ADB

Report and Recommendation of the President to the Board of Directors

Project Number: IND 39922
November 2005

Proposed Equity Investment in BTS India Private Equity Fund

Asian Development Bank

ASIAN DEVELOPMENT BANK RRP: IND 39922

REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

BOARD OF DIRECTORS

ON A

PROPOSED EQUITY INVESTMENT

IN

BTS INDIA PRIVATE EQUITY FUND

November 2005

ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
GPS	–	good practice standard
IPO	–	initial public offering
IRR	–	internal rate of return
IT	–	information technology
PSOD	–	Private Sector Operations Department, ADB
SMEs	–	small and medium-sized enterprises

NOTE

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

This report was prepared by V. John (team leader) and D. Wiedmer, Private Sector Operations Department.

CONTENTS

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed equity investment in BTS India Private Equity Fund (the Fund) of up to $15 million or 25% of the Fund's total share capital, whichever is less.

II. RATIONALE: BACKGROUND, CHALLENGES, AND OPPORTUNITIES

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A. Background

2. The Indian economy has been growing at an average rate of 6% per year since the 1991 launch of economic reforms and liberalization of trade and investment. While agriculture has traditionally been India's largest economic sub-sector, the past decade has seen the services sector emerge as the largest component of gross domestic product (GDP). According to recent research, the main factors underlying India's long-term growth are rationalization of the domestic economy (i.e., improving total productivity) and, more recently, exports of information technology and information technology–enabled services.[1]

3. Over the last 10 years, the Indian Government has introduced wide-ranging changes to accelerate economic growth and integrate the Indian economy with the rest of the world. These reforms have primarily minimized or reduced the role of government in industry and trade, and improved the competitiveness of Indian industry.

4. Some of the key governmental measures have been:

(i) Simplifying the process of setting up businesses. In particular, the business licensing requirement has been abolished for most industries.

(ii) Rationalizing the tax regime, including lowering tariff barriers, reducing marginal tax rates, and simplifying tax procedures.

(iii) Simplifying the trade regime and achieving full convertibility of the rupee.

(iv) Improving the overall investment climate by liberalizing many restrictions on investment, including some major limitations on foreign investment, deregulating interest rates, and opening up the insurance sector to private sector participation.

(v) Developing the infrastructure sector by encouraging private participation in power, telecom, ports, and roads, and reforming the power sector to improve efficiencies.

(vi) Reducing the role of government in industry and introducing a program to make prices in the petroleum sector market-driven.

(vii) Implementing labor reforms, including amendments to the Industrial Disputes Act allowing easier closure and layoffs of workers in economically unviable companies, to encourage companies to hire employees more quickly, and changes in the wage ceilings set in the Payment and Wages Act.

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[1] Morgan Stanley. 2004. *India and China: A Special Economic Analysis*. Hong Kong, China.

5. Despite these positive changes, which will ultimately support the development of a sustainable private equity industry, much more effort must go into reform to facilitate private sector development and sustainable economic growth.

1. Indian Private Equity Industry

6. The private equity industry in India is more than 15 years old. The first venture capital fund, TDICI Ltd. (now known as ICICI), was established in 1988.

7. In India today, many funds that have been set up in the last 6 years are focused on information technology (IT). In contrast, the portfolio of more established funds shows a broad exposure to a variety of commercial sectors and stages of investment including investments in early-stage companies. The portfolio performance of many of the IT-focused funds has, with few exceptions, mimicked the dismal performance of similar portfolios globally. Many institutional investors that invested in such funds in the late 1990s therefore became wary of any potential investment management entity that called itself a “venture capital” or “private equity” fund, resulting in a drop in assets managed by these entities. However, the funds that built a more diverse portfolio have tended to perform better and demonstrated a number of successful exits through trade sales and initial public offerings (IPOs).

