Assessing Investment Potential of Value Chains in Rajasthan, India

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EXECUTIVE SUMMARY

This Final Road Map Report identifies interventions, instruments, and options to address investment gaps in the orange/mandarin and coriander value chains in Kota division Rajasthan, India using the Development Corridors created by roads infrastructure in order to catalyze investment. This Roadmap integrates the best practices and issues identified in the Investment Assessment into actionable proposals that can be taken to generate investment in the priority value chains in order to achieve several interrelated objectives:

- ***Make Aggregation Work Across the Value Chain***, particularly at the farmer level, through investment and legal actions to support farmer aggregation models such as Farmer Producer Organizations (FPOs);
- ***Build Near-Farm Infrastructure for Value Capture/Retention/Maximization by the Farmer;***
- ***Make Value Chain Finance and Insurance Work for Farmers and Small Agribusinesses;***
- ***Train and Inform Farmers and Agribusinesses on Best Practices and Government Schemes***; *and*
- ***Promote and Facilitate Markets***.

This Roadmap outlines a practical set of elements priorities, all of which have the chance to be implemented and fit the financial resources available.

Key Roadmap Elements:

- Key Interventions and Financing Instruments
- Options for Fund Management and Key Stakeholders
- Governance
- Monitoring and Evaluation
- Summary and Timeline
- Annex: Sample Terms of Reference for Investment Consultant and Fund Manager

I. Key Investment Interventions and Financing Instruments

The Roadmap is designed to advance an overall strategy of leveraging transport infrastructure networks in Kota, Rajasthan in order to unlock untapped market potential in the agricultural sector and improve economic opportunities for people living in deprived rural areas of the state. The initiative will build upon the success of the World Bank's Pradhan Mantri Gram Sadak Yojana (PMGSY) program and other initiatives by catalyzing activities that will enhance the livelihoods of the rural poor. The investment interventions included in this Roadmap are designed to support growth in the agricultural sector and creation of opportunity for the rural poor.

There are three key interventions that total an overall investment of $25 million that could be deployed to address crucial gaps in the orange/mandarin and coriander value chains in Kota division, Rajasthan. These investment interventions would be allocated among three specific areas and financing windows, with focus on certain priority aspects:

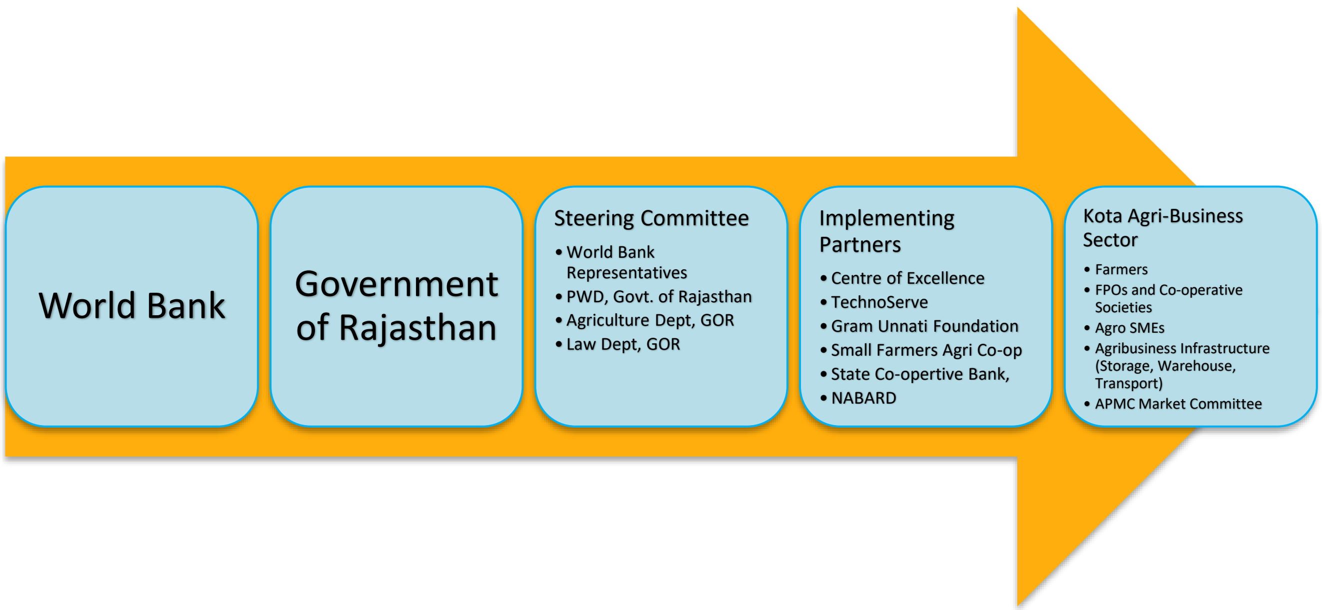
i. **"Patient/Concessional" Capital Investment Window**; $15 million
   - Equity/soft loans (perhaps even grants) for private (or even corporatized public) enterprises that are addressing identified gaps (particularly aggregation, processing and creation of near-farm assets)
   - Ensure and enable allocation of patient capital to businesses that have the potential to grow and become role models for the local agricultural ecosystem

ii. **Facilitating Innovation, Experimentation, and Research Window;** $5 million
   - New models and technologies for addressing challenges will be identified (for example, remote sensing for crop insurance, cost-effective fruit processing technologies, developing quality standards)
   - Build structure and institutional framework focused on innovation and research in the agriculture sector with use of information technology and innovation platforms
   - Involve educational establishments that could be partners in the innovation and research and explore the possibility of coordinating under Central Government Initiatives through Startup-India to promote and facilitate innovation and research

iii. **Training and Capacity Building Window;** $5 million; particularly for farmer aggregation models (farmer producer organizations (FPOs)/cooperatives)
   - Implement programs across a range of disciples are deployed at level of individual farmers as well as at the level of various aggregation entities such as FPOs

A number of key stakeholders will be involved in the initiative, as shown in Figure 1, some of whom have been identified through prior activities and consultations, and some of which will need to be selected in the rollout phase. One overarching objective should be to ensure that the interests of these key stakeholders are aligned as much as possible, which will be essential if the different groups are to operate effectively together.

