



Democratising blended finance for climate resilient agriculture



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Objectives

In India, current climate change-related events such as the locust invasion or the cyclone Amphan recall attention to the importance of a climate-resilient agriculture sector. Agri-tech SMEs offer valuable solutions for climate change adaptation, for example, building on Internet of Things to provide equipment for weather indexed insurance or sensor-based drip-irrigation systems. Especially smallholder farmers and agricultural SMEs are vulnerable to climate change and benefit largely from agri-tech solutions. However, while the agri-tech sector received funding of USD 248 Million in the first semester of 2019, there is very **limited “missing-middle”-scale investment** in agri-tech enterprises. Thus, ticket size is a key barrier that holds back the technology provision to smallholder farmers.

Solution Overview

This proposed holistic agri-tech finance solution aims to address various sub-challenges that agri-tech SMEs and financial institutions face:

1. **High transaction costs** for small projects and SMEs such as agri-tech SMEs;
2. **Low risk appetite of investors** (and SMEs, offering new technologies such as agri-tech SMEs being typically associated with higher risks); and
3. **Success of large-scale projects** steered interest away from small-scale investments and regulations have increased this bias.

Focus:

Mitigation, Adaptation

Instrument Type:

Access to Finance
Mechanism

Lab Cycle:

India 2020

Solution Developers:

ALSiSAR Impact

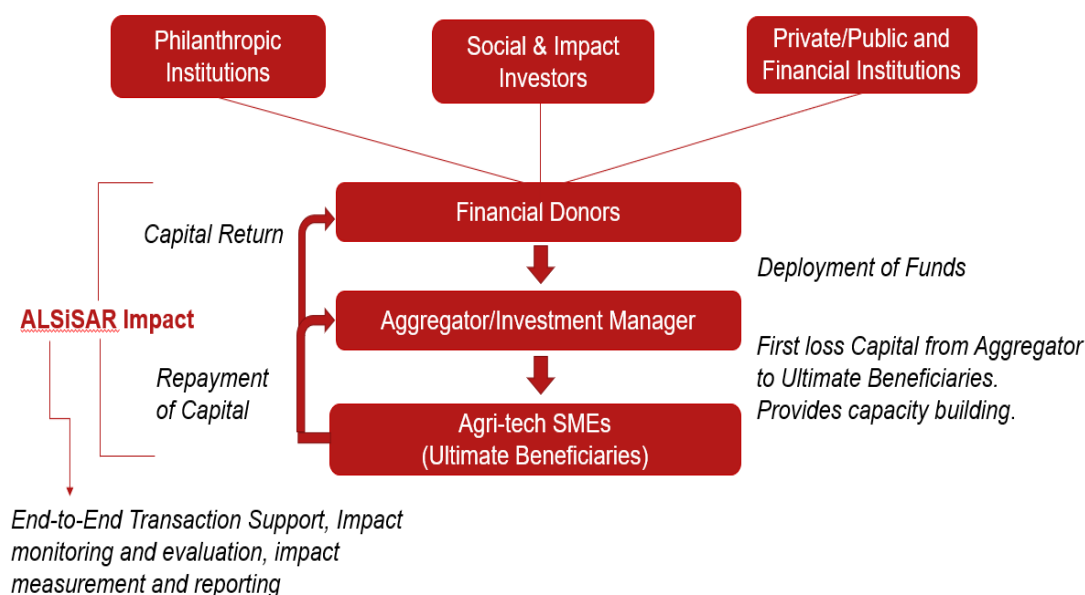
Key Features

The climate finance solution encompasses a workable blended finance model, as well as capacity building for agri-techs to conduct transparent impact measurement.

In order to reduce relative transaction costs, such as those related to credit appraisal, several agri-tech SMEs will be pooled together. The choice of agri-tech enterprises and interventions shall be market-driven.

Furthermore, grant capital will be used and leveraged effectively to mobilise three to four times as much private capital. It can be used flexibly, for example, for capacity building purposes, impact measurement, insurance, or a first loss default guarantee. It will initially be used towards insurance and later towards a first loss default guarantee.

Most financial institutions require specific environmental impact goals facilitated by a robust impact monitoring model to release capital for a first loss default guarantee. Therefore, the solution also entails innovative impact measurement, using SMART key performance indicators as well as tech-enabled impact measurement from the beginning of the intervention.



Participating enterprises will receive capacity building training to implement these impact measurement requirements. Capacity building will introduce a common framework for impact measurement. Furthermore, it shall also introduce enterprises to new innovations and act as a holistic support pipeline for them.

Target Market

- Target market: Agri-tech SMEs
- Scale: Pilot- \$ 1-5 Million, Next stage- \$ 5-15 Million
- Region: priority on socio-economically backward states in India, with the aim of expanding ultimately into progressive states and Nepal, Myanmar, and Bangladesh.
- Technologies: Business model innovations, as well as simple technologies that monitor soil health and water budgeting for farmers, cold storage, and solar drying technologies for waste reduction will be considered.

Impact Potential

Many agri-tech enterprises already cooperate with smallholder farmers and agricultural SMEs by integrating them directly into their value chains or by facilitating the access through innovative business models such as pay-as-you-go options. By filling the financing gap for agri-tech SMEs, they can **expand the reach** of their innovative solutions and financing models to more **smallholder farmers**, thereby **facilitating the transition to a more climate-resilient agricultural sector** in India.

The exact environmental impact will depend on the agri-tech SMEs financed. The environmental impact will touch on **Sustainable Development Goals 1, 2, 8, 11, 12,**

and 13. During the pilot phase, 5 agri-tech SMEs operating in **socio-economically backward states of India** will be targeted. Economic impacts include **weather and crop yield protection, higher productivity and therefore socio-economic status of farmers.**

Solution Developer

ALSiSAR
—IMPACT—

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ALSiSAR Impact is India's leading transaction advisory firm in impact investing and social enterprise landscape with a unparalleled focused experience of 12 years. We had been at the forefront of due diligence, legal documentation, blended finance and social impact assessment in South Asia.

SEED Practitioner Labs Climate Finance empower participants during the hands-on and collaborative Labs process to turn major financing challenges into robust prototypes. SEED Practitioner Labs Climate Finance are part of the implementation of "Financing and capacity building for micro and small climate-smart enterprises: Filling the gap of the missing middle", a project supported by the German Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety.