



Technical Assistance Report

Project Number: 52295-001
Transaction Technical Assistance (TRTA)
October 2018

REG: Preparation of the ADB Ventures Facility

This is the abbreviated version of the document that excludes commercially sensitive and confidential business information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
MBI	–	Mekong Business Initiative
PSOD	–	Private Sector Operations Department
SDGs	–	sustainable development goals
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund
VC	–	venture capital

NOTE

In this report, "\$" refers to US dollars.

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TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 52295-001	
Project Name	Preparation of the ADB Ventures Facility	Department/Division	PSOD/OPSD
Nature of Activity Modality	Project Preparation Regular	Executing Agency	Asian Development Bank
Country	REG (All DMCs)		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Information and communication technology	ICT industries and ICT-enabled services		0.30
Agriculture, natural resources and rural development	Agricultural production		0.40
Energy	Energy efficiency and conservation		0.40
Finance	Inclusive finance		0.40
Industry and trade	Small and medium enterprise development		0.30
Transport	Multimodal logistics		0.40
Water and other urban infrastructure and services	Urban solid waste management		0.40
		Total	2.60
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
Environmentally sustainable growth (ESG)	Eco-efficiency Natural resources conservation Urban environmental improvement		
Regional integration (RCI)	Pillar 2: Trade and investment		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Client relations, network, and partnership development to partnership driver of change	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas		
Partnerships (PAR)	Bilateral institutions (not client government) Commercial cofinancing Foundations Implementation Official cofinancing Private Sector South-South partner		
Private sector development (PSD)	Promotion of private sector investment		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Regional	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG1, SDG2, SDG3, SDG4, SDG5, SDG6, SDG7, SDG8, SDG9, SDG10, SDG11, SDG12, SDG13, SDG14		
6. Risk Categorization	Low		
7. Safeguard Categorization	Safeguard Policy Statement does not apply		
8. Financing			

TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

Modality and Sources	Amount (\$ million)
ADB	2.60
Transaction technical assistance: Technical Assistance Special Fund	2.60
Cofinancing	0.40
Clean Technology Fund (Full ADB Administration)	0.40
Counterpart	0.00
None	0.00
Total	3.00

Currency of ADB Financing: USD

I. THE PROPOSED PROJECT

1. The proposed technical assistance (TA) will design, pilot, setup, and operationalize the Asian Development Bank (ADB) Ventures Facility (the Facility): a multi-donor trust fund that will contribute towards sustainable development goals (SDGs) by deploying and scaling impactful technologies and business models throughout the developing Asia-Pacific.

2. The Facility will provide technical assistance and make catalytic investments in early-stage private companies to accelerate the deployment of impactful technologies and business models. The Facility fills an operational gap allowing ADB's Private Sector Operations Department (PSOD) to provide funding at all stages of the business life cycle. Where necessary ADB's PSOD will adopt a One ADB approach by working closely with ADB regional and knowledge departments to leverage government relationships, operational networks, and industry knowledge.

II. THE TECHNICAL ASSISTANCE

A. Justification

3. **Opportunity:** The Asia-Pacific has made great strides in poverty reduction and economic growth, but the region still lags behind on two-thirds of the SDGs.¹ The world is brimming with technologies and innovative business models that conserve energy, reduce waste, improve crop yields and quality, deliver public services more effectively to low income population groups, and otherwise contribute to SDG impacts. Such technologies have achieved wide implementation in larger, more developed markets. They have tantalizing potential for impact in developing markets. Meanwhile, the cost of deploying and scaling technology has plummeted. For example, the unit cost of sensors has declined by over 60% between 2004-2017 making the deployment of internet of things solutions feasible in the developing Asia-Pacific including remote communities.

4. **Problem:** In emerging markets, private sector innovation can originate from two sources: homegrown entrepreneurs or global technology companies. Correspondingly, the deployment of impactful technologies in the developing Asia-Pacific has been impeded by:

- (i) **Nascent innovation ecosystems.**² Collaborative innovation ecosystems involving regulators, corporates, research institutes, and entrepreneurs remain nascent across most of developing Asia-Pacific. Regulatory uncertainty, red-tape, and weak intellectual property rights protection discourage investment in technology innovation. Promising homegrown entrepreneurs need support and networks to commercialize products and secure initial customers. Yet government-funded innovation and business support programs tend to be fragmented, limited, and uneven in quality.
- (ii) **Low technology transfer.** Weak network effects have impeded the diffusion of technology from global technology companies to the developing Asia-Pacific.³ Markets are diverse and fragmented by language, geography, culture, and business enabling environment. Technologies and business models must be adapted market-by-market to a variety of norms, often amid limited market

¹ <http://www.unescap.org/sites/default/files/publications/Asia-Pacific-SDG-Progress-Report-2017.pdf>

² The innovation ecosystem describes the large number and diverse nature of participants and resources that are necessary for innovation including entrepreneurs, research institutes, investor community, and commercial industry.

