



## Financing Partnerships

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January 2020

# Establishment of the ADB Ventures Financing Partnership Facility

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**Asian Development Bank**

## ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
ESC	–	early-stage company
FIC	–	Fund Investment Committee
SDG	–	Sustainable Development Goal
TA	–	technical assistance
US	–	United States

## GLOSSARY

accelerator	–	an entity that provides business support services to ESCs to help them grow more quickly, normally in return for a fee and/or equity stake; an accelerator program gives ESCs access to mentorship, investors, and other support that help them become viable businesses
ADB Ventures Lab	–	an ADB Ventures TA funded activity that involves partnering with leading innovation partners, including specialized accelerators, to source promising ESCs with impactful technology-enabled solutions
ADB Ventures SEED	–	an ADB Ventures TA funded activity that allows ADB to provide grants up to \$200,000 to an ESC sourced through ADB Ventures Lab to validate and de-risk potential ADB Ventures investees
angel investor	–	an affluent individual who provides capital to a startup, usually in exchange for ownership equity
corporate innovation	–	the process of companies implementing new innovation opportunities into existing business models; corporate innovation programs may be operated internally or externally by a third party to help companies source and partner with ESCs to pilot and integrate technology solutions
de-risk	–	interventions taken to reduce risk on investment
early-stage company	–	typically, companies with some customers testing a product while fine-tuning a go-to-market strategy and building out sales channels
financial risk	–	risks associated with investing in an early-stage company that operate in emerging markets
impact technology	–	technology-enabled solutions that contribute to the SDGs
market expansion risk	–	risks facing early-stage companies when they expand to new markets
patient capital	–	equity or loan investments offered on a long-term basis, often by investors looking for non-financial as well as financial gains
pre-series A	–	funding round between seed and series A stage funding (seed capital is the money raised to begin developing a business or a new product).
quasi-equity	–	a category of debt that has some traits of equity, such as flexible repayment options or being unsecured (e.g.,

- series A – a convertible loan that is a short-term debt that converts into equity, usually at the next investment round)
- typically given to a company's first significant round of venture capital financing
- technology transfer – process of transferring technology to new markets
- venture capital – capital invested in a project in which there is a substantial element of risk, typically a new or expanding business

**NOTE**

In this report, "\$" refers to United States dollars.

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## I. INTRODUCTION

1. This proposal is submitted for your approval for the Asian Development Bank (ADB) to (i) establish the ADB Ventures Financing Partnership Facility (ADB Ventures); (ii) accept and administer contributions to ADB Ventures from multiple funding sources including bilateral and multilateral organizations; (iii) establish a multi-donor trust fund (ADB Ventures Investment Fund 1) as the anchor trust fund of ADB Ventures; and (iv) administer a technical assistance (TA) under ADB Ventures that will exceed \$5 million, to be financed on a grant basis from multiple sources including bilateral and multilateral organizations and ADB's own TA resources.<sup>1</sup>

2. ADB Ventures will be a nonsovereign platform that is expected to operate for about 30 years and be fully integrated with other ADB operational platforms and processes. The Financing Partnership Facility modality is suitable for ADB Ventures because it allows for strategic, long-term, and multi-partner cooperation with development partners, linking investment and TA funding. ADB Ventures is designed to accept contributions from multiple funding sources to ADB in multiple trust funds exceeding \$200 million as the facility grows.

3. ADB Ventures will support and invest in early-stage companies (ESCs) with technology-enabled solutions that contribute to achieving the Sustainable Development Goals (SDGs), referred to as "impact technologies," in ADB's developing member countries (DMCs).<sup>2</sup> This new facility fills an operational gap by allowing ADB to provide financing at all stages of a companies' operations life cycle. It aligns with Strategy 2030's emphasis on promoting the use of innovative technology solutions to address the unfinished development agenda in Asia and the Pacific, including issues such as poverty, rising inequality, climate change, and growing environmental pressures (para. 6). The ADB Ventures Investment Fund 1 will contribute to multiple SDGs by applying a climate (80%) and gender (75%) impact investment lens, primarily targeting DMCs in Southeast Asia and South Asia.<sup>3</sup> ADB Ventures will work closely with ADB regional and knowledge departments to leverage government relationships, operational networks, and industry knowledge.