8. In 2004, funds broadened their interest to a range of sectors including manufacturing, health care, banking and financial services, pharmaceuticals, engineering, textiles, and telecommunications technology. The thriving market for business process outsourcing services continued to be a favorite.[2]

9. The current Indian private equity industry can be categorized into four distinct market segments: (i) top-end funds investing in large capital transactions (e.g., Warburg Pincus and General Atlantic Partners [GAP]); (ii) funds managed by investment banks, with a rather passive, transactional investment approach (e.g., Chrys, Westbridge, and View); (iii) smaller local players exploiting a specific market niche like SME finance (e.g., Jumpstart, Andhara, IL&FS, and BTS India Investment Advisors [BTS India]); and (iv) locally entrenched, traditional private equity funds focusing on expansion capital (e.g., CVC, Actis, Barings, and ICICI). The Indian private equity industry still has few syndicated investments and limited competition in the SME finance segment. ADB has recently invested in Baring India Private Equity Fund, which targets larger transactions and is therefore complementary to BTS India, which operates in the SME finance niche.

10. Successful exits in recent years and good returns by diversified funds have led to a slight change in thinking among many Indian banks, financial institutions, and insurance companies. With their relatively robust returns, these funds and investment teams look more attractive to domestic institutional investors. As interest rates have fallen precipitously, asset managers have had to start looking at private equity as an alternative asset class for investments.

11. While many investors have allocated more to private equity as an alternative asset class, private equity is still underinvested because not enough fund managers have the experience and financial backing needed to ensure sustainable operations. As a result, the private equity

[2] Economist Intelligence Unit. 2005. *Country Finance: India.* London.

investment rate in India is still well below the levels in the Republic of Korea and Singapore.[3]

B. Challenges and Opportunities

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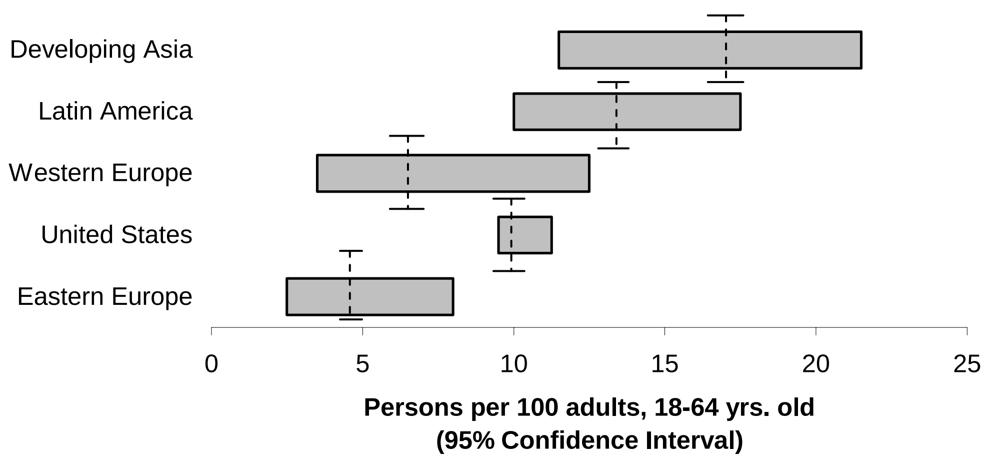
12. Entrepreneurial opportunities are likely to abound in India in the next few years (Figure 1) because of expected sustained growth; a large and growing pool of qualified engineers, scientists, managers, and technicians, many returning from industrialized countries;[4] and a growing middle class with substantial purchasing power. In addition, inflation is likely to remain at managed levels, although federal and state budgetary deficits must be controlled. The consumer market counts 50 million households (more than 200 million people) with a yearly income in excess of $1,000. The country has the second-largest English-speaking population in the world and a technical employment base of 4.1 million. This pool is augmented yearly through an excellent tertiary education system. Leading corporations like Citibank, General Electric, and Unilever are extensively staffed by Indian expatriate staff recruited and trained in India.

13. As a result of these factors, the pool of SMEs with growth potential has significantly increased in India. To take advantage of these opportunities, SMEs need diverse sources of finance for expansion. ADB's assessment of India's private sector leads it to recommend providing assistance to increase the variety of financing instruments that are accessible to private firms.[5] In particular, SMEs require long-term finance for capital expenditure and expansion projects.

Figure 1: Entrepreneurial Activity by Region



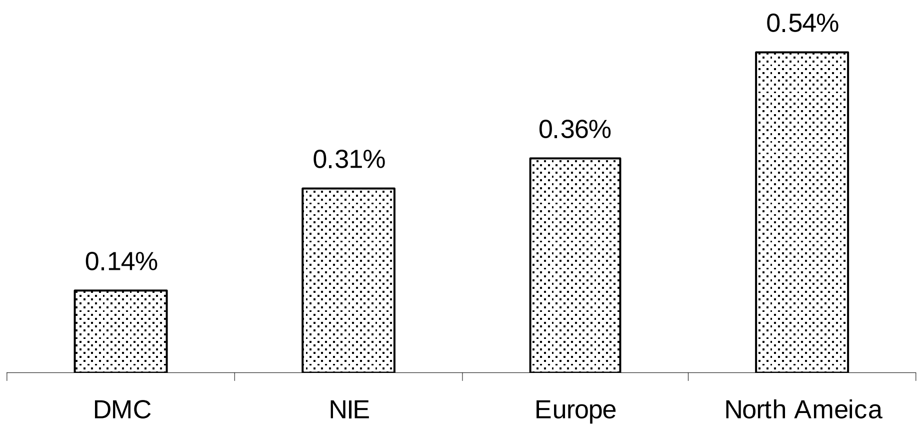
Note: "Developing Asia" includes PRC, India, Thailand, and Korea.
Source: Global Entrepreneurship Monitor, *2002 Executive Report*.

[3] The private equity investment rate as a share of gross domestic product (GDP) in 2003 was 0.59% in Singapore, 0.47% in the Republic of Korea, and 0.14% in India. (Asian Venture Capital Journal. 2004. *The 2004 Venture Capital Guide to Asia.* Hong Kong; World Bank. 2004. *World Development Indicators.* Washington, DC.)

[4] An estimated 15–20 million people of Indian origin live abroad. They constitute the largest ethnic diaspora after the overseas Chinese. Indian technology entrepreneurs are an important segment of Silicon Valley. The Indian communities abroad generally maintain close ties with India. US survey evidence from the Public Policy Institute in California indicates that around three quarters of Indian immigrants would consider starting a joint venture in India. (Union Bank Switzerland, 2004. *Research Focus. China and India.* Zurich.)

[5] ADB. 2004. *Private Sector Assessment: India.* Manila. p.48.

Figure 2: Private Equity Investments as % of GDP, 2003



Notes: The developing member countries (DMCs) are Bangladesh, People's Republic of China, India, Indonesia, Malaysia, Pakistan, Philippines, Sri Lanka, Thailand, and Viet Nam. For India alone, the rate is also 0.14%. The newly industrialized economies (NIEs) are Hong Kong, China, Republic of Korea, Singapore, and Taipei,China.
Source: Asian Venture Capital Association, PriceWaterhouseCoopers, and the World Bank.

14. However, there is still a gap in long-term finance in India because most SMEs are set up by professionals with limited personal resources to meet growth capital requirements, and most SMEs tend to operate at high gearing levels, limiting their ability to raise fresh debt. Although debt is available at competitive rates, commercial banks will not lend without comprehensive collateral coverage, which is not available to SME entrepreneurs.

15. The Government in India has recognized the beneficial role of the private equity industry in spurring economic development and its ability to promote high value-added employment, and has therefore started to improve the regulatory environment. In 1999 a number of new regulations were issued and later enhanced. Appendix 1 reviews the Government's recent measures to foster private equity investments.

16. The lessons learned from its long experience in investment fund operations will guide ADB in taking advantage of opportunities in entrepreneurial finance and supporting the development of the Indian private equity industry, while addressing its challenges.