³ Network effects is the increase in value of a product or service as more customers use it. So the larger the group of users, the higher the value of the product or service to each user. Examples include mobile and social networks.

information and low transparency. User demand for technology solutions is rarely articulated in a way that attracts interest from technology providers. This market failure is even more acute for the Asia-Pacific's smaller and more remote markets. The private sector has proven reluctant to invest there, as technology innovators often consider it easier to focus on larger and more mature markets. Those that decide to venture into developing Asia-Pacific often face heightened market risks including opaque legal and regulatory frameworks.

- (iii) **Limited access to venture capital in emerging markets and impact sectors.**⁴ Since 2015, venture capital (VC) investment flows to emerging markets in the Asia-Pacific have reduced as investors focusses on later stage deals. VC portfolios tend to be concentrated in selected markets and sectors such as e-commerce. Impact investing is treated as a niche within the broader VC industry. The lack of risk capital is particularly acute for early-stage companies accessing smaller markets, more remote geographic areas, companies serving public-sector customers, and innovators in capital-intensive sectors. While there is a growing pool of 'patient' capital from diversified sources including corporate VCs, social impact funds, foundations, and family offices, these funding sources remain fragmented and struggle with market insights and transparency. The angel investment ecosystem remains nascent in most emerging markets.⁵

5. **Strategy 2030 priorities and strong client demand.** ADB's Strategy 2030 emphasizes the importance of innovative technologies. This reflects ADB developing member countries' increasing demand for technology solutions that contribute to more inclusive and sustainable economic growth. Overcoming the emerging market challenges currently constraining the deployment and scaling of impactful technologies will require catalytic leadership to crowd in investors and innovators. ADB is uniquely poised to provide it.

6. **Building on successful pilots.** ADB has accumulated knowledge, expertise, and partnerships by piloting new approaches to deploying and scaling impactful technologies and business models in emerging markets. Since 2013, ADB has leveraged its convening power to involve government and industry in more than 15 accelerator programs across the Asia-Pacific.⁶ These programs were operated in partnership with industry and have supported more than 100 early-stage companies to deploy technology solutions in emerging markets. These activities have generated enormous visibility and increased demand for ADB support.⁷ Key lessons include: (i) take a country-specific approach and build-on and expand the existing innovation ecosystem; (ii) involve industry and end-users upfront to ensure 'demand pull' for technology solutions; and (iii) leverage ADB's existing government and corporate networks to help deploy and scale solutions (Linked Document 2).

B. Outcome and Outputs

7. **Impact and outcome.** The TA will generate impact by catalyzing risk capital investment towards the identification, deployment and scaling of impactful technology and business solutions that contribute to the SDGs in the Asia-Pacific. The outcome will be operationalization of the ADB Ventures Facility (Linked Document 1 and 3).

⁴ www.cbinsights.com.

⁵ An angel investor is an affluent individual who provides capital to a startup, usually in exchange for ownership equity.

⁶ Under: (i) Mekong Business Initiative, a TA program supported by the Government of Australia (www.mekongbiz.org), and (ii) Promotion of Investment in Climate Technology Products through Venture Capital Funds (Subproject 1).

⁷ 2,000 positive media stories and 5 million social media shares tracked (www.coveragebook.com).

8. **ADB Ventures Facility.** The Facility will support the deployment and scaling of impactful technologies and business models through capacity and funding: local startups that are taking product to market, and technology companies attempting to expand into new markets. The Facility will have two components:

- (i) **Business Support Program** (indicative \$10 million TA for 2020-2022, of which ADB will seek cofinancing commitments of \$5 million) with two tracks:
 - a. **Startup Support Program** – ADB Ventures will partner with existing accelerators to identify and support local startups with SDG-related solutions.⁸ ADB will incentivize partner accelerators and startups with a holistic support package that includes funding, industry expertise, access to ADB networks, and potential follow-on investment funding (Linked Document 4). ADB Ventures will also build the capacity of angel investor networks to support impactful startups.
 - b. **Market Expansion Support Program** – Building on existing ADB and other partner platforms, ADB Ventures will convene and work with regulators, municipalities, and large corporates to build consensus on problem statements that represent commercial opportunities to technology solution providers and opportunities for SDG impact. ADB will then identify and support proven global technology solution providers to adapt and deploy solutions in the developing Asia-Pacific (Linked Document 4).⁹
- (ii) **ADB Ventures Investment Fund.** ADB is currently seeking funding commitments of at least \$40 million in order to establish and operationalize a trust fund to invest 8-12 year catalytic capital in early-stage companies (indicatively seed to pre- Series B). The fund's target investees are envisaged as companies that: (i) emerge from the ADB Ventures business support program; (ii) are co-invested with commercial investors (including VCs, corporates, social impact funds, foundations, family offices, and angel investors); and (iii) benefit from ADB's technical additionality (para 11). The fund would target financial sustainability and recycle such profits as may be derived from investments back into the fund. This multi-donor fund would consider a variety of instruments suitable for early-stage companies including both equity and quasi-equity. The investment strategy and specific funding instruments to be deployed will be determined by market diagnostics that determine funding gaps in targeted geographies and industries (output 2). ADB would be the investor-of-record for the fund's investments. Approval for the establishment and administration of this fund will be sought separately once fund-raising discussions have resulted in the necessary commitments by third party donors.

9. **Differentiated country approach.** Given the significant variation in progress towards the SDGs and the innovation ecosystem development across the Asia-Pacific, the Facility will tailor its approach to the unique challenges of each country. The business support program will place a greater emphasis on startup support in underdeveloped innovation ecosystems.

⁸ An accelerator is an entity that provides business support services to early-stage companies to help them grow more quickly, normally in return for a fee and/or equity stake; an accelerator program is a program that gives early-stage companies access to mentorship, investors and other support that help them become viable businesses.

⁹ Structures will be established to ensure ADB funding support only for entities with impactful technologies and business models that promote SDG impact in the developing ADB member countries, and not directly benefit solution providers from non-ADB member countries.

10. **Gender inclusion approach.** The startup support program in each country will include a female entrepreneurship award earmarked for a startup with a female co-founder. The market expansion support program will prioritize gender inclusion themes in which at least 50% of the beneficiaries are female. The ADB Ventures investment fund will apply a gender inclusion lens to all investment activities by systematically considering the benefits to females and will actively seek to catalyze and co-invest with impact funds that target women-owned businesses.

11. **ADB additionality.** With a \$102 billion portfolio by the end of 2017 and strong networks of governments, corporates, and knowledge institutions, ADB has unique convening power, expertise, and resources to crowd technology and investment into emerging markets. Technical additionality includes: (i) strong government relationships and industry expertise, (ii) regional convening power, (iii) operation at scale with critical mass to sustain long-term strategic engagement, and (iv) honest broker role to foster industry collaboration. Financial additionality includes: (i) provision of longer-term patient capital, and (ii) credibility of ADB brand that can crowd-in impact investors.

12. **Outputs.** The major outputs and activities are summarized in Table 1.

Table 1: Summary of Major Output and Activities

Major Outputs	Key Activities
1. ADB Ventures business support program designed and piloted	<p>1.1 Startup support program: design and roll-out program in partnership with at least 8 accelerators across the Asia-Pacific. (Q4 2018 – Q2 2020).</p> <p>1.2 Market expansion support program: pilot program across 5-6 industry themes subject to demand and opportunity. (Q1 2019 – Q2 2020).</p> <p>1.3 Business support program operations manual: Based on learning-by-doing, prepare operations manual that provides frameworks and processes for both the startup and market expansion support programs. (Q4 2018 – Q4 2019).</p>
2. ADB Ventures investment fund designed	<p>2.1 Early-stage financing analysis report: Prepare report developed through comprehensive market diagnostics and surveys, detailing early-stage funding gaps aligned to the startup and market expansion stages. The report will include climate change and gender analysis (Q4 2018 – Q2 2019).</p> <p>2.2 Investment platform and impact monitoring system: Design an investment deal-flow platform and impact monitoring system (Q4 2018 – Q1 2019).</p> <p>2.3 Structure and design of the facility: Prepare report detailing the structure and design, including governance and portfolio management system, of the proposed facility (Q4 2018 – Q2 2019).</p>
3. ADB ventures fund-raising completed	<p>3.1 Branding and communication strategy and action plan: Review and collate past operational experience that is relevant to ADB Ventures to develop and implement an effective branding and communications strategy to support fund-raising efforts. (Q4 2018 – Q4 2019).</p> <p>3.2 Fund-raising roadshow: Support fund-raising efforts with a roadshow. This will require marketing and promotion of the facility to a combination of multilateral agencies, bilateral agencies, foundations, and other potential funders and/or co-investors. (Q4 2018 – Q4 2019).</p>

ADB=Asian Development Bank; Q = quarter
Source: ADB estimates

C. Cost and Indicative Financing

13. The TA is estimated to cost \$3,000,000, of which (i) \$2,600,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (\$400,000 – TASF-6 and \$2,200,000 – TASF-Other sources), and (ii) \$400,000 will be financed on a grant basis by the Clean Technology Fund to be administered by ADB. Cost estimates and financing arrangements are in Appendix 1.