## II. BACKGROUND AND RATIONALE

4. **Opportunity.** Asia and the Pacific has made great strides in poverty reduction and economic growth, but the region remains off-track to meet all of the SDGs.<sup>4</sup> The world is brimming with impact technology solutions that conserve energy, reduce waste, and deliver public services more effectively to low income population groups. These technologies have achieved wide uptake and implementation in developed markets. There is significant potential for impact in developing

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<sup>1</sup> ADB Ventures requires Board approval because it has an indicative funding target of \$200 million. The ADB Ventures Investment Fund 1, the anchor trust fund under ADB Ventures, would have an initial contribution of about \$50 million, and the ADB Ventures TA would have an initial contribution of about \$12 million.

<sup>2</sup> ADB will target ESCs with strong teams, innovative and rapidly scalable business models, and limited research and development risk.

<sup>3</sup> ADB Ventures will contribute to SDG 1 (No Poverty), SDG 3 (Good Health and Well-Being), SDG 5 (Gender Equality), SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation, and Infrastructure), and SDG 13 (Climate Action). The Design and Monitoring Framework is in Appendix 1.

<sup>4</sup> United Nations Economic and Social Commission for Asia and the Pacific. 2019. [Asia and the Pacific SDG Progress Report 2019](#).

and frontier markets because the cost of deploying and scaling these technologies has plummeted. [The information in this section is confidential and has been deleted.]<sup>5</sup>

5. **Problem.** The market development for impact technologies in DMCs is constrained by the following:<sup>6</sup>

- (i) **Market expansion risks.** Markets are diverse and fragmented by geography, culture, and business regulatory environments. Technologies and business models must be adapted market-by-market to a variety of norms, often amid limited market information and low transparency. Market expansion risks are even more acute for Asia and the Pacific's smaller and more remote markets. The private sector has been reluctant to invest in higher risk markets, and technology innovators often consider it easier to focus on more mature markets.<sup>7,8</sup> Women customers also constitute an underserved market, and it is estimated that improved gender equality in the region could add \$4.5 trillion to collective gross domestic product annually in 2025, a 12% increase over the business-as-usual gross domestic product trajectory.<sup>9</sup>
- (ii) **Financial risks.** Venture capital portfolios tend to be concentrated in selected markets, later-stage deals, and certain sectors such as e-commerce. In 2018, only 2% of venture capital deals were for clean technologies. The agriculture sector contributed over 12% of global economic output but only received less than 3% of venture capital global funding.<sup>10</sup> The lack of risk capital is particularly acute for ESCs accessing smaller and frontier markets, more remote geographic areas, companies serving public-sector customers, and innovators in capital-intensive sectors. The payback period to equity investors tends to be longer and more uncertain in these markets and sectors. Although there is a growing pool of patient capital from diversified sources—including corporate venture capital funds, impact funds, foundations, and family offices—these funding sources remain fragmented and struggle with market insights and transparency. Most emerging markets do not have well organized deep pools of angel investment.<sup>11</sup> There may also be gender biases because women-led enterprises collected less than 3% of global venture capital funding.<sup>12</sup>

6. **Strategy 2030 priorities.** There is increasing demand from ADB's DMCs for technology solutions that contribute to more inclusive and sustainable economic growth. ADB Ventures will expand nonsovereign operations by filling a market gap for early-stage funding of impact technologies. The new facility is strongly aligned with ADB's Strategy 2030 because it allows ADB to (i) prepare bankable private sector projects by supporting the incubation and validation of impact technology solutions in DMCs; (ii) further diversify ADB's nonsovereign portfolio to non-

<sup>5</sup> Microsoft Dynamics 365. 2019. [2019 Manufacturing Trends Report](#).

<sup>6</sup> ADB. Forthcoming. *Alternative Venture Capital Models for Enabling Climate Impact Investments: A Global Survey and Analysis. Consultant's report*. Manila (TA 9620-REG).

<sup>7</sup> In 2018, 95% of all venture capital funding was concentrated in developed economies and the People's Republic of China. Singapore and Malaysia received over 70% of venture capital funding flowing into Southeast Asia.

<sup>8</sup> CB Insights. [Venture Capital Database](#) (accessed 31 October 2019).

<sup>9</sup> McKinsey Global Institute. 2015. [The power of parity: How advancing women's equality can add \\$12 trillion to global growth](#).

<sup>10</sup> Preqin. [Venture Capital Database](#) (accessed 31 October 2019).

<sup>11</sup> Dutch Good Growth Fund. 2019. [Scaling Access to Finance for Early-Stage Companies in Emerging Markets Lessons from the Field](#).