Figure 1: Key Stakeholders

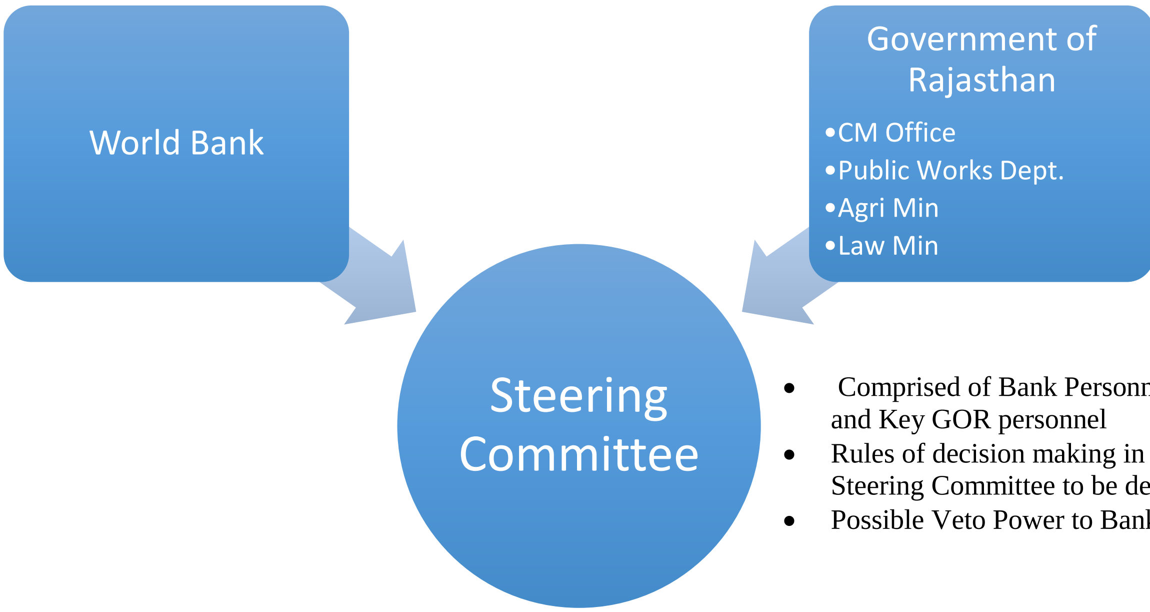


Source: LHGP and New Markets Lab, 2016

The World Bank and Government of Rajasthan would be the main partners, with stakeholders engaged in the different funding windows as discussed in Section II below. We would also recommend a Steering Committee that would be formed among Bank and GOR officials to direct and maintain oversight of the initiative, which would ensure that transparent and robust procedures are in place for deploying capital to partners and beneficiaries. A possible straw man structure for the initiative, built around these interventions, is shown in Figure 2.

Figure 2 – Overall Structure

Level 1 Structure: Main Partners



- Comprised of Bank Personnel and Key GOR personnel
- Rules of decision making in Steering Committee to be defined
- Possible Veto Power to Bank

This overall structure will relate to each of the three financing windows described below.

A. Patient Capital Window: $15 million

This set of interventions involves a tranche of funding, the largest of the three, that would function to allocate funds directly into various agribusinesses or other businesses related to agriculture such as near-farm infrastructure. The objective would be to allocate capital to businesses that have the potential to grow and become role models for the local agricultural ecosystem or that might have the capacity to strengthen the ecosystem by providing specific services such as those related to infrastructure. Although this is the largest tranche at $15 million, given the size of the need, the funds would need to be deployed judiciously in order to address some of the most pressing challenges facing rural agriculture in Rajasthan.

With regard to financing options, it will be fundamental to first define patient capital, specifying whether grants or investments are involved. Investment capital would target a set of businesses with a robust and viable business plan. Alternatively, grants can be used in a far more developmental way to help cover perceived market failures or viability gaps, and there is a greater tolerance for the fact the funds may not be returned in part or even in whole. The most pressing point to consider would be whether the capital that is allocated will need to be deployed in a way that can generate a return. To the extent that this pool of capital expects the individual capital allocations to generate a return (or even for some of them to generate a return), this would need to be reflected in the target pipeline and in the choice of partner for executing this part of the strategy. Even if the expected excess return is zero, the expectation of returning the principal is different from an outright grant. A working assumption at this stage is that these funds will be deployed mainly in the form of grants or soft loans (i.e., loans carrying a below market rate of interest) and that each project chosen to receive funds will have a heavy developmental content.

The choice of the implementing partner (see Section II below) will be crucial. Entities would need to be found that are aligned with the objectives of the initiative, have the resources and the skill set to originate opportunities, and also possess the internal processes to execute an appropriate portfolio of transactions. It is likely that such an organization will be Indian or even local to Rajasthan.

The aim of the intervention is to allocate capital to a broad group of SMEs covering different aspects of the agricultural value chain. If possible, there is an objective to invest in early stage agribusinesses, warehouses and storage, processing, and possibly even companies involved in manufacturing inputs such as seeds. There also may be a desire to consider other businesses that form part of the agribusiness eco system such agriculture insurance.

