models built by the proponent and provided detailed feedback to align the computations with GCF's requirements. In addition, we also assisted the proponent in assessing and computing cashflow numbers for the BSF model, which have been thereafter incorporated into the proposal.

Status – *Completed*

Output – CPI reviewed and modified the financial model per the changes suggested by SIDBI and GCF.

- **Incorporation of BSF Idea within the proposal:** We incorporated the original idea, i.e. Battery Subscription Facility within the proposal. The idea is incorporated in the second component of the funding proposal which is related to Technical Assistance (TA).

Status – *Completed*

Output – The idea is now part of the TA component of the proposal which means it will allow the proponent to fine-tune the design and the business model further. Later on, the proponent would plan to launch a pilot project to test the business model.

- **GCF Process:** We have helped the proponent get familiarized with the operational procedure and intricacies pertaining to GCF and its Accredited Entities (AE) so that funding proposal processes can be expedited. CPI has accompanied and guided the proponent in its meetings with SIDBI (AE) and GCF.

Status – *Ongoing*

Output – The latest draft of the funding proposal has been submitted to GCF/SIDBI and proponent has received preliminary feedback from SIDBI/GCF.

- **Key Documents for GCF Proposal:** The proponent, which is the executing entity for GCF program, and SIDBI, which is the AE, need to receive specific documents from the Government of India (GoI). These include a 'No Objection Letter' (NOL) and an 'Accredited Master Agreement' (AMA).

Status – Ongoing (NOL has been received from MoEFCC (Ministry of Environment, Forest and Climate Change) but SIDBI is waiting to get an AMA from the concerned department.)

Output - Awaited

Risks Ahead in the GCF Proposal Submission:

- **Revision in the Business Model:** SIDBI/GCF has asked MMPL to restructure their transaction structure, due to which MMPL is re-evaluating its business strategy. SIDBI/GCF's concern is that the NBFC mentioned in the funding proposal will have no past track-record. This undermines the case for GCF financing.

If MMPL accepts the suggestion from GCF/SIDBI, then it will have to go in for a capex heavy business model - wherein it will have to own the electric buses on their balance sheet. Hence, MMPL is currently mulling on how to restructure the whole proposal and whether or not it will be able to move ahead with capex heavy business model. Please note that CPI, during the initial design phase of the instrument last year, had recommended the proponent to opt for a Capex heavy model for pilot projects to avoid getting into this predicament. However, the proponent has been reluctant to implement a capex-heavy model since it is not aligned with the company and investor interests. Since this is a strategy call internal to MMPL, CPI has decided to keep further recommendations on hold.

- **Lack of Capacity within AE:** SIDBI is currently pressed for time and resources, resulting in significant delays from their end. CPI has provided the required suggestions to the proponent to rectify this problem. It has assisted the proponent in:
 - Setting up meetings with SIDBI top officials
 - Finalizing the funding proposal
 - Assisting the transaction structure, and
 - Support in operational nuances pertaining to the GCF funding processes.

SIDBI was supposed to assist the proponent in finetuning the funding proposal, reviewing the financial model, providing the formal connections with GCF, guiding the proponent in creating the transaction structure suitable from the perspective of SIDBI and GCF, assist in getting the necessary approvals from MoEFCC etc. However, SIDBI has not been able to fulfil the requisite duties of an AE, resulting in significant delays.

- **Delay in Board Approval by SIDBI:** SIDBI's Board is yet to approve the proponent's funding proposal to GCF, despite the proponent acquiring a 'No Objection Letter (NOL)' from MoEFCC.

ii. Investor Connect:

As per proponent's request, CPI has connected the proponent with a few commercial banks and thereafter scheduled meetings with IndusInd Bank's

sustainable investment team.

- IndusInd bank is ready to provide loans for the entire bus (i.e. inclusive of batteries) via standard Commercial Vehicle financing product with a tenor of 4-5 years. For a longer tenor product, which currently does not exist in the commercial vehicle market, the bank is ready to provide a loan if there is a junior debtor on board (e.g. a DFI such as a GCF).
- IndusInd bank would like to wait out before providing loans for BSF as the idea is relatively new/untested and has never been used in India by any bus operator.
- Further update on IndusInd bank will be available once GCF funding is secured.

The proponent's current focus is on securing GCF funding, after which it plans to connect with other banks. In addition, the proponent has been successful in securing a short-term debt fund from a leading commercial private bank in India, that will finance e-bus pilot projects within Indian cities.