<sup>12</sup> International Finance Corporation. 2019. [Moving Toward Gender Balance in Private Equity and Venture Capital](#).

infrastructure sectors, including those with high potential for gender impact; (iii) mobilize a high-ratio of third-party capital; (iv) widen geographic coverage to frontier markets with potentially higher risk and developmental impacts; and (v) develop new strategic partnerships with financiers, adopters, and providers of innovation and technology-enabled solutions. These elements of ADB Ventures will enable ADB to more effectively target support for lagging areas and pockets of poverty and social inequality in Asia and the Pacific and mobilizing financing for the SDGs.

7. **Building on past operations.** ADB has developed innovation network partnerships and built-up expertise by testing new approaches to deploying and scaling impactful technologies in emerging markets.<sup>13,14,15</sup> Since 2013, ADB has leveraged its convening power, client networks, and relationships to involve government and industry that are end users of technology solutions in more than 15 corporate innovation and accelerator programs across the region. These programs have supported more than 120 ESCs to deploy technology solutions in emerging markets to promote financial inclusion, energy efficiency, sustainable agriculture, and tourism. Key lessons include the need to (i) involve specialized corporate innovation and accelerator partners to improve program design and implementation; (ii) fill corporate innovation partners' sourcing gaps through partnerships with impact technology networks, particularly in ADB's DMCs; (iii) engage partners that have complementary industry networks to shorten the program implementation timeline by enrolling end users faster; (iv) aggregate regional demand for technologies and avoid direct competition between technology end users involved in a particular program; and (v) prioritize the quality of end users over the quantity of end users as reflected by management buy-in and the willingness to contribute co-funding to programs.<sup>16</sup>

### III. OBJECTIVE AND SCOPE

8. The design of ADB Ventures builds on the lessons from previous operations (para. 7). ADB Ventures, through its investment funds and TA, will de-risk, finance, and scale ESCs with technology-enabled solutions that contribute to achieving the SDGs in Asia and the Pacific (Appendix 1). ADB Ventures will encourage technology transfer to ADB's developing member countries through network partnerships in both developed and developing economies (para. 10).

- (i) **ADB Ventures Investment Fund 1.** The fund will aim for a diversified portfolio of ESCs that contributes to climate change mitigation and gender equality. The targeted fund size is \$50 million, with funds predominantly raised from bilateral and multilateral development partners.<sup>17</sup> ADB expects the fund to become operational by 31 May 2020. It will invest in ESCs with technology-enabled solutions operating in ADB DMCs and participate in multiple stages of the investment life cycle from pre-series A to series A, with 50% of funding reserved for follow-on investments.<sup>18</sup> It is not anticipated that ADB will invest its own capital alongside the fund. The fund plans to make 15–30 investments over its life ranging in investment size from \$100,000 to \$4 million, primarily in the form of equity or quasi-equity. The fund's

<sup>13</sup> ADB. 2018. [Technical assistance for the preparation of the ADB Ventures Facility](#).

<sup>14</sup> ADB. 2014. [Mekong Business Initiative](#).

<sup>15</sup> ADB. 2011. [Technical assistance for promotion of investment in climate technology products through venture capital funds](#).

<sup>16</sup> ADB. Forthcoming. Mekong Business Initiative *Final Report*. Manila.

<sup>17</sup> The Nordic Development Fund has approved a potential contribution to the fund of up to €10 million. Soft commitments received from other funders are expected to be sufficient for the target first close date at the end of March 2020, ahead of the initial launch in May 2020.

<sup>18</sup> The definition of pre-Series A and Series A is per market best practice and is ultimately determined by the Fund Investment Committee (para. 22), with the investment size typically ranging from \$100,000 to \$4 million.

investment strategy includes a climate (80% of investments) focus and a gender (75% of investments) focus across the portfolio. The fund will principally target Southeast Asia (40%–50%) and South Asia (20%–30%) since past and ongoing ADB innovation operations have focused on these regions (para. 7). The remainder of the fund will be allocated opportunistically to ADB DMCs in other Asia and the Pacific markets. The total life of the fund will be 17 years allowing for holding periods of up to 10 years to maximize the opportunities for success of an ESC requiring more patient capital. The fund's target investees are envisaged as ESCs that (i) are coinvested with commercial investors (including corporate venture capitalists, impact funds, family offices, and angel investors); and (ii) benefit from ADB's additionality (para. 11). ADB will have the option to recycle returns from dividends and divestments back into the fund for reinvestment. ADB will aim to mobilize at least \$360 million private capital for ESCs through coinvestment. ADB is the investor-of-record for the fund's investments.