The possible investments cannot be seen as a single funding intervention unless the injection of concessional capital is catalytic in creating a commercial model that can subsequently access commercial capital. This is an extremely important feature of this overall program, and there may need to be a multi-year engagement with each project or business that is funded. The expectation should be that after the first injection of capital there is likely to be a need for further capital injections. The investment process required to allocate capital along these lines will include strong financial skills as well as skills that can target developmental goals. That said, these are a number of nascent businesses in the agricultural sector and, hence, state-of-the-art financial reporting cannot be expected. However, this will necessitate an even stronger need for industry expertise and local knowledge.

All of these facts underline the importance of selecting a strong partner for deploying the Patient Capital pool. This process can be time consuming and should be done following a formal process. It is likely that the World Bank can help advise in the process of selecting an appropriate implementing partner. The key requirements might be:

- Knowledge of agriculture
- Investment or financial skills
- Origination skills
- Knowledge of the local market and, in particular, knowledge of specific supply chains and the Kota region

Once an entity has been chosen as a partner, a compensation structure would need to be agreed upon that is appropriate for the task and is affordable given the financial constraints. It also will be important to establish clear guidelines for the implementing partner, including how they will be evaluated and compensated.

B. Training/Capacity Building Window: $5 million

The objective of this tranche would be to focus on creating and implementing training and capacity building programs across a range of disciples. The aim of this pot of funding will be to encourage businesses to experiment and innovate with new business models or new agribusiness techniques that could help strengthen local value chains in the Kota region. Programs would range from agronomy to basic business practices. The aim would be to build capacity at the individual farmer level as well as at the level of various aggregation entities such as FPOs or other forms of SMEs.

With regard to financing options, basic assumptions for the pool of funds allocated for training and capacity building are:

- Funds will be allocated to Implementing Partners as grants.
- The target market for receiving these grants will be the agricultural community, including individual farmers, SMEs, and other forms of farmer aggregation such as FPOs and cooperatives.
- Training will be tailored according to the specific audience but will include basic agronomy and training in relevant technology (including relevant techniques for inputs and other farming activities and basic business and management techniques).

One key decision will be to assess how much of the training can be executed through existing institutions such as the Centers of Excellence or other parts the local administration's agriculture infrastructure. This should allow the GOR to assess the need for an outside provider of training services. Once the basic choice of the training service provider is made, then an appropriate program could be designed and executed. Selection of partners could easily take about one month to design and execute, along with suitable procurement processes. Once completed, training could be rolled out over the duration of the initiative.

C. Innovation and Research: $5 million

India has shown itself to be at the cutting edge of innovation in many different areas. However, there is a benefit to be derived from organizing these efforts in a structured way that is directed towards the agriculture sector.

There are a number of educational establishments that could be partners in the innovation and research pillar, including an existing, sector-agnostic effort on innovation in Jaipur and Rajasthan through Startup Oasis. In addition, there are a number of venture capital style funds that are looking to invest in innovative technologies that also can yield social benefits or which are targeted at agriculture such as Ankur and Omnivore. At the federal level, 'Startup India' has been launched as a flagship initiative of the Government of India, which is intended to build a strong eco-system for nurturing innovation and startups in the country that will drive sustainable economic growth and generate large-scale employment opportunities. The Action Plan of the Government of India involves several measures for supporting startup ventures in the agricultural sector, along with state, central, and private funding to support research and innovation. Through this initiative and other measures, the Government of Rajasthan could implement the Startup India initiative at the state level.

All of this points to the fact that there is significant potential in harnessing innovation and research. While the day-to-day execution should be left in the hands of the implementing partner, certain targets should be established that fit with the overall objectives of the wider financing program. These could be expressed in terms of the number of start-ups that need to be backed in a given period of time or could include some definition on the size of investments or the types of company that can be targeted.

Of particular interest are new business models for different parts of the value chain or those that use technology to better solve various gaps in the value chain. For example, there are a number of companies that are experimenting with portable storage facilities, which can be easily located nearer the rural farms or different technologies that can make inputs such as seeds or fertilizer more efficient. Alongside this, some part of the funding could be allocated to more formal research initiatives. This could be done by using grants to catalyze work by research organization or academic institutions.

Next Steps:

- Determine, with the assistance of counsel, whether capital will be allocated in the form of investments or a returnable grant if funds flow in the form of an outright grant; and
- Clarify whether the funds would flow into a separate entity or directly into the Government of Rajasthan general budget.

Financing Instruments

The different facilities that are combined in this overall intervention involve different types of financing instruments that would allocate capital from separate funds. The types of financing instruments must be consistent with the objectives and conditions imposed by the suppliers of capital (in this case the World Bank) and, most importantly, must be consistent with the investment objectives of the overall initiative. Our recommendation is that each of the financing windows would use different financing instruments as noted above. However, in each case, the World Bank would need to confirm that its funds could be deployed with private sector counterparts and be invested by them for commercial outcomes. This is an important consideration, since in some cases DFIs or development banks will be cautious about using public money for private sector investment.

For the Patient Capital Window, we recommend that funds be deployed in the form of concessional capital using a mixture of loans (i.e. debt) at concessional rates or in some cases equity that is willing to accept concessional returns. The objectives of the patient capital window is to deploy funds to businesses that can make returns and be sustainable, with the capital can be deployed in a way that assumes much of the risk in the early developmental phase. This can be invaluable in catalyzing business models that can be sustainable and may attract commercial capital as long as certain early stage risks are mitigated. It will be important that the investment process is designed in a way that such investments are made into businesses with the potential to be sustainable commercially but which can also deliver the appropriate social outcomes for the overall project. While it may not be necessary to be prescriptive about the social outcomes, they should be discussed and be established as part of the overall outcomes. Different structures can be used to make the capital attractive. The rate might be concessional, or the capital may be available for a tenor that exceeds the availability in the purely commercial market. The Fund Manager should expect to incorporate these desired outcomes into the investment selection process and should be ready and able to report progress over time.