17. In conclusion, a large and growing pool of entrepreneurial SMEs in India have great potential for expansion. These SMEs' demand for long-term equity finance is not met by traditional financial institutions, and the private equity investment rate still has a long way to go to reach the levels achieved in the Republic of Korea, Singapore, and Taipei,China. This gap provides an opportunity for ADB to stimulate the diversification of the financial sector in India by supporting a domestic private equity team with an excellent track record in the niche of SME equity finance, and to mobilize funds from institutional investors by actively participating in the Fund's structuring and supervision.

III. THE PROPOSED FUND

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A. Objectives and Description

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18. ADB proposes to make an equity investment in the Fund of up to $15 million or 25% of the Fund's total share capital, whichever is less. ADB will not be the largest investor in the Fund.

19. The primary objective of the Fund will be to achieve medium- to long-term capital gains by primarily investing through equity or equity-related instruments in high-growth SMEs in India. The investment size will range from $3 million to $6 million.

B. Sponsor and Co-investors

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20. BTS Investment Advisors Limited will be the investment adviser of the Fund (the Fund manager). BTS Investment Advisors is also the investment adviser of Swiss Technology Fund (Swiss Tec), a $22 million fund established in 1998 to invest in Indian SMEs. BTS Investment Advisors in Mumbai, an Indian subsidiary of the Fund manager, will carry out the investments for the Fund. BTS Investment Advisors in Zug, Switzerland, will undertake investor relations, fund raising, and supervision tasks, but the investment activity will be undertaken in Mumbai.

21. BTS Group is a financial services provider for the Indian subcontinent. It advises foreign clients on investing in the Indian markets as well as Indian companies expanding outside India. BTS Group is owned by the Guggenbühl-Even family and Volkart Holding AG, which has been active in India for more than 150 years.

22. BTS Investment Advisors has four investment professionals in Mumbai—A. K. Srinivas, Pramod Shedde, Suneet Gupta, and Bharat Dighe, who collectively have more than 50 years' private equity investment experience in India. The managing partner, Alastair Guggenbühl, has been involved with Indian private equity investments for 5 years, but in an oversight capacity.

23. The investment team has established a good track record during volatile conditions in India since 1998, when the predecessor fund was incorporated. Since BTS Investment Advisors took over its management in 2000, the fund has successfully changed its investment strategy from providing venture capital finance for start-ups to offering SME expansion finance.

C. Governance Structure

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24. The Fund will be managed by BTS Investment Advisers Ltd, Zug, Switzerland, and its Indian subsidiary, BTS Investment Advisors Ltd. The Indian subsidiary operates from Mumbai and will carry out the investment activities for the Fund. The Swiss parent company will undertake investor relations, fund raising, and supervision tasks.

25. The Fund manager (i) identifies potential fund investment opportunities, (ii) screens investment proposals by making a thorough appraisal of the feasibility and risks, (iii) supervises and monitors fund investments, (iv) disposes of the shares of companies invested at the time of

exit, and (v) undertakes all Fund accounting, compliance, and investor reporting. The Fund manager will be contractually bound to carry out its responsibilities according to the Fund's investment policy. Please refer to section III-C for a detailed description of the Fund manager.

26. To encourage individual team members to select companies with the most promise for entrepreneurial growth, and to enhance the value of their investees, the team members earn a carried interest, i.e., performance fee, if the return to investors exceeds 7% per year, after the value of their invested capital has been returned.

IV. INVESTMENT BENEFITS, IMPACTS, AND RISKS

A. Justification

1. Development Impact

27. By providing financing for this transaction, ADB intends to achieve the following developmental objectives:

(i) Mobilize long-term capital in the form of private equity for SMEs in India to finance expansion and productivity improvements.

(ii) Diversify the sources of finance available to SMEs by including equity finance, which enables SMEs to buy fixed assets and to use them as collateral for commercial bank loans to leverage their expansion. This dynamic process helps Indian SMEs to evolve into larger enterprises.

(iii) Demonstrate to the private sector that investments in entrepreneurial SMEs in India can be commercially attractive, and thus catalyze further investments by building up local capacity to manage private equity investments. This demonstration effect will be achieved most effectively by supporting domestic private equity teams.

(iv) Provide management advice to SMEs in financial planning, business expansion strategies, human resource development, and implementation of international standards of corporate governance.

(v) Create sustainable employment in India vis-à-vis the Fund's investee companies.

(vi) Stimulate private sector development to serve as a vehicle for the country's long-term economic growth and stability.

(vii) Contribute to the development of a well functioning regulatory and legal environment in India. The Fund will be required to collect consistent information on regulatory issues that their SME portfolio companies encounter. This information will be reported on a regular basis to the South Asia Department to support the formulation of a conducive regulatory framework for expanding SMEs.

2. Value Added by ADB

(i) **Catalytic and demonstration effect.** Given the significant risks and challenges facing potential investors, ADB will serve a catalytic role in attracting additional local and foreign long-term private investments to India. ADB will demonstrate by its intervention the credibility of SME equity finance in India and mobilize capital to support other private equity funds. This Fund is particularly well positioned to achieve a demonstration effect as local financial institutions are expected to invest alongside international investors.

(ii) **Private sector development.** The Fund, similar to others in which PSOD invests, will make a direct contribution to private sector development. The Fund, with a portion of its funding coming from private institutional investors, will employ market-based mechanisms to develop profitable and sustainable enterprises. ADB's contribution to this type of initiative helps its DMCs to implement their respective country specific private sector development strategies.

(iii) **Value added by Fund manager.** ADB will support domestic teams providing hands-on management advice to SMEs in financial planning, business expansion strategies, human resource development, and implementation of international standards of corporate governance.

28. ADB has undertaken to develop an appropriate investment strategy, which includes a portfolio approach to its investment fund operations. This strategy makes a case for the relevance and impact of ADB's private equity investments and describes the intended refinement of the approach through products tailored to the specific needs of the beneficiary countries.

B. Measuring Development Effectiveness

29. PSOD and the Operations Evaluation Department (OED) are formulating guidelines for implementing the Good Practice Standards (GPS) for Evaluation of Private Sector Investment Operations, which were prepared by the Evaluation Cooperation Group[6] of the multilateral development banks. These GPS cover the roles of the independent evaluation department and the private sector department itself, the evaluation dimensions for private sector operations, the nature of annual reporting, and dissemination of reports and lessons. According to the GPS, the three principal dimensions for private sector evaluation are development outcome, investment profitability for the institution, and operational effectiveness. PSOD will measure the expected development outcome of this Fund at the Fund and sub-project levels as well as beyond the Fund by monitoring certain performance measures throughout the life of the Fund. The performance measures are grouped into three key areas:

(i) **Business performance**. The extent to which the Fund has reached its objectives in terms of the overall profitability and commercial viability of the Fund and subprojects.

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[6] The Evaluation Cooperation Group was formed by the multilateral development banks to design common evaluation standards for private sector operations. The group's work is ongoing and some aspects of the present evaluation framework might change to correspond to best practices.

(ii) **Economic sustainability**. The effects of the Fund and subprojects on the DMC's economy, and the associated benefits and costs. On the one hand, these measures assess the extent to which the Fund improved the allocation of resources and provision of financial services to viable private enterprises. On the other hand, these measures evaluate whether the subprojects directly generated positive effects on the local economy.

(iii) **Private sector development**. The impact of the Fund on private sector development beyond the Fund itself and its immediate stakeholders, e.g., the Fund's contribution to the growth of viable financial institutions and financial markets development.

30. Quantitative and qualitative measures of performance are outlined below and summarized in Appendix 7.

(i) Business performance (Fund)

Overall profitability of the Fund: gross and net IRR.

(ii) Economic sustainability (subprojects)

(a) Efficient allocation of finance and provision of financial services to economically viable enterprises.

(i) Sub-project economic performance: annual net profits and revenues of subprojects.

(ii) Stronger local entrepreneurship: (a) number of entrepreneurial projects receiving finance from the Fund, and (b) number of returning entrepreneurs and skilled workers from industrialized countries receiving finance and transferring skills.

(iii) Contribution to widening the access to finance of SMEs: additional debt raised by subprojects as a result of the equity investments.

(iv) Provision of value-added services enhancing the viability of SMEs: (a) number of enterprises advised, and (b) quality of advice in financial planning, expansion strategies, human resource development, accounting standards, corporate governance, and management training.

(b) Direct contribution of subprojects to the local economy and living standards.

(i) Contribution to government revenues: increased amount of taxes paid by subprojects.

(ii) Employment generated: (a) number of jobs created by subprojects, and (b) quality of jobs created by subprojects (e.g., technical jobs).

(iii) Adoption of new technologies and production processes: (a) increased investment in new technologies or improved production processes by subprojects, and (b) number of subprojects implementing successful new technologies.

(iii) Private sector development (impact beyond the Fund and subprojects)

(i) New technology, development of management skills, and employee training in domestic financial sector: (a) number of local investment professionals in SME private equity trained by the Fund, and (b) number of the Fund's investment professionals raising a subsequent fund in a DMC.

(ii) Resource mobilization through private equity: (a) domestic finance for investments in SMEs mobilized by the Fund, and (b) international finance for investments in SMEs mobilized by the Fund.

(iii) Positive effect on the legal and regulatory framework and its administration: (a) quality and volume of the Fund's feedback to ADB on improvements in the regulatory environment, and (b) evidence of lobbying by the Fund for improvements in the regulatory framework.

(iv) Growth in financial services in the domestic financial markets: (a) growth in the private equity market in the domestic financial sector, and (b) increased access to long-term finance.[7]

C. Environmental Protection and Social Safeguard Guidelines

31. The Fund is classified as category FI (Financial Intermediary) and no significant environmental impact is anticipated. The Project's impact on indigenous peoples has been classified as C (no impact). All companies in which the Fund invests will (i) comply with national environmental laws, regulations, and standards; or (ii) agree to adopt a program to comply with such standards; or (iii) as soon as possible, reasonably mitigate any noncompliance with such standards. All companies in which the Fund invests will also comply with ADB's environmental and social safeguard policies, including policies relating to involuntary resettlement and indigenous people. The Fund will also comply with policies against money laundering and financing of terrorism.

32. The implementation of an environmental management system, which includes ADB's environmental and social safeguards, represents an essential value addition by ADB to this private equity fund. Close coordination with ADB will be necessary to ensure that the Fund manager possesses the skills to screen and categorize prospective investments on the basis of environmental and social impact. . The Fund will ensure that at least one of its employees has received environmental training and training in application of ADB's social safeguard policies. The Fund manager will appoint a senior officer to implement and supervise the environmental

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[7] Growth in financial services in the domestic financial markets will be measured at the level of the whole economy, not at the level of the Fund.

and social management system, and an environmental coordinator to review compliance by investee companies with all applicable ADB policies. The Fund has developed an environmental management system satisfactory to ADB and is committed to its implementation. The environmental management system might be adapted to accommodate bilateral investors, in which case it will first be submitted to ADB's Environment and Social Safeguards Division for approval. Please refer to Appendix 8 for the Fund's environmental and management system and the resettlement framework as currently proposed in the Fund's legal documentation.

V. ASSURANCES

33. ADB will enter into suitable documentation that will indicate ADB's commitment to invest an amount up to the lesser of $15,000,000 or 25% of the Fund's total share capital (including parallel investment vehicles, if any) following approval of the investment by ADB's Board of Directors. ADB will not be largest investor in the Fund. ADB will satisfy itself with the terms and conditions of the all principal documents associated with its investment of the Fund, including the investment management agreement between the Fund and the Fund Manager.

VI. RECOMMENDATION

34. I am satisfied that the proposed investment in BTS India Private Equity Fund as described in this report complies with the Articles of Agreement of ADB and recommend that the Board approve the investment of up to the lesser of $15,000,000 or 25% of the Fund's total share capital (including parallel investment vehicles, if any) in BTS India Private Equity Fund from ADB's ordinary capital resources.