- (ii) **ADB Ventures technical assistance.** The TA aims to generate an investment pipeline for the ADB Ventures Investment Fund 1 by building the market for impact technologies in ADB's DMCs. The approach is to partially mitigate market risks for ESCs expanding into ADB DMCs through two main TA activities called ADB Ventures Lab and ADB Ventures SEED.
  - (a) **ADB Ventures Lab.** ADB Ventures will partner with leading innovation partners that have proven and qualified processes for identifying, screening, and validating technology solution providers (para. 10). Key activities will include the operation of specialized corporate innovation and accelerator programs that (i) aggregate regional industry demand to identify impact technology needs and potential corporate customers in emerging markets; (ii) source high-potential impact technology solutions that solve industry problems; and (iii) incentivize proof-of-concept pilots by pairing ESCs with corporate customers. These activities will leverage ADB's public sector networks in Asia and the Pacific as well as ADB's expansive corporate client and partner networks. ADB Ventures Lab aims to identify and refer at least 120 proof-of-concept opportunities in DMCs to ADB Ventures SEED.
  - (b) **ADB Ventures SEED.** A reimbursable TA grant funding mechanism that allows ADB to provide up to \$200,000 to an ESC sourced through ADB Ventures Lab to validate and de-risk potential ADB Ventures' investees. The selection criteria include commercial and impact indicators. A business model of grantee candidates would have high alignment with ADB Ventures climate and/or gender impact criteria and typically already have existing product traction in at least one market. There should be high potential to deploy and scale impact technologies in one or more DMCs. Preference would be given to ESCs that have been backed by strong local investors.

ADB Ventures SEED aims to generate investment opportunities for the ADB Ventures Investment Fund 1.<sup>19</sup>

9. **Differentiated country approach.** The ADB Ventures TA will tailor its approach to the unique challenges of each DMC by considering factors such as relative progress towards achieving the SDGs and the income group of targeted DMCs. In low-income and lower middle-income countries, ADB Ventures will expend dedicated TA resources to incentivize partners to operate and invest in these DMCs and to build the capacity of local business support programs targeting ESCs. In upper middle-income countries, ADB Ventures will focus on technology solutions that have a demonstration effect and the potential to scale through technology transfer across the region to less developed economies, particularly solutions focusing on climate change and addressing pockets of poverty and fragility at the subnational level.

10. **ADB Ventures partnerships.** ADB will continue to seek out new partners, including (i) network partners in both ADB's developed and developing member countries that will partner with ADB to implement the ADB Ventures TA, including to source global and regional impact technology solutions; and (ii) funding partners for the ADB Ventures Investment Fund 1, ADB Ventures TA, and future trust funds under ADB Ventures.

11. **ADB additionality.** ADB has unique convening power, expertise, and resources to crowd technology and investment into emerging markets. Nonfinancial additionality includes (i) risk mitigation, by being an honest broker to convene and leverage ADB's expansive regional networks of governments, companies, and knowledge institutions to build the market for impact technologies; (ii) standard setting, by encouraging improved standards of environmental and social safeguards, corporate governance, and impact monitoring as ESCs grow and scale; and (iii) knowledge, innovation, and capacity-building, by encouraging global and regional technology transfers through operating at scale and sustaining long-term strategic partnership engagements across DMCs. Financial additionality includes (i) an innovative financing structure, including the provision of patient capital that is not available in the venture capital market in DMCs; and (ii) resource mobilization, as a result of ADB's involvement that crowds in impact investors.<sup>20</sup>

#### IV. ELIGIBILITY CRITERIA

12. All ADB DMCs will be eligible for ADB Ventures support. Since ADB Ventures is a nonsovereign platform managed by ADB's Private Sector Operations Department, only private sector companies or entities are eligible for assistance. Each investment fund or TA may have a different geographical and/or SDG focus based on (i) market conditions, (ii) contributors and/or partners' requests, and (iii) available expertise. For example, the ADB Ventures Investment Fund 1 will contribute to achieving multiple SDGs by applying a climate (80%) and gender (75%) impact investment lens, primarily targeting DMCs in Southeast Asia and South Asia. ADB Ventures investment funds will be used to finance operational expenses related to eligible projects in the form of foreign exchange and/or local expenditures for goods, works, and services from ADB member countries following ADB's applicable guidelines and procedures.