The Innovation Window should deploy capital using ‘returnable grants’. Clearly innovation is a highly risky endeavor, especially in Indian agriculture, and requires capital that can absorb much of the risk in any new venture or idea. However, the intention should be to catalyze commercially viable ideas. In this context, the grant could be made returnable with an extra level of discipline placed on the process. The fund manager must select those business models that can make some return in a modest way, but the businesses will benefit by having access to concessional capital that finance growth or normal operations. Once again the fund manager will need clear guidelines regarding acceptable investments, the diligence process, and the reporting of various metrics as part of the operations. There could be additional guidelines around maximum single investments, sectoral priorities, or other social objectives.

The Training and Capacity Building Window should most likely use outright grants. This activity has enormous value in helping maximize the overall investment potential for the region, but it is difficult to look for significant returns on a project-by-project basis. We recommend an investment process that gives clear guidelines on how such funds should be deployed which could be monitored over time. There is also the possibility of using such funds in a way that is complementary to the activities of the other Windows. In addition to the types of financing instrument, guidelines on minimum size of investment and other aspects of the diligence process would be beneficial.

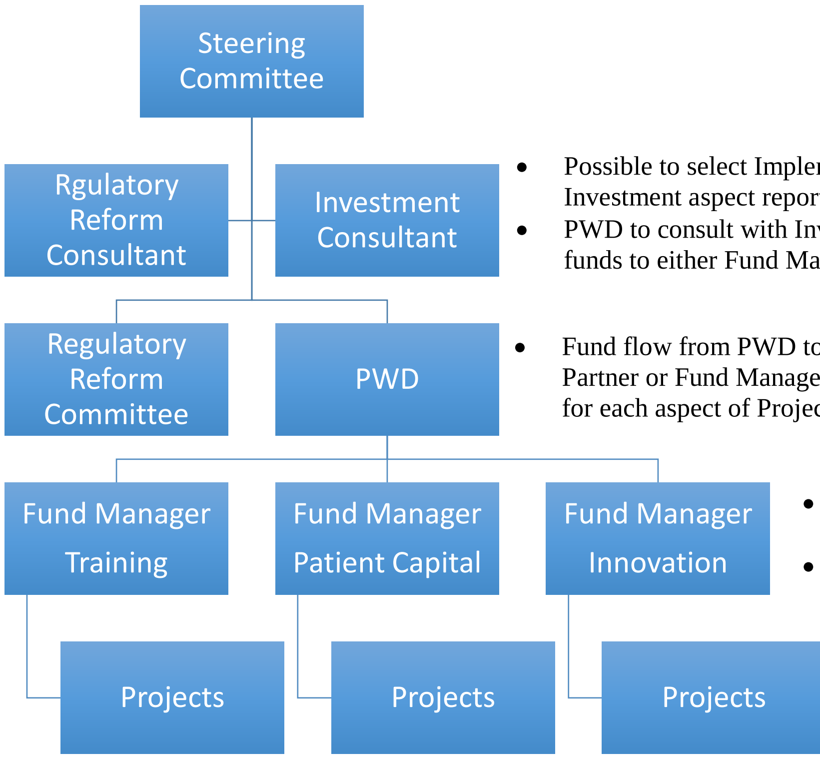
II. Options for Fund Management and Key Stakeholders

The same basic requirements would apply to fund management of each of the financing windows. Each would have a Fund Manager (Figure 3 below; See Annex II for sample TOR for a Fund Manager). Each would need to be seen as relevant, practical, and accessible. It is important that the agriculture community perceives the interventions to be transparent and easy to understand and use. Overall, it will be critical that they are perceived to have substantial value added in the agricultural community. Most importantly, the interventions should be seen have significant benefit among the farmers, agribusiness SMEs, and rural communities. Fund Managers will need to be selected based on these considerations and might include entities such as Ankur Capital and Gram Unnati Foundation.

There are important structural issues to be resolved in creating the financing initiative and appointing the Fund Managers. In the first instance, it would have to be determined whether the funds would flow from the World Bank into the Government of Rajasthan and be absorbed into the general budget or whether a separate entity would be created to receive the funds. If a new entity is created, obvious questions arise concerning its legal status, its ownership, its purpose, and it management structure. It would need to be structured in such a way that it qualifies to receive funds from the Bank under its procurement rules and disburses according to the objectives of the initiative.

The structure also would need to be one that can allocate funds to the Fund Managers/Implementing Partners and allows for this procurement. If possible, the Fund Managers would prefer to have the maximum flexibility in terms of what types of partners are chosen to work with. However, to the extent that the Bank or the Government of Rajasthan would want to apply certain controls or limitations, such limitations would need to be specified at the outset and built into the execution documents. An important consideration, for example, is whether the Implementing Partners could allocate capital in the form of investments or a returnable grant if the money flows from the Bank in the form of an outright grant. All of these are important legal issues concerning structuring that would be best resolved by engaging appropriate counsel. Figure 2 below depicts a more detailed structure, stemming from the Steering Committee and including each of the Fund Managers.