2.1.5 KEY LEARNINGS/REALIZATIONS

1. **In the electric mobility segment, companies see a need to form their own financing companies (NBFCs). However, this has its own challenges, with no specific solutions (Market Learning):** Electric mobility companies believe there is an economic case to transition from fossil-fuel to electric based vehicles, especially when the battery/vehicle is converted to a subscription/leasing model for the end-user. However, mobility companies' growth potential is impeded by banks' willingness to finance end-users. Thus, mobility companies feel the need to circumvent banks and form their own NBFCs instead, to directly finance the end-users.

Although mobility companies have successful pilots to showcase business viability and assuage any performance-related issues, they struggle to raise financing for the NBFC, since the NBFC itself does not have any past track record (the pilots have typically been financed on banks' loan books). This is a challenge electric mobility companies (including Three Wheels United and Mozev) are already facing or likely to face and must be kept in mind, while deciding to go ahead with this strategy.

2. **The success of instruments may hinge on the role of certain stakeholders that are beyond the Lab's sphere of influence (Lab Learning):** The Secretariat was initially given the impression that the proponent has formal arrangements with SIDBI, who is the Accredited Entity that can facilitate funding from GCF (Green Climate Fund). However, SIDBI has, till now, not furnished an approval from within its Board, without which no concrete progress can take place. While CPI has pushed the proponent to expedite the processes within SIDBI, it has had limited impact. To resolve such an issue going forward, the Secretariat should either on-board all the key stakeholders within the Lab process (which may require widening the scope of the Lab as well as increasing resources towards it) or discourage the selection of such ideas.

2.2 Financing for Low-Carbon Auto Rickshaws

2.2.1 OVERVIEW

Three Wheels United (TWU) is a data driven fintech lender for clean auto rickshaws. The company uses technology to drive the ability and willingness to pay for people from low-income and low-literate communities.

TWU helps borrowers (auto-rickshaw drivers) reduce the cost of borrowing, thus making electric three wheelers more accessible. TWU's in-house software, developed with the support from Microsoft, helps the company realize operational efficiencies and lower default rates. For instance, the application-based loan collection process allows the drivers to not only make online payments (reduces the collection costs) but also keep a track of the existing loan terms/features, the payment due amount, number of remaining installments, among other features.

TWU has three entities that comprise its business: A Non-Banking Finance Company (NBFC) for the financing component, a technology business/platform that will be developed for independent use outside of TWU, and a Foundation that will work on strategy and international engagement. TWU itself is a holding company registered in Delaware, USA. TWU originally operated as a loan originator and a collection agent for several public sector banks and Non-Banking Finance Companies (NBFCs), but now plans to lend in India through its own NBFC.

2.2.2 UPDATES SINCE ENDORSEMENT:

1. **Status of the NBFC license:** TWU has acquired an existing NBFC – Shabri Investment Limited and is lending at the rate of 23% IRR towards ~50 loans per month. The current order book, however, far exceeds TWU's ability to finance, and the mismatch in financing needs and financing availability under a scenario of growing demand is increasing.
2. **Status of capital raise for on-lending to auto drivers:**
 - a. **Equity funding:** TWU is currently in negotiations with several VCs for a Series A round of USD 5-10 million investment.
 - b. **Senior Debt Funding** – TWU has been successfully diligenced by BNP Paribas and is awaiting closure of USD 5 million of debt - BNP discussions have not progressed. TWU in contracting stage with Ujjivan for financing up to 60% of Loan-To-Value (LTV).
 - c. **Junior Debt Funding:** Currently, multiple rounds of negotiation are being pursued simultaneously and are at various stages of discussion – some discussions are at the deal structuring/ term sheet level and others at an earlier stage. These include:
 - **South British Capital** – TWU has raised USD 500,000 from South British Capital. Another USD 2 million has been committed (term-sheet).
3. **Status of MoUs and partnerships**

- a) **UBER** – TWU is exploring a partnership with UBER, to provide loans to UBER drivers for purchasing electric auto rickshaws. The partnership may extend across multiple cities.
- b) **Mahindra Electric**- TWU has a partnership with Mahindra to deploy 10,000 electric auto-rickshaws.
- c) **Other organization/platforms** - TWU is exploring opportunities with select electric auto rickshaw service companies to facilitate fleet financing. Such partnerships will help TWU expand its portfolio

4. Challenges:

TWU has ambitious plans for portfolio expansion and loan disbursements; however, the company has limited capital at the moment, which comprises mostly of expensive equity. To make sure its operations are sustained, the company may need to disburse loans at a pace slower than what it can lend out at – to make sure there is enough capital to meet staff salaries and other working capital requirements. However, given that TWU has already acquired junior debt and is close to acquiring senior debt, this problem may not pose as much of a challenge as previously anticipated. Moreover, once there are enough demonstrations to establish a proof of concept, TWU's subsequent fundraises are likely to come at a cheaper cost.