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<sup>19</sup> Funding will be through grants provided on a reimbursable basis. ADB Ventures will validate the traction of business models in new markets by tracking key company performance indicators such as the number of new customers and the customer conversion rate. Selected indicators will be tailored to the specificities of each company and target market. The validation process typically takes 6–18 months.

<sup>20</sup> World Bank. 2018. *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations (English)*. Washington, D.C.

## V. CONTRIBUTIONS

13. ADB will accept, on a returnable and/or an untied grant basis, contributions to the investment fund and TA components of ADB Ventures from bilateral, multilateral, and individual sources, including companies and foundations. Contributions from partners will be effected through standardized forms and/or negotiated agreements, including instruments of contribution to be executed by the partners, whereby the partners shall agree to contribute amounts to investment funds and/or TA. By depositing an instrument of contribution, the partner shall be deemed to have accepted the objectives of ADB Ventures and the terms and conditions set forth for respective investment funds and/or TA considering the resources contributed under such instrument of contribution. The establishment of each investment fund or TA will be reported to the Board for information.

14. Contributions shall be made in the form of cash in a freely convertible currency or through the redirection of available funds under existing trust funds in ADB. Contributions will be deposited into a United States (US) dollar interest-bearing account to be specified by ADB (the ADB Ventures account). For contributions received in currencies other than US dollars, ADB will, upon receipt of the funds, convert them into US dollars and transfer them to the ADB Ventures account.

15. ADB will hold, administer, and invest the contributions. Pending disbursements, ADB may invest and reinvest contributions, and any income earned in respect of such investment and reinvestment, as well as interest accrued in respect of the ADB Ventures account (collectively, the available funds net of expenses) will be credited to the ADB Ventures account and used for the purposes of ADB Ventures, including the management fee of investment funds and related administrative expenses.<sup>21</sup>

16. ADB will make withdrawals from the ADB Ventures account, as necessary, to meet the expenditures of projects and activities supported by the available funds. If other currencies are required for payment to meet eligible expenditures, ADB may purchase the required currencies with the available funds. Any related fees and charges will be paid out of the ADB Ventures account.

## VI. IMPLEMENTATION ARRANGEMENTS

17. ADB has mobilized staff and consultants with relevant nonsovereign market, sector, and venture capital expertise. A cross-departmental facility steering advisory committee will orientate the impact mission of the facility and its links to other ADB initiatives. The facility advisory committee will provide high-level external inputs regarding the long-term strategic direction of ADB Ventures in the context of regional and global developments.<sup>22</sup>

18. **Facility synergies.** The multi-donor nature of ADB Ventures permits ADB to engage effectively with multiple development partners. The ADB Ventures is structured as a Financing Partnership Facility allowing ADB to approach potential high-impact investees earlier in their development cycle than would usually be the case, providing critical early-stage support through TA. ADB Ventures Lab will enable ADB to source impact technology solutions through global and

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<sup>21</sup> Administrative expenses include service charges, the cost of external audits, and finance charges that may be incurred when purchasing required currencies and remitting funds.

<sup>22</sup> Sections VI and VII provide a high-level overview of the ADB Ventures implementation and administrative arrangements. It summarizes the ADB Ventures implementation guidance note that is being prepared to provide greater detail on implementation and administrative arrangements.

regional networks and then, after competitive vetting selection processes, provide TA grant funding through ADB Ventures SEED to support select ESCs to de-risk the rapid solution validation and deployment into new emerging markets. ADB will further screen successful ESC recipients of TA funding at a subsequent stage and consider them for investment potential by the ADB Ventures Investment Fund 1.

19. **ADB's role as trustee and manager.** ADB will be the manager and financier of record of the ADB Ventures Investment Fund 1. ADB will source, screen, invest, manage, and monitor the fund's financings and investments. ADB will charge a management fee to contributors that will be used to offset the operational expenses incurred in fulfilling ADB's duties as trustee and manager.

## VII. ADMINISTRATIVE ARRANGEMENTS

20. **Technical assistance cost, indicative financing, and administrative arrangements.** ADB will be the executing agency of the ADB Ventures TA, which will be implemented during 2020–2022. The Business Development Unit in ADB's Private Sector Operations Department will manage and administer the ADB Ventures TA. ADB Ventures will work closely with ADB regional departments and knowledge hubs in the Sustainable Development and Climate Change department to leverage government relationships, operational networks, and industry knowledge. The TA is estimated to cost \$12,000,000. Development partners will contribute about \$7 million to the ADB Ventures TA. ADB will contribute about \$5 million in three tranches of \$2 million (2020), \$2 million (2021), and \$1 million (2022). Cost estimates and financing arrangements are available in the list of linked documents in Appendix 2. The TA resources will be disbursed following ADB's Technical Assistance Disbursement Handbook (2010, as amended from time to time).

21. **Governance arrangements.** Contributors to the ADB Ventures Investment Fund 1 will meet annually to discuss high-level matters concerning the fund's investments and progress, and to review the more detailed governance operations undertaken by the Fund Investment Committee (FIC). The FIC has direct oversight of the fund's investment operations and is responsible for approval, ongoing management, and exit of all individual fund investments. FIC members are appointed by the contributors.

22. **Investment process and approvals.** In addition to the ADB Ventures TA, investments will also be sourced via outreach including through other ADB programs and activities. ADB will screen companies and conduct comprehensive analysis and due diligence as they take potential investments to investment approval. A two-stage approval process requires concept clearance and FIC approval before an investment is submitted for ADB approval. Each investment will be in full compliance with ADB safeguard policies and integrity due diligence procedures.

23. **Financial return expectations.** ADB Ventures balances a impact mission with commercial considerations. ADB Ventures Investment Fund 1 is targeting a gross (pre-management fee) average annual return of 5% per annum. ADB Ventures expects some investments to result in full or partial loss, consistent with the market dynamics of ESCs, and a select number of investments to return a multiple of the initial investment amount. Therefore, ADB will establish a specialized and focused investment review and approval process.

24. **Safeguard and social protection.** All investments must comply with ADB safeguard policies and procedures, as set out in the ADB Operations Manual, Safeguard Policy Statement (2009), and related documents. Safeguards assessment and clearance will be conducted through ADB's policies and procedures for nonsovereign operations.

25. **Gender.** In addition to ADB's standard approach to categorizing project-level gender impact, potential investments will be evaluated by gender and investment specialists using a tailored ADB Ventures gender scorecard. The scorecard will evaluate the company's gender inclusiveness, relative to the sector and geography in which the potential investee operates, on six dimensions: suppliers, customers, ownership, leadership, workers, and institutional practices.

26. **Consulting services.** Under the ADB Ventures TA, ADB will engage 10 full-time individual consultants (4 international for 144 person-months, 6 national for 240 person-months) using the individual consultant selection process to ensure quality during recruitment. To ensure speedy consultant deployment, ADB will consider setting up a framework agreement allowing for the engagement of prequalified contractors and service providers with early-stage investment expertise (20 person-months of international and/or regional consultant inputs). The terms of reference are available from the list of linked documents in Appendix 2. ADB will engage the consultants following ADB's Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.

### VIII. RISK MANAGEMENT AND MITIGATION

27. Identified risks and mitigation measures are identified in Table 1.

**Table 1: Summary of Risks and Mitigation Measures**

Risks	Mitigation Measures
1. Failure to meet the expected return target	<p>This risk is mitigated by (i) the mobilization of experienced teams of venture investment experts, (ii) the establishment of a strong deal pipeline, (iii) thorough analysis during due diligence, (iv) close monitoring and value addition post-investment, and (v) active exit management throughout the life of the investment.</p> <p>ADB has been conservative on key portfolio construct assumptions and is taking various fund investment measures to mitigate risk. Expected returns are based on conservative success rates for different stages and types of investment. The underlying assumptions are benchmarked against historical returns and failure rates observed on venture capital investments in developing Asia and the Pacific and global impact sectors. ADB has also factored the impact of a long-term fund, which conservatively suppresses long-term portfolio returns, into the expected returns. Expected investment allocation is based on a portfolio diversification and a follow-on investment approach. Regarding diversification, the ADB Ventures Investment Fund 1 will make up to 30 initial investments allowing for portfolio diversification across multiple markets and sectors. About 50% of the committed capital will be set aside for follow-on investments, allowing ADB Ventures to double-down funding for the most successful initial investments</p>
2. Non-deployment of the fund commitment	<p>The risk posed by the failure to deploy the full extent of the fund's resources within the prescribed investment period is mitigated by ADB's record of making direct equity investments and mobilizing an experienced team of venture investment experts to manage the ADB Ventures Investment Fund 1.</p>
3. Lack of appetite from private investors to coinvest with ADB Ventures in targeted markets	<p>ADB Ventures will crowd-in impact investors by sharing deal-flow and offer additionality as a strategic coinvestor that can scale ESCs through (i) strong government relationships and industry expertise, (ii) regional convening power, (iii) operation at scale with critical mass to sustain long-term strategic engagement, (iv) the provision of patient capital, (v) follow-on investment; and (vi) the credibility of ADB's brand.</p>