Figure 3 Level 2 Structure: Steering Committee and Fund Management



- Regulatory Reform Consultant reporting to Steering Committee

- Possible to select Implementing Partner for entire Investment aspect reporting to Steering Committee
- PWD to consult with Investment Partner for release of funds to either Fund Manager or specific Project

- Regulatory Reform Committee of GOR departments implementing reforms, likely Law Min, Agri Min, Transport Min

- Fund flow from PWD to Selected Project Partner or Fund Manager/Implementing Partner for each aspect of Project

- Independent Fund manager for each aspect
- Answerable to IC and PWD Manager/Implementing Partner

- Actual Projects handled by relevant firms/agencies
- Each Project's performance is supervised by the Fund Manager

A. World Bank

As the provider of the funds and as sponsor of the overall initiative, the World Bank will have certain parameters within which to undertake the project. The World Bank's goals may be articulated through either a formal set of metrics or set out in more qualitative terms in order to give the Project overall direction. A crucial element for the World Bank will be to create a set of terms that describe the financing being extended. Decisions will need to be made, such as whether the funds will be paid in full or whether they will be paid against the achievements of certain milestones. If payments are to be made against milestones, then these will need to be outlined and agreed. The Bank will also need to consider how much ongoing oversight it will want to have and how that oversight will be executed.

At the outset, the legal and commercial structure for the project will need to be properly established. To some extent, this will be governed by the rules of the World Bank, but where funds can flow without the oversight of the World Bank, there must be a set of rules as well. It is important to outline the terms under which the various flows of funds are structured. In particular, the terms on which funds are disbursed from the World Bank to the Government of Rajasthan, and, equally importantly, the terms by which the funds flow to the implementing partners, will need to be established.

B. Steering Committee

A Steering Committee should be formed among Bank and GOR officials to direct and maintain oversight of the project. The Steering Committee will need to ensure that transparent and robust procedures are in place for deploying capital to partners and beneficiaries. The Steering Committee should include representatives of main GOR ministries involved; Public Works, Agriculture, Transport, Information Technology, and Law. The Bank will work through the Steering Committee to guide key decisions. Additional aspects of the Steering Committee are:

- Day-to-day operations of the project will be monitored through the Implementing Partner or an Investment Consultant who shall report on a timely basis to the Steering Committee;
- Oversight for the project will be provided by the Public Works Department of the GOR to coordinate with each of the Implementing Partners managing the funds;
- Clear Terms of Reference and procedures for deployment of capital used by the Bank will be enforced, with controls or limitations built into the execution documents; and
- A management process for the GOR will need to be established.

A separate Investment Consultant should be appointed as an assistant to the Steering Committee to oversee the flow of funds from the GOR Public Works Department and maintain day-to-day oversight over individual Projects.

Next Steps:

- Develop plan for formation of Steering Committee;
- Establish a management process for the GOR;
- Appoint an Investment Consultant (see draft TOR in Annex I); and
- Put in place clear Terms of Reference and procedures for deployment of capital used by the World Bank, with controls or limitations built into the execution documents.

C. *Government of Rajasthan*

The likely route for the flow of funds will be from the World Bank to the Government of Rajasthan on the usual terms relating to World Bank funds, and clear points of contact for the initiative will be important and should be identified within the Department of Public Works, Department of Agriculture and other departments of the Government of Rajasthan (GOR) involved. The overall objectives of the initiative should enhance the GOR's own strategies, yet these funds would be deployed for specific purposes, which will govern the structure and the relationship of the Bank and the GOR. As such, the GOR would take on the remit of deploying the funds, and a number of decisions for how the management process will operate will need to be addressed at the start of the Project and implemented through the governance of the project.

Depending upon the structure by which the funds are received and subsequently deployed, the GOR would need to ensure that it has processes in place that will enable it to execute the remit agreed with the provider of capital and also that it has in place the processes for deploying the capital. These need to be as transparent as possible and yet sufficiently robust so the GOR has full confidence in the investment process.

A number of specific issues will need to be assessed at the GOR level, including:

- Will the GOR appoint a single person or a team as the point of contact?
- Will the GOR use its own apparatus for implementation where possible, and, if so, which specific institutions might be involved?

In addition, as the set of investments included in this Roadmap are designed to work alongside the highly successful 'Rural Roads' program in Rajasthan, which has been managed by the Public Works Department, it will be important to test the hypothesis that these programs could work together in building robust value chains along certain Development Corridors. All of this will require proactive management, and the role of the GOR will be vital.

In particular, the Government of Rajasthan will need to focus on the following issues

- How is the relationship with the World Bank managed?
- How will the Government of Rajasthan structure its role to ensure this initiative has focus?
- How will the Implementing Partners be selected?
- Will there be open tenders, or is some other selection process envisaged?

The Government of Rajasthan would need to clarify whether it will be able to create a team that can oversee the complete program and then work to assess its successes or failure over time. This team will need to be able to remain engaged with the Bank and the Implementing Partners on an ongoing basis. The GOR also will need to decide what relationship it would have with the Implementing Partners. For example, will it allocate funds and then be arm's length or would a closer working relationship be more beneficial.

Next Steps:

- Identify point/s of contact within the Government of Rajasthan;
- Establish mechanism for managing relationship between World Bank and Government of Rajasthan;
- Clarify project implementation apparatus; and
- Determine whether project will involve open tenders or some other selection process.

D. *Implementing Partners*

While the Government of Rajasthan will have an important oversight role in this initiative, it is likely that it will need to identify various organizations to implement the different parts of the overall program. How these entities are selected and then managed will be vital to the initiative's success. The Implementing Partners will need to be selected on the basis of their ability to execute and implement the specific tasks within the overall financing program. The alternative to selecting a set of Implementing Partners would be for the GOR to show that it can implement all of the initiatives from within its own departments in the manner envisioned under the initiative. However, potential conflicts of interest would need to be considered, and, hence, it may be beneficial to consider third parties as suitable Implementing Partners.