2.2.3 ADDITIONAL INDIA LAB UPDATES

In April 2019, TWU invited Mahua Acharya to join its Board of Directors for a broader strategic engagement on international fundraising, profiling amongst multilaterals and bilateral organizations and helping build the firm as a whole.

A summary of identified activities, along with their progress, is provided in the following table:

S.No.	Activities identified	Details (if applicable)	Status of work
1	Develop, refine and review financial models	CPI has developed a detailed financial model – the plan provides projections over a period of 10 years. The financial plan consists of actuals and projected P&L, balance sheet and cash flow statements on annual basis.	Complete
2	Investor mapping, making connects and contributing to follow-up discussions and asks	-	Complete
3	Develop, refine and review multiple pitch decks for different investors.	CPI has created multiple pitch decks for TWU.	Complete
4	Brainstorm – refine and review funding proposals	-	Complete

5	Prepare and review documents for investor memorandum and business plan	<p>As part of the investor memorandum, CPI has developed the following documents/analyses:</p> <ul style="list-style-type: none"> ➤ Business plan – Has been reviewed and worked on by CPI to a more formal and presentable structure. ➤ Scenario analysis – To help raise the comfort of investors, CPI has done a scenario analysis on TWU's financial performance under various stress conditions. ➤ Peer comparison – Has been done by CPI to help set the benchmarks for TWU's lending business. ➤ Credit Policy – TWU has developed a formal credit policy document, which has been reviewed by CPI. 	Complete
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2.2.4 KEY LEARNINGS/REALIZATIONS

1. **In the electric mobility segment, companies see a need to form their own financing companies (NBFCs). However, this has its own challenges, with no specific solutions (Market Learning):** Electric mobility companies believe there is an economic case to transition from fossil-fuel to electric based vehicles, especially when the battery/vehicle is converted to a subscription/leasing model for the end-user. However, mobility companies' growth potential is impeded by banks' willingness to finance end-users. Thus, mobility companies feel the need to circumvent banks and form their own NBFCs instead, in order to directly finance the end-users.

Although mobility companies have successful pilots to showcase business viability and assuage any performance-related issues, they struggle to raise financing for their NBFCs, since the NBFC itself does not have any past track record (the pilots have typically been financed on banks' loan books). This is a challenge electric mobility companies (including Three Wheels United and Mozev) are already facing or likely to face and must be kept in mind, while deciding to deploy this strategy.

2. **The Lab needs to be very selective in inducting early-stage startups - they should only be inducted only when they meet specific criteria, e.g. have had pilots to showcase economic viability and if there is a very strong co-founding team that has access to high-risk international capital (Lab Learning):** As we have observed in the last 4 years, the Lab can play a limited role in scaling up startups that do not even have seed capital to sustain day-to-day operations. In the case of TWU, the company has been successful in fundraising since they have a very committed and a determined team with experience in operations, business development and fundraising. The team also had access to development capital (FMO) to sustain operations till the company raised commercial capital.

2.3 The Residential Rooftop Solar Accelerator

2.3.1 OVERVIEW

Sangam Smesco Private Limited (brand name Peacock Solar) is a proponent from the India Lab 2017/18 cycle. Peacock Solar is working to accelerate residential rooftop installations in India by offering attractive and personalized lease payment terms to make it affordable to all. Peacock Solar intends to raise capital to realize a pilot for solar lease offering in tier II cities and subsequently accelerate residential solar adoptions in India. The working capital for Peacock has so far been funded by Sangam Ventures which is a seed and early stage venture fund.

The instrument, "*The Residential Rooftop Solar Accelerator*", was submitted to the Lab when it was still at a concept stage. Its value propositions were twofold: Attractive lease payments to overcome the barrier of large upfront payments and improving the economic case for residential rooftop through standardization and leveraging big data.