4. Lack of investable impact technology investments in targeted markets in the pipeline	The ADB Ventures TA will de-risk potential ESC investees through the following activities: (i) under ADB Ventures Lab, support ESC business support programs in nascent innovation ecosystems, and connect global technology solution providers to local adopters in emerging markets; and (ii) under ADB Ventures SEED, provide grant funding to validate solutions. These activities will be implemented in partnership with an extensive network of corporate innovation and impact technology networks, and by leveraging ADB's corporate client networks and government relationships, and regional convening power.
5. Lack of appetite from potential users to adopt impact technology solutions in targeted markets	Under the ADB Ventures TA, ADB will incentivize the participation of technology adopters by (i) involving specialized corporate innovation partners to improve program design and facilitation, (ii) avoiding direct competition between technology end users involved in a particular program, and (iii) reducing the risk and administrative burden of collaborating with ESCs through grant funding for the initial validation of technology solutions.

ADB = Asian Development Bank, ESC = early-stage company, TA = technical assistance.

Source: Asian Development Bank.

## **IX. THE PRESIDENT'S RECOMMENDATION**

28. The President recommends that the Board approve:

- (i) the establishment of the ADB Ventures Financing Partnership Facility in accordance with the provisions set forth in this paper;
- (ii) the acceptance and administration by the Asian Development Bank of contributions to the ADB Ventures Financing Partnership Facility in accordance with the provisions set forth in this paper;
- (iii) the establishment of the ADB Ventures Investment Fund 1 as a trust fund, under the ADB Ventures Financing Partnership Facility, in accordance with the provisions set forth in this paper; and
- (iv) the administration by the Asian Development Bank of the ADB Ventures technical assistance, under the ADB Ventures Financing Partnership Facility, that will exceed \$5,000,000, to be financed on a grant basis from multiple sources including bilateral and multilateral organizations and ADB's own technical assistance resources in accordance with the provisions set forth in this paper.