Haruhiko Kuroda
President

2 November 2005

THE REGULATORY ENVIRONMENT OF THE PRIVATE EQUITY INDUSTRY IN INDIA

1. The Securities and Exchange Board of India (SEBI) issued its Regulations for Venture Capital in 1996, thus establishing the agency's authority over the funds, the limits on their activities, and incentives for them to finance and rescue troubled companies. There are no legal or regulatory differences between venture capital and private equity firms. The Government first permitted financial institutions (Industrial Development Bank of India, ICICI, and IFCI), commercial banks (including foreign banks), and subsidiaries of commercial banks to establish venture capital companies under guidelines issued in 1988. In addition, under current central bank regulations, banks' investments in mutual funds catering to venture capital funding are considered to be outside the ceilings applicable to banks' investments in corporate equity and debt.

2. Foreign venture capital funds have been permitted to operate in India since 1995. They may either hold the shares of unlisted Indian companies directly (up to a maximum of 25% of equity) or route their investments through domestic venture capital funds and companies. Before guidelines were issued in September 2000, direct exposure by offshore private equity funds in shares of unlisted companies was treated as a foreign direct investment and had to be approved in line with the Government's general policy on foreign investments. Indocean Venture Fund (now Indocean Chase), originally set up by George Soros and Chemical Bank in October 1994, was the first such overseas private equity fund.

3. The regulatory environment for the private equity industry was simplified in 1995–2000. Foreign institutional investors participated in the growth of the private equity industry through the foreign direct investment regulations of the Government and the simplified tax administration procedures under the Indo-Mauritius Double Taxation Avoidance Treaty. While the foreign direct investment route offered minimum investment restrictions for private equity funds, exit pricing and repatriation of capital were regulated by the Reserve Bank of India (RBI). To bring these capital flows under the regulation of the venture capital industry, new SEBI regulations were issued with simplified exit pricing and repatriation procedures for foreign investors.

4. Following amendments to the 2000 budget, the Government has allowed private equity funds "pass-through" status, meaning that the distributed or undistributed income of the funds is not taxed. To avoid double taxation, the income of a private equity fund is taxed only in the hands of the investor.

5. SEBI was also made the sole regulatory authority, and private equity funds must submit quarterly reports to it. In September 2000 SEBI announced the guidelines that now govern venture capital investment, based on the January 2000 recommendations of the Chandrashekhar committee on venture capital. After another set of amendments in April 2004, the following rules now apply:

(i) Foreign venture capital investors can invest in India without the need for approval from the Foreign Investment Promotion Board if they register with SEBI.

(ii) Each investor in a venture fund must invest at least Rs500,000, and each fund must have at least Rs50 million in capital.

(iii) A fund may invest in one company up to 25% of the fund's capital. It cannot invest in associated companies of ventures that it finances.

(iv) A fund must invest 66.67% (lowered from 75% in April 2004) of its investible funds in unlisted equity or equity-linked instruments. The remaining 33.3% can be invested in subscriptions to initial public offerings (IPOs) of companies or in debt instruments of a company in which the venture fund has already made an equity investment.

(v) The April 2004 amendments removed the previous 1-year lockup period for IPO subscriptions. They also allowed investments within the 33.3% category in preferential allotments of equity shares of a listed company, subject to a 1-year lock-in, and in equity shares or equity-linked instruments of a listed company that is financially weak.

(vi) The removal of the profitability criterion as a listing requirement had an important effect on the private equity industry as it provided an exit mechanism for investors. To replace the profitability requirement, a firm would be delisted if it did not earn a profit within 3 years of listing.

(vii) The acquisition of shares in a venture fund by the investee company or its promoters is exempt from the provisions of the takeover code and will therefore not mandate an open offer.

(viii) Mutual funds may invest 5% of the capital of an open-ended scheme and 10% of the capital of a closed-ended scheme in a venture fund.