So far, the instrument has been endorsed by the India Lab, empaneled by the [US-India Clean Energy Finance \(USICEF\)](#) facility to receive grant funding for data collection and marketing and communications, utilized its grant funding in part for the first phase of its market study and is moving on to the second phase of the research. **The proponent launched the pre-pilot in Kota and has closed 23 residential projects so far with aggregated sales of Rs. 52 lakhs. Peacock has an installed capacity of 207 KW with an aggregated revenue of Rs 80 lacs, out of which 132 KW was achieved in the last one year. Peacock also holds over 500KW capacity in the pipeline which includes hospitals, institutions, and residential customers.** It has utilized approximately USD 17000 (20%) from its USICEF grant allocation.

2.3.2 KEY LEARNINGS/REALIZATIONS

- 1. While utility-scale solar has picked up in India, distributed solar energy (including rooftop solar) is still struggling to garner momentum (Market learning):** This is because of a number of issues such as - most rooftop solar developers being startups with limited access to finance/high (perceived) risk of end consumer defaulting/lack of economies of scale for small-sized projects/no or limited business case to deploy rooftop solar in the residential segment, since residential power is subsidized in India, among other reasons. The current market landscape severely limits the upside potential of the residential rooftop solar segment.
- 2. Stricter qualifying criteria for early-stage ventures and aligning Lab membership with the instrument selection (Lab Learning):** As highlighted in Section 2.2.4, early-stage ventures should be inducted within the Lab only when they meet specific parameters.

In addition, Peacock would have also benefitted by having early stage investors such as Series A/B venture capital firms in the Lab membership cohort. The

constitution of the Lab needs to be aligned with the type of ideas getting selected.

2.3.3 SCOPE OF WORK

Peacock Solar Inc is at a nascent stage. Until the company conducts a pilot and subsequently tweaks and perfects its business model and value proposition, it is unlikely to witness a growth phase.

The instrument is at a pilot implementation stage wherein it is collecting credible proof points to understand the ideal city to intervene, the various customer segments, their requirements, and the model offering. In this context, CPI is assisting Peacock with survey design and data analysis. CPI is also helping Peacock review and revise their business model by advising them on the lease and deferred financing models, and conducting financial feasibility of the same.

With CPI's strategic guidance, Peacock has concluded the first phase of the study. We are providing strategic guidance and have introduced Peacock Solar to potential channels, financing partners, philanthropies, DFIs, amongst others for mobilizing concessional capital. During this process, we also assisted Peacock to create investment pitch decks, funding proposals, and other investment related documents.

2.3.4 INDIA LAB UPDATES

i. USICEF- IMRB Kantar Engagement

Peacock Solar, with the support of USICEF, had commissioned a study with IMRB Kantar to design an objective framework to assess the most relevant cities in India for residential rooftop solar, and thereafter define and identify prototype customers within these cities.

This study involved:

- Building algorithmic framework for scoring states/cities/neighborhoods.
- Identifying parameters that characterize the homeowners' propensity to go for solar at states/cities/neighborhoods level. To ensure geographic exhaustiveness and demographic exhaustiveness to select potential cities (4-5) for further evaluation.

As a result of the study, Peacock has shortlisted 5 cities, namely, **Nagpur, Jalandhar, Guwahati, Guntur and Varanasi** for pursuing in depth market assessment. Now that the cities have been finalized, the second activity of designing brand communication and marketing strategy will begin which includes:

- Dividing the selected five cities into neighborhood clusters (in consultation with Peacock) and identify top neighborhoods based on above model for pursuing primary research via market survey, focus group discussions, etc.
- Preparing market research surveys and/or conduct focus group discussions with existing residential solar customers and prospective homeowners.
- Pursuing extensive field research and collect data – primary and secondary – to build sizeable database of homeowners for pursuing statistical analysis.

- Evaluating the impact of influencers within the family and friends circle in homeowners' decision to go solar.
- Drawing correlations between explicit and inherent customer attributes to shrink the actual number of customer attributes that define the homeowners' motivation to go solar. This will be a predictive tool that estimates a homeowner's likelihood to go solar based on observable parameter values and keeps learning/improving based on outcomes of previous interactions.