**DESIGN AND MONITORING FRAMEWORK**

**Impacts the ADB Ventures are aligned with:**

- (i) Support early-stage companies with technology-enabled solutions to scale and contribute to the SDGs in ADB’s DMCs including SDG 1 (No Poverty), SDG 3 (Good Health and Well-Being), SDG 5 (Gender Equality), SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation, and Infrastructure), and SDG 13 (Climate Action).
- (ii) Deliver ADB’s Strategy 2030 vision by expanding and broadening ADB’s nonsovereign operations through (a) increased support for environmentally sustainable development and gender equity, and (b) expanded private sector operations to frontier markets by considering smaller deal sizes with potentially higher risk and development impact.<sup>a</sup>
- (iii) Contribute to ADB’s Strategy 2030 operational priority results under the operational plan that will be monitored under ADB’s corporate results framework (outcome performance indicators a–f).<sup>b,c,d</sup>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p><b>Outcome</b></p> <p>Growth of early-stage companies with technology-enabled solutions that contribute to SDGs in ADB’s DMCs<sup>e</sup></p>	<p>By the end of 2037:</p> <p>a. At least \$360 million of additional capital mobilized through ADB Ventures (2019 baseline: \$0) (2024: \$50 million)</p> <p>b. At least 4 million tons of greenhouse gas (CO<sub>2</sub>) emissions will be reduced or avoided over the life of the fund attributable to ADB Ventures (SDG 13) (2019 baseline: 0)</p> <p>c. At least 0.5 million people with strengthened climate and disaster resilience attributable to ADB Ventures (at least 50% are women and girls) (SDG 1, SDG 5, and SDG 13) (2019 baseline: 0)</p> <p>d. At least 0.5 million people benefitting from strengthened environmental sustainability attributable to ADB Ventures<sup>f, g</sup> (at least 50% are women and girls) (SDG 5, SDG 13) (2019 baseline: 0)</p> <p>e. At least 50,000 people gain increased access to financial services and/or economic opportunities attributable to ADB Ventures (at least 50% are women) (SDG 1, SDG 5, SDG 8)<sup>h</sup> (2019 baseline: 0)</p> <p>f. At least 500,000 people gain increased access to basic goods and services attributable to ADB Ventures<sup>i</sup> (at least 50% are women and girls) (SDG 3, SDG 5, SDG 7) (2019 baseline: 0)</p>	<p>ADB Ventures reports</p>	<p>Lack of appetite from private investors to coinvest with ADB Ventures in targeted markets</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	g. At least 20 technology-enabled products or services supported by ADB Ventures expand to new markets (SDG 9) (2019 baseline: 0)		
<p><b>Output 1</b></p> <p>Increased financing for early-stage companies with technology-enabled solutions that contribute to SDGs in ADB's DMCs</p> <p>Resources deployed for a diversified ADB Ventures portfolio of early-stage companies with technology solutions through the application of a climate and gender impact investment lens</p>	<p>By the end of 2022:</p> <p>1a. At least 80% of the ADB Ventures Investment Fund 1 portfolio is categorized as a climate investment (2019 baseline: n/a)</p> <p>1b. At least 75% of the ADB Ventures Investment Fund 1 portfolio is categorized as a gender investment (2019 baseline: n/a)</p> <p>1c. At least 15 investments from the ADB Ventures Investment Fund 1 in early-stage companies with technology solutions for climate and gender impact (2019 baseline: 0)</p> <p>1d. At least 10% of ADB Ventures Investment Fund 1 investees have women owners<sup>j</sup> (2019 baseline: n/a)</p>	ADB Ventures reports	Lack of pipeline of bankable climate and gender early-stage investments in targeted markets
<p><b>Output 2</b></p> <p>Increased investment pipeline of early-stage companies with technology solutions contributing to SDGs in ADB's DMCs</p> <p>A more vibrant market for impact technologies contributing to the SDGs in ADB's DMCs</p>	<p>By the end of 2022:</p> <p>2a. At least 40 ADB Ventures SEED grants totaling \$5 million are implemented (2019 baseline: 0)</p> <p>2b. At least 30 commercial partnerships developed between technology adopters and technology solution providers developed (2019 baseline: 0)</p> <p>2c. At least 120 proof-of-concept opportunities to validate impact technologies identified (2019 baseline: 0)</p> <p>2d. At least 9 ADB Ventures Labs implemented (2019 baseline: 0)</p>	ADB Ventures reports	Lack of appetite from municipalities and/or corporations to adopt impact technology solutions in targeted markets

**Key Activities with Milestones**

1. The ADB Ventures Investment Fund 1 is established and launched (May 2020)
2. ADB Ventures technical assistance established and launched (May 2020)
3. TA funded and disbursed through consultant contract awards and grant disbursements (2020–2022)
4. Deployment of the ADB Ventures Investment Fund 1 resources and the mobilization of additional capital into early-stage companies with technology solutions contributing to the SDGs in ADB's DMCs (2020–2034)

n/a = not applicable, ADB = Asian Development Bank, CO<sub>2</sub> = carbon dioxide, DMC = developing member countries, SDG = Sustainable Development Goal, TA= technical assistance.

<sup>a</sup> ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

<sup>b</sup> ADB. 2019. [ADB Corporate Results Framework, 2019–2024](#). Manila.

<sup>c</sup> ADB. 2019. [ADB's Strategy 2030: Operational Plans](#). Manila.

<sup>d</sup> All ADB corporate results framework indicators will be monitored and reported annually in the Development Effectiveness Review.

<sup>e</sup> The ADB Ventures Investment Fund 1 will mainly focus on ADB's DMCs in Southeast Asia and South Asia.

<sup>f</sup> Including (i) solutions to conserve, restore, and/or enhance terrestrial, coastal, and marine areas promoted and implemented; and (ii) the water–food–energy security nexus addressed.

<sup>g</sup> The primary fund-level impact indicators relate to climate mitigation and adaptation. The target to increase the number of people benefitting from strengthened environmental sustainability is a secondary indicator.

<sup>h</sup> ADB will capture direct and indirect job creation attributable to ADB Ventures investments. For example, it may include economic opportunities created through gig economy technology platforms.

<sup>i</sup> Including access to clean water, clean energy, and health services.

<sup>j</sup> In 2018, \$4.3 billion went to female-founded startups globally, representing just 1.7% of the \$285 billion venture capital invested [Source: Pitchbook. [Pitchbook's Database](#) (accessed 30 June 2019)].

Source: Asian Development Bank.

## **LIST OF LINKED DOCUMENTS**

[The information in this section is confidential and has been deleted.]