D. Implementation Arrangements

14. The TA will be implemented between October 2018 and December 2020. ADB will be the executing agency and PSOD will be the implementing agency for the TA. PSOD has mobilized staff and consultants with relevant expertise. PSOD will adopt a One ADB approach, working closely with the ADB's regional and knowledge departments to leverage ADB's government relationships, operational networks, and industry domain knowledge. The fundraising exercise is currently being coordinated with ADB's Office of Co-Financing Operations.

15. **Partnerships.** The Government of Australia has been a key knowledge partner through its funding of the Mekong Business Initiative (MBI) technical assistance. The ADB's Southeast Asia Department and PSOD collaborated closely under MBI. ADB Ventures will build on the business support programs piloted under MBI. During the design and implementation of the Facility, ADB will seek out new partners, including: (a) *innovation partners* that will partner with ADB to implement the business support programs; (b) *knowledge partners* that will provide resources to ADB to help design and operationalize the Facility; and (c) *funding partners*, both co-financiers of the Facility as well as potential co-investors after the fund is operationalized.

16. **Consulting Services.** Under this TA, ADB will also engage 5 near full-time individual consultants (2 international for 32 person-months, 3 national for 57 person-months) and short-term consultants (an estimated 24 person-months of international/regional consultant inputs) using the individual consultant selection process to ensure quality during the recruitment. ADB will hire one consulting firm (an estimated 12 person-months) for public relations using the quality- and cost-based selection method. Terms of reference are in Linked Document 5. ADB will engage the consultants and firm following ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions. The TA resources will be disbursed following ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). Disbursements from the two funding sources will be based on the appropriate usage purposes as determined by ADB.

17. **Pilot testing.** ADB Ventures will seek to tap into pilot-testing resources including the ADB High-Level Technology Fund while also setting aside \$900,000 from ADB's Technical Assistance Special Fund funding for pilot-testing of impactful technologies and business models that emerge from business support programs. Details of the transparent, competitive, and fair screening process are detailed in Linked Document 4.

III. THE PRESIDENT'S DECISION

18. The President, acting under the authority delegated by the Board, has approved (i) the Asian Development Bank (ADB) administering a portion of technical assistance not exceeding the equivalent of \$400,000 to be financed on a grant basis by the Clean Technology Fund, and (ii) ADB providing the balance not exceeding the equivalent of \$2,600,000 on a grant basis for the preparation for the ADB Ventures Facility, and hereby reports this action to the Board.

___ October 2018

Takehiko Nakao
President

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	ADB ^a	Clean Technology Fund ^b	Total
1. Consultants ^c			
a. Remuneration and per diem			
i. International	566	120	686
ii. National	233	40	273
b. International and local travel	175	0	175
2. Pilot Testing ^d	900	0	900
3. Goods ^e	13	0	13
4. Surveys, reports, and communications	148	0	148
5. Equipment, training, and seminars ^f	431	230	661
6. Miscellaneous administration and support costs ^g	6	10	16
7. Contingencies	128	0	128
Subtotal	2,600	400	3,000

Note: The technical assistance is estimated to cost \$3,000,000, of which (i) 2,600,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (\$400,000 – TASF-6 and \$2,200,000 – TASF-Other sources), and \$400,000 from the Clean Technology Fund to be administered by the ADB. TASF-6 usage will be restricted to Group A and B countries, and regional cooperation benefiting group A and B.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF)

^b Administered by the Asian Development Bank

^c Short-term consultants will be hired on a lump-sum contract if outputs are clear and specific.

^d Includes technical assistance for pilot testing, following OMD12, of impactful technologies and business models. If reimbursable conditions are applied to this support, then details will be included in agreements with beneficiaries.

^e Includes rent (October 2018–December 2020), office furniture, and fitting out works. Disposal of such goods will be undertaken in consultation with ADB's Office of Administration Services and Office of Information System and Technology department.

^f Includes logistics arrangements; venue; travel of resource persons, including ADB staff and experts; supplies and materials that will be used in the seminar, meetings, and workshops. This may also include limited representation expenses and promotion materials, where there are directly identifiable costs under this technical assistance.

^g This TA includes provision for Asian Development Bank staff to provide support services (travel and related costs for secretarial and administrative services), for assisting the implementation and administration.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=52295-001-TARreport>

1. Design and Monitoring Framework
2. Lessons from the Mekong Business Initiative
3. Indicative SDG Impact Monitoring Framework
4. Draft Design and Piloting of ADB Ventures Business Support Program
5. Terms of Reference