This exercise with USICEF and KANTAR will help Peacock in creation of an in-house tool for customer identification, credit risk assessment for the customer, and e-monitoring of end to end sales cycles and post sales operations.

ii. Market Assessment and Designing Go-To Market Strategy

CPI has been working to guide Peacock Solar with the survey design and execution, bringing in our experience from previously conducted surveys of residential customers. Through primary and secondary research, we have also helped Peacock in identifying key parameters such as 'the average proportion of savings used for paying electricity bill in India', 'proportion of country's total electricity consumed in residential sector', 'average power cut hours, state-wise', 'Growth rate of residential electricity prices in India' etc. We also conducted research on the market sizing of residential rooftop sector for Peacock that would eventually feed in into the market and sales strategy for the pilot phase.

iii. Finalize Business Model, Financial Analysis, and Company Structure

CPI designed a deferred payments model for the proponent which incorporates a financial lease like structure, such that, off-takers may pay for the system in easy small tenured EMIs. The tenure may last from 6 months to 2-3 years depending on the size of the project and the customers flexibility to pay. We have created three standardized financial offerings (EMI, tenure, size) from which the customer can choose to match their requirements. This has enabled Peacock in structuring their business model, creating products that align with consumer preferences and eventually maintaining a solid sales pipeline for the scale-up phase.

23.5 NEXT STEPS

We will continue assisting the proponent with the robustness and establishing accuracy with their market research methodologies and supporting them in generating actionable insights from the data collected from the cities selected.

CPI has been working with Peacock for investment support, however, Peacock has not yet achieved a debt closure for its working capital requirements. So far, it has been financed only by Sangam Ventures. CPI will continue working with the proponent to establish and maintain new connections with commercial capital providers for both working capital requirements and CAPEX loan support to the consumers in order to enable a large-scale capital mobilization for the scale-up.

3. Strategic Roadmap and Long-Term Sustainability

3.1 Introduction

The Lab comprises several programs under one umbrella, including a Global Lab, an India Lab, and a Brazil Lab. Each program has its own membership and Steering Group but retains a standardized set of offerings to ensure quality and consistency. These programs work to identify, develop, and accelerate a small selection of well-designed, early stage businesses and financial instruments (referred to as 'ideas' henceforth) that can unlock billions in sustainable investment.

The Lab is a flagship program for CPI in terms of offerings in the marketplace. It is an important mechanism and platform for CPI to engage public and private sector entities alike, in a forum that is beyond a "talk-shop", i.e. entities are engaged and participate actively in the selection, development, and often the direct investment in innovative financial vehicles which are playing a role in shifting global investment to more sustainable pathways.

3.2 Experience with the India Lab

The India Lab has seen limited success in terms of idea realization and funds mobilized. The India Lab is almost five years old and as of October 2019, now with sufficient experience to warrant an analysis and reform. After extensive and ongoing discussions with the relevant stakeholders, namely, the India Lab members, the Steering Group, the proponents and funders, we have identified the following issues and trends:

- a. There are fundamental issues related to the construction of the India Lab, its membership and design, and the value proposition of such an organism. These have been listed below.
 - The time taken from the endorsement of an "idea" to realization has taken longer than the one year envisioned "per cycle".
 - While there are Lab members who have been active and positively contributed to the India Lab process, there are also certain members that are either passive, not interested, not involved or a combination of all.
 - The India Lab lacks deep links with the commercial investor community and is far from being a default go-to option for companies looking to develop financial solutions.
 - There is a high degree of uncertainty in terms of operations of the selected ideas – whether the idea will attract funding, at what point of time it will acquire funding, what the funding size will be etc. Most proponents submit ideas "to see what happens".
 - Lab members may tend to emotionally vote for ideas they are passionate about, rather than objectively assessing whether the ideas are in line with the India Lab's mission and whether the Secretariat can add value to pilot realization.
 - Submitters tend to be small and new entrepreneurs with limited balance sheets. The level of commitment from proponents is low or dwindles after initial enthusiasm, as the India Lab provides no material incentives or support post endorsement.

- Regulatory diligence is barely conducted since these ideas were in most cases opportunistically submitted. Many have gotten stuck or been significantly delayed due to regulatory barriers.

b. The Indian investor ecosystem and development/philanthropy finance in India is not as developed as in countries such as the UK for example. There may be restrictions on ticket sizes, exit opportunities, expected risks or concerns about the viability of new business models. Matters are further compounded by currency risks.