Given the diversity of tasks in the three different financing windows, it is unlikely that a single partner can be found to effectively execute all functions (training, allocating patient capital, and catalyzing innovation and research). It is most likely that three partners will be needed, one for each part of the program. Once selected, the partners will need to managed and, if necessary, there would need to be proactive engagement with them to ensure that funds are being deployed appropriately. Equally importantly, the GOR would have to create an effective structure for ensuring that results are being monitored and progress communicated to the Bank when necessary.

Overall, the Government of Rajasthan would needs to focus on a few specific issues, namely:

- How will Implementing Partners be selected?
- How will Implementing Partners be compensated?
- How will Implementing Partners be evaluated?
- Can Implementing Partners be changed, and if so, what is the process for doing so?

Given the diversity of tasks in the three different financing windows, it is unlikely that a single implementing partner could be found to effectively execute all functions (allocating patient capital, training, and catalyzing innovation and research). It is most likely that three implementing partners will be needed, one for each category of funding. Once selected, the implementing partners will need to managed and the GOR and Steering Committee would need to be proactively engaged to ensure that funds are being deployed appropriately. Equally importantly, the GOR would have to create an effective structure for ensuring that results are being monitored and progress communicated to the Bank when necessary.

Implementing Partners will need to be aligned with overarching objectives of the project, have the resources and the skill set to originate opportunities, as well as possess the internal processes to execute an appropriate portfolio of transactions. Implementing Partners will be selected only after their governance and capital allocation methodology is deemed satisfactory; the Bank can advise in the process of selecting an appropriate Implementing Partners.

Implementing Partners could include stakeholders who were engaged in the stakeholder consultations and workshop held under the first stage of this project. These may include:

- For training, Startup Oasis could be a possible Implementing Partner, which should be complementary to their current efforts and to the aims of the GOR, which is the current sponsor of Startup Oasis.
- Independent NGOs such as TechnoServe could also provide training, manage funds, and provide input from their experience in other similar projects in agriculture and across other markets.
- Aggregator models, such as Gram Unnati Foundation, that are working in the state could be good implementing partners and incentives could be designed to focus operations specifically in Kota.
- Centres of Excellence already active in priority crops such as citrus that could be upgraded with enhanced technical capabilities to provide services to the local economy.

Implementing Partners would be selected only after their governance and capital allocation methodology is deemed satisfactory. The GOR will need to decide what oversight role it wishes to have with each of the implementing partners. At the simplest level, this could mean receiving regular updates on capital deployment and various outcomes. At the other end of the spectrum, it could mean some involvement by the GOR in the capital deployment process through representation on committees.

Various specific objectives can be wired into the capital deployment process such as:

- Measuring the impact on jobs/incomes,
- Ensuring investments are carbon friendly, and
- Ensuring the management of reputational risk.

The ultimate beneficiaries will come from different parts of the agricultural community in Kota division, Rajasthan. It will be vital to get their buy-in on the specific uses of funds as the initiative is rolled out. For example, training would work best if it is seen to be relevant and will help farmers or SMEs enhance their productivity and knowledge of agricultural techniques. The training would also need to be provided in a manner that can be embraced by the agricultural community, with a focus on the practical rather than the purely academic.

Next Steps:

- Establish process for identification of Implementing Partners, depending upon review of their and capital allocation methodology, and in consultation with project stakeholders in Kota division, Rajasthan;
- Determine method for compensating Implementing Partners;
- Establish evaluation process for Implementing Partners; and
- Create process for changing Implementing Partners, if needed.

III. Governance

A key feature of the project will be overall governance. This differs from many development programs where funds are allocated to a government or government entity which then seeks to deploy those within prescribed guidelines, for example for financing a specific project. In this case, the Project has an overarching strategy to implement a coordinated set of initiatives, all of which fall under the same umbrella but which are designed to address specific aspects of building sustainable value chains for mandarin and coriander. Thus, the nature of the task involves a general strategy, aimed at the overall agricultural industry both regionally and even nationally in India; and a more targeted one that is focused on these value chains, on the underlying hypothesis of catalyzing effective development corridors and on the agribusiness ecosystem in the Kota division.

The aim of the World Bank is to design and implement a financing program that can have a beneficial effect in Rajasthan. Governance in the context of this initiative will need to be considered both for management and oversight of the management process. It will also need to be considered at the different levels in which funds flow from the World Bank to the end users. In the first instance, the World Bank will need to decide whether it will wish to have some oversight over the program, and, if so, how this will be achieved. The next level of governance would be at the level of the Government of Rajasthan. Again, the process for governance would be determined by the structure by which the funds are received and subsequently deployed.

It is likely that the Bank will want a relationship primarily with the Government of Rajasthan and will seek to work with them in the deployment of the overall pool of capital. If an entity is created in India for the purposes of this initiative, then an easy way for the Bank to participate would be as a board member of the vehicle or to establish some oversight relationship with that vehicle. If a new vehicle is not set up, then the World Bank will need to agree upon some other arrangement whereby it can play this oversight role. The Steering Committee described above will perform a key function and should draft and promulgate Working Guidelines for the different aspects of the project and have the final authority in case of overlap or differences between the various stakeholders.

The legal and financial structure for the project will comprise of clearly defined terms for the project partners under which the various flows of funds shall take place. The Investment Consultant can be an intermediary between the GOR Public Works Department, which shall control the flow of funds, and the project partners receiving the funds and implementing the projects. A transparent mechanism to include approval from the Investment Consultant and the Public Works Department for every investment made can be structured into the rules governing flow of funds. All actions and progress shall be reported to the Steering Committee.