(ix) In April 2004 the SEBI also removed some previous restrictions and allowed venture funds to invest in real estate companies, gold financing companies, and equipment leasing and hire-purchase companies registered with the RBI.

6. These regulations have significantly improved the regulatory environment for private equity funds operating in India, such as BTS India Private Equity Fund. In addition, they reflect the strong commitment of the Indian Government to support the provision of long-term equity finance to domestic entrepreneurial companies.

Source: Dossani, Rafiq, and Martin Kenney. 2002. Creating an Environment for Venture Capital in India. *World Development* 30:2; Economist Intelligence Unit. 2005. *Country Finance: India.* New York; and information collected from BTS Investment Advisors Ltd. during due diligence.

PERFORMANCE MEASURES FOR DEVELOPMENT OUTCOMES

1. Business Performance (Fund)

Concept	Impact	Performance Measures (Qualitative and/or Quantitative*)*
Financial objectives	▪ Overall profitability of the Fund	▪ Gross internal rate of return (database)[a] ▪ Net internal rate of return (database)

2. Economic Sustainability (Fund and Subprojects)

Concept	Impact	Performance Measures (Qualitative and/or Quantitative)
Efficient allocation of finance and/or provision of financial services to economically viable enterprises	▪ Subproject economic performance ▪ Stronger local entrepreneurship ▪ Contribution to widening the access to finance of SMEs ▪ Provision of value-added services, enhancing the viability of SMEs	▪ Annual net profit of subproject (database) ▪ Annual net revenue of subproject (database) ▪ Number of entrepreneurial projects receiving finance from the Fund (database) ▪ Number of returning entrepreneurs and skilled workers from industrialized countries receiving finance and transferring skills (database) ▪ Additional debt raised by subprojects as a result of the equity investments (database) ▪ Number of enterprises advised (database) ▪ Quality of advice in financial planning, expansion strategies, human resource development, accounting standards, corporate governance and management training (PCR)
Additional direct contributions of subprojects to the local economy	▪ Contribution to government revenues ▪ Employment generated ▪ Adoption of new technologies and production processes	▪ Increased amount of taxes paid by subprojects (database) ▪ Number of jobs created by subprojects (database) ▪ Quality of jobs created by subprojects e.g. technical jobs (PCR) ▪ Increased investment in new technologies and/or in improvement of production processes by subprojects (PCR) ▪ Number of subprojects implementing successful new technology (PCR)

Concept	Impact	Performance Measures (Qualitative and/or Quantitative)
		▪ Increased quality/lower price of subproject's product due to investment in technology (PCR)

3. Private Sector Development (Impact Beyond Fund and Subprojects)

Concept	Impact	Performance Measures (Qualitative And/Or Quantitative)
Contribution to the growth of viable financial institutions and financial market development	▪ Positive impact on regional integration ▪ New technology, development of management skills, and employee training in domestic financial sector ▪ Resource mobilization through private equity ▪ Growth in financial services in the domestic financial markets[b]	▪ Number of companies enabled to expand regionally through the Fund's provision of equity capital ▪ Number of companies enabled to expand regionally through the Fund's support in upgrading management systems ▪ Number of local investment professionals in SME private equity trained by the Fund (PCR) ▪ Number of Fund's investment professionals raising a subsequent fund in financial sector of a DMC (PCR) ▪ Mobilized domestic finance for investments in productive SMEs by the Fund (at closing of the Fund) ▪ Mobilized international finance for investments in productive SMEs by the Fund (at closing of the Fund) ▪ Growth in private equity market in the domestic financial sector (PCR) ▪ Increased access to long-term finance (PCR)

ADB = Asian Development Bank, DMC = developing member country, IRR = internal rate of return, PCR = project completion report, SMEs = small and medium-sized enterprises.

[a] Performance measures followed by "(database)" will be monitored regularly in the framework of the private sector operations department's database for funds. Performance measures followed by "(PCR)" will be measured at the PCR stage.

[b] Growth in financial services in the domestic market will be measured at the level of the whole economy, not at the level of the Fund.

Source: Asian Development Bank, Private Sector Operations Department