3.3 Areas for Reform

We have identified four areas whose resolution and reform could lead to improved outcomes, expeditious pilot realization, more engaged participation and discussions with the Lab members, higher commitment from proponents, and an overall more effective India Lab. The reforms will also ensure that India Lab is closely aligned with the Global Lab in terms of the procedures and approaches followed, while providing some flexibility to address local market conditions. These areas for reform are as follows:

i. Governance and Lab membership

Current Practice	Issues/Implications	Solution (s)
1. Lack of relevance, diversity, depth and level of commitment of Lab members. 2. Not enough linkages with commercial capital, and inadequate partnerships with capital providers, philanthropies and DFIs	<ul style="list-style-type: none"> • Certain members have been passive and not actively contributed to the India Lab process. • The India Lab currently has inadequate partnerships with the development sector and commercial investors across the entire value chain, ranging from seed capital to late-stage capital. 	a) More investors and financiers in the India Lab members cohort. b) Greater engagement from non-participating Lab members. In case the non-participating members are not interested in remaining affiliated with the Lab, then they must be replaced by new entities/organizations. Within existing member organizations, there is scope to better target more relevant departments for deeper engagement.
3. Conflict of interest of certain Lab members with objectivity of the Lab.	<ul style="list-style-type: none"> • Service providers (e.g. consulting companies and market research entities) in the Lab's governance system vote on the very same instruments that they could later do business with. CPI objectivity as the Lab's manager and CPI credibility is affected without preventive measures. 	a) Certain entities that are keen to contribute to the Lab process but may potentially have a conflict of interest with the overall Lab objective, may be shifted from 'members' to 'observers'.

ii. Sharpening value proposition

Current Practice	Issues	Solution(s)
<p>1. The India Lab's value proposition to the proponents is limited. As a result, CPI is usually "chasing" proponents for follow-ups and progress, CPI is not always informed, ideas change with time, etc. There is also no link or leverage between CPI and the proponents.</p>	<ul style="list-style-type: none"> To increase effectiveness and value-add of the Lab and further CPI ability to achieve mobilization of funds at scale, it has become necessary that the Lab offer material incentives to the endorsed instruments (i.e. benefits beyond networking and publicity). 	<p>a) All proponents of the Lab are to be managed through written agreements, with caveats and protections made where necessary to safeguard the interests of the Lab and the objectivity of the institution, while ensuring confidentiality of the proponents.</p> <p>b) One such incentive is the availability of "bridge capital", accompanied by technical assistance, to serve as the catalytic layer that will help ease the drawing of subsequent capital stacks.</p> <p>CPI managing such funds for highly catalytic investment purposes would enable the India Lab to realize its true potential of being an incubator mechanism with an objective Secretariat delivering unique value-added services to proponents of innovative ideas.</p>

iii. Idea selection and Lab member voting

Current Practice	Issues	Solution(s)
<p>1. Lab member voting can lack objectivity</p>	<ul style="list-style-type: none"> In the current setup, Lab members have a tendency to vote for ideas in sectors they are personally passionate about. How well an idea may fit in with the Lab mandate and how/where the Secretariat can add value get missed out. 	<p>a) Develop an objective framework for the voting process. For instance, Lab members may be asked to score on each of the four pillars of the Lab for each of the ideas ('Innovation', 'Actionability', Catalytic Potential', 'Financial sustainability'), as opposed to ranking the idea. This will ensure greater objectivity.</p>
<p>2. The India Lab selection methodology does not prevent ideas without</p>	<ul style="list-style-type: none"> Ideas backed by proponents that do not have any funding or industry 	<p>➤ Use and implement a stricter interpretation of the 'Actionability' criterion, so</p>

<p>any funding to filter in to the next round.</p>	<p>experience tend to get selected.</p> <p>For such ideas, there is a high degree of uncertainty in terms of operations whether the idea will attract funding, at what point of time it will acquire funding, what the funding size will be etc. Most proponents submit ideas “to see what happens”.</p> <ul style="list-style-type: none"> • Even if such ideas successfully pilot, they will still take significant time to scale up – much beyond what the Lab is involved in. This naturally affects the Lab's performance. 	<p>that ideas that are unlikely to succeed or may take too long to scale up do not clear the initial screening round. This may be done through:</p> <ul style="list-style-type: none"> ➤ Discourage ideas that are too small/raw/preliminary, do not have funding to sustain operations and are unlikely to pilot. Such ideas will score low on 'Actionability'. ➤ Discourage ideas that have a significant expected time gap between the pilot and the scale will again score very low on 'Actionability'. The 'Actionability' parameter will be 'Actionability to scale up', and not merely 'Actionability to pilot'.
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iv. Financial sustainability of the India Lab