Next Steps:

- Establish the terms on which funds are disbursed from the Bank to the Government of Rajasthan, and, equally importantly, the terms by which the funds will flow to the implementing partners at the outset of the next stage in the project. The structure can make provisions to ensure that the flow of funds is disbursed according to the Standard Code of the Bank for issue of grants;
- Identify length of engagement with the Implementing Partners and Project Managers (multi-year may be necessary). If the funds under the initiative flow as grants, identify methodology to be applied to evaluate performance;
- Determine whether the funds will be in the form of grants, loans, or investments. Criteria would be developed which can determine the nature of each fund flow, which can give flexibility to initiative, as different projects may have need for different types of fund flow depending upon the type of project or objectives. For example, funds under the training and capacity building aspects could be treated as grants, whereas depending upon the type of project and its objectives, the projects receiving funds under the Patient Capital aspect could be an investment or a grant; and
- Develop clear methodology to evaluate performance of the Projects. Additional criteria apart from return on investment and clear parameters should be decided and implemented.

IV. Monitoring and Evaluation

Most of the funds under this initiative will most likely flow as grants, where there is no expectation that capital will be returned or that the capital will need to generate a return. Given this consideration, since financial returns will not be used to impose metrics on the overall initiative, another methodology will be needed for evaluating performance. This could be developed by the World Bank and the GOR team charged with local implementation.

Performance metrics will also vary by type of funding tranche. For example, performance metrics for capacity building should focus initially on how extensive the training component could be. The aim would be to create a timetable for rollout with a structure for ensuring delivery on an ongoing basis. At some point metrics should be created to measure the impact of the training program/s. These metrics could be designed around factors such as:

- Number of farmers/SMEs covered
- Deployment of specific techniques, expertise, or technological processes
- Measurable improvements in productivity or incomes

To the extent that it is shown that the investment interventions have a significant positive impact, they will be scaled up locally and, if appropriate, replicated in other areas. As this initiative is aimed at evaluating the beneficial impact of certain interventions, it is important not only to measure success but also to measure failure and to consider whether changes could improve the likelihood of success.

The Investment Consultant could review performance of the Implementing Partners based on agreed-upon performance parameters. The Consultant evaluations could be periodically presented to the Steering Committee for their appraisal and review.

V. Roadmap Components and Timeline

Element	Key Steps or Considerations	Questions/Follow-up
Strategy for Interventions	• Design interventions to have beneficial effect across the value chain • Aim for concurrent and harmonious implementation of investment interventions with the following objectives: a. Make Aggregation Work Across the Value Chain, b. Build Near-Farm Infrastructure for Value Capture/Retention/Maximization by the Farmer c. Make Value Chain Finance and Insurance Work for Farmers and Small Agribusinesses d. Train and Inform Farmers and Agribusinesses on Best Practices and Government Schemes e. Reform and Ease Regulations for Aggregation and Marketing f. Promote and Facilitate Markets	• Determine whether all interrelated objectives been satisfied, particularly at the farmer level, through investment actions • Identify appropriate business models and technology solutions
Options for Fund Management and Key Stakeholders	• World Bank: Provider of the funds and sponsor of the overall initiative • Government of Rajasthan, including its allied statutory and regulatory bodies: Oversight and coordination • Establish Steering Committee between World Bank and GOR • Select Implementing Partners among organizations identified by the GOR to implement the different parts of the overall program, chosen based on industry expertise and local knowledge • Establish clear points of contact within the Department of Agriculture and other involved departments of the GOR as well as within the Implementing Partners • Ensure transparent and robust procedures (GOR) for deploying the capital to partners and beneficiaries of capital	• Establish how system for ongoing oversight will be designed and implemented by the partners • Determine whether the funds will be paid in full, in stages, or against the achievements of certain milestone (if the latter, what should the milestones look like?) • Identify team that can oversee the complete program and then work to assess its success or failure over time • Develop plan for formation of Steering Committee • Establish a management process for the GOR • Appoint an Investment Consultant (see draft TOR in Annex I) • Put in place clear Terms of Reference and procedures for deployment of capital used by the World Bank, with controls or limitations built into the execution documents
Governance and Monitoring and Evaluation	• Establish legal and commercial structure for the project as well as the terms under which the various flows of funds are structured • An overall investment of $25 million is anticipated for the initiative. Of this, $5 million will be allocated to training and capacity building; $15 million will allocated as a 'patient capital' pool; and $5 million will be allocated to innovation and research	• Elaborate controls or limitations to apply and build into the execution documents • Establish management process for GOR