Current Practice	Issues	Solution(s)
<p>1. Continually funded by donors, without long term certainty</p>	<ul style="list-style-type: none"> • CPI has no assurance of the future viability of the Lab and its operations. • Lab is neither rewarded when ideas materialize, Lab receives no benefits, and CPI as the Secretariat, is unable to commit to the longer-term existence of the Lab. 	<ul style="list-style-type: none"> ➤ Rebrand India Lab to a workstream within the overall Lab (that would eventually include the Global Lab, the India Lab and the Brazil Lab) – so that India Lab does not require dedicated fundraising efforts. There would be a common fundraising for the Lab, and the funds can be allocated to different workstreams. While doing so, India Lab should maintain autonomy in terms of operations and processes in order to generate the desired impact. ➤ Diversify away from a sole dependence on short term grants. Options include:

		<ul style="list-style-type: none"> - Lab provides transaction and investment advisory services post-endorsement to idea proponents and is rewarded on successful realization of pilot and/or fundraising. CPI is reimbursed for all expenses through a service agreement with the winning ideas. - Continue with existing grant model but diversify the donors. - Management fee from managing the bridge capital facility
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3.4 Key updates and ongoing changes:

3.4.1 IMPLEMENTED CHANGES:

a. **Lab branding:** The India Lab has now been repositioned to as a workstream within the [Lab](#), for which CPI is the Secretariat (which would include different workstreams such as the Global Lab, the India Lab and the Brazil Lab. This would mean that fundraising for the India Lab will be channeled through the Lab – which has a stronger brand name - and can thus ensure more efficient fundraising for the India Lab.

b. Lab membership and voting:

- There will be a modified Lab membership structure. The India Lab members will now be part of the regional panel, who will be responsible for screening the finalists. The shortlisted ideas will then be voted by the Lab members and inducted into the Lab process. Such a restructuring was done to ensure that India Lab instruments (both at the selection level and development stage) get to benefit from the international investor community and experts who are well-versed with the Lab processes. Additionally, this would allow a greater diversity of opinions and would ensure that ideas are selected not merely on their potential, but also on the type of capital available.

- Certain entities/members that are keen to contribute to the Lab process but potentially had a conflict of interest with the overall Lab objective have been shifted from 'members' to 'observers'. Other members who had been inactive have been removed from the India Lab membership and will be replaced by new members on a continual basis. The updated member list will soon be reflected on the India Lab website.

c. Lab processes:

- During the idea selection stage, the Secretariat would use and implement a stricter interpretation of the 'Actionability' criterion, so that ideas that are unlikely to succeed or may take too long to scale up do not clear the initial screening round. Ideas that are too small/raw/preliminary or do not have funding to sustain operations will score low on 'Actionability'.

- All proponents of the India Lab will be managed through written agreements, with caveats and protections made where necessary to safeguard the interests of the Lab and the objectivity of the institution, while ensuring confidentiality of the proponents. This will instill a sense of responsibility within the proponents to devote adequate time to the Lab.

- Through the Lab continued support program, India Lab instruments may be supported post-endorsement.

- d. **Funding:** Oak Foundation has agreed to provide funding of up to \$100,000 per year for three years to sustain and expand the India Lab. This may not be enough to support the entire cycle so the Secretariat looks at other potential co-funders.

3.4.2 ONGOING WORK:

- e. CPI will convene a session on October 29 in New Delhi, whereby the India Lab proponents can pitch their ideas to potential investors. Through leveraging its networks, CPI had earlier convened a session at the BNEF (Bloomberg New Energy Finance) summit held in New Delhi in the first week of August.
- f. The Secretariat would, on a continual basis, identify, reach out to and formalize relationships with potentially new Lab members, especially the ones who exhibit keenness on the October 29 pitching event.
- g. Continue to engage with philanthropies and finalize on setting up a bridge facility, that could provide working capital loans to Lab proponents and complement India Lab's work and long-term sustenance.
- h. Further the development of instruments as part of the ongoing India cycle to help them realize pilots and/or raise funds.
- i. Continue to engage with potential donors to acquire co-funding for the next cycle of the India Lab.