	• Establish terms on which funds are disbursed from the Bank to the Government of Rajasthan, and, equally importantly, the terms by which the funds flow to the implementing partners • Design structure that can allocate funds to the Implementing Partners, preferably with adequate flexibility in terms of what types of partners it chooses to work with	• If the funds under the initiative flow as grants, identify methodology to be applied to evaluate performance
Selection of Partners for Implementation	• Align implementing Partners with overarching objectives of the project, ensuring that they have the resources and the skill set to originate opportunities, along with the internal processes to execute an appropriate portfolio of transactions • Select implementing Partners only after their governance and capital allocation methodology is deemed satisfactory; the Bank can advise in the process of selecting an appropriate Implementing Partners • Determine and publish procedures for selecting Implementing Partners, compensation, evaluation methods, and steps to be followed for change and of an Implementing Partners	• Establish oversight role for GOR with each of the Implementing Partners • Identify length of engagement with the Implementing Partners be (possibly multi-year)
Key Investment and Financing Instruments	• Focus of Investment reform will be on the following aspects: 1. Patient Capital for Investment Reforms: Ensure and enable allocation of patient capital to businesses that have the potential to grow and become role models for the local agricultural ecosystem 2. Training and Capacity Building: Implement programs across a range of disciples are deployed at level of individual farmers as well as at the level of various aggregation entities such as FPOs 3. Innovation and Research: Build a structure and institutional framework focused on innovation and research in the agriculture sector; involve educational establishments that could be partners in the innovation and research and explore the possibility of coordinating under Central Government Initiatives through Startup-India to promote and facilitate innovation and research • Define patient capital, specifying whether grants or investments are involved ➢ Investment capital would target a set of businesses with a robust and viable business plan. ➢ On the other hand, grants could be used to help cover perceived market failures or viability gaps, and there is a greater tolerance for the fact that funds may not be returned in part or even in whole.	• Define whether the capital that is allocated will need to be deployed in a way that can generate a return • Calibrate the structure to focus performance metrics to measure the impact of the training program and capital deployment • Determine how much training can be executed through existing institutions such as the Centers of Excellence or other parts the local administration's agriculture infrastructure • Identify outside training partners (for example, TechnoServe)
Timelines for Execution	The timeline for the project is envisioned as follows: (1) Finalize strategy, governance, structure, Implementing Partners, budgets, and legal infrastructure for project; put in place Investment Consultant (months 1-3) (2) Establish funding timetable and put in place Fund Manager (months 3-5) (4) Begin implementation of investment reforms and initiate capital deployment (initiate in first six months; expected to cover project lifespan) (5) Review mechanisms and evaluate progress and performance of the project and individual Implementing Partners (throughout)	• Determine how the GOR would prefer to establish evaluation and reporting from Implementing Partners and beneficiaries (could include public reports on past work completed, utilization of funds and further work to be undertaken • Explore options of harmonization of

		transparency requirements (consistent with the provisions under the Right to Information Act, 2005)

ANNEX 1: Draft Terms of Reference for Investment Consultant

Contract Ref: XXX

Project Title: Assessing Investment Potential of Value Chains in Rajasthan, India

Description

Subject to Business Case approval, the World Bank and the Government of Rajasthan intend to launch a project to build agricultural corridors in Kota district, Rajasthan, India where they will be seeking partners for a program to stimulate agricultural transformation through increased investment in agribusiness, innovation and research, and improved training and capacity building in the region. The Program will include several components, of which the following will go to tender: 1) Investment Management/Consultancy and 2) Fund Manager. The Investment Consultant will oversee activities under within the following three areas (1) Patient Capital Deployment, (2) Innovation and Research, and (3) Training and Capacity Building Programs. Suppliers will be required to:

- Promote investment of capital into identified projects;
- Support smaller agribusinesses to prepare for and access investment from impact investors and local banks;
- Link smallholder farmers to agribusinesses through aggregation scheme such as producer organizations and contract farming; and
- Commission research to address knowledge gaps and test innovative approaches to increasing the development impact of commercial investment in agriculture.

Suppliers under this TOR may or may not bid for the additional role of a managing agent and will commission this work and oversee its implementation. Suppliers will ensure that all aspects of the project are closely coordinated and work with Project officials to ensure coherence across all aspects of the project. It is anticipated that the programme will go to tender in January 2017, with contracts to be finalized by February 2017. The programme will have a duration of up to __ years.

ANNEX 2: Draft Terms of Reference for Fund Manager

Contract Ref: XXX

Project Title: Title: Assessing Investment Potential of Value Chains in Rajasthan, India

Subject to Business Case approval, the World Bank and the Government of Rajasthan intend to launch a project to build agricultural corridors in Kota district, Rajasthan, India where they will be seeking partners for a program to stimulate agricultural transformation through increased investment in agribusiness, innovation and research, and improved training and capacity building in the region. The Program will include several components, of which the following will go to tender: 1) Investment Management/Consultancy and 2) Fund Manager.

The Fund Manager would operate in one of the three aspects covered in the project; Patient Capital Deployment, Training and Capacity Building Programs, and Innovation and Research. This contract is specific to the [Patient Capital Deployment/Training and Capacity Building/Innovation and Research] component. This project requires the supplier to fulfill a range of functions, including assistance to management and promotion of investment capital into specific projects forming interventions in the following areas:

- Supporting smaller agribusinesses to prepare for and access investment from impact investors and local banks;
- Linking smallholder farmers to agribusinesses through aggregation scheme such as producer organizations and contract farming;
- Commissioning research to address knowledge gaps and test innovative approaches to increasing the development impact of commercial investment in agriculture;
- Supporting the investment in the agricultural value chain; and
- Communicating findings and influencing the actions of a diverse range of audiences including governments, investors, private sector, NGOs, academia among others and recommending positive strategies and alternatives to overcome challenges.

Suppliers of under this Contract may not bid for the additional role of a managing for other types of funds under this Project. The Government of Rajasthan will commission this work and oversee its implementation in conjunction with the [Investment Consultant]. Suppliers will ensure that its project is closely coordinated and work with other Projects and fully co-operate with officials to ensure coherence across all of the projects under the Program. The Supplier would be required to provide an internal governance and capital allocation schedule as well as a timeline for project commitments on the use of the funds. The Supplier will be selected only after their governance and capital allocation methodology is deemed satisfactory.

The Supplier shall submit all project reports and other information to the [Investment Consultant] in the format required and as per requirements of the [Investment Consultant]. The performance of the Supplier shall be periodically reviewed by the [Investment Consultant] and areas for improvement and enhanced focus shall be developed together with the [Investment Consultant].

The Supplier shall identify and disclose all present or potential conflicts of interest or situations, which may affect the impartiality of the Supplier to work towards the objective of the project. Any relationship with the beneficiary of funds or relationship with any personnel related to the control or management of the fund would need to be disclosed and be considered as a probable conflict of interest.

It is anticipated that the program will go to tender in January 2017, with contracts to be finalized by February 2017. The programme will have a duration of up to ____ years.