

**Ex-Ante Evaluation**  
**Private Sector Investment Finance Division,**  
**Private Sector Partnership and Finance Department, JICA**

**1. Name of the Project**

Country: Republic of India

Project: DX Start-ups Investment Project

Loan Agreement: October 29, 2021

**2. Background and Necessity of the Project**

(1) Current State and Issues of the Start-up Market in India

In India, underpinned by the world's leading IT industries and abundant excellent human resources that support them, the rise of start-ups is remarkable, and start-up ecosystems that produce incubators which support investors and entrepreneurs at home and abroad, accelerators which back up business expansion, and a succession of emerging start-ups which are connected in an organic manner with enterprises, universities, research institutes, and other organizations are being formed mainly in large cities such as Bengaluru, Delhi, and Mumbai.

Since 16 million new workers enter the labor market in India each year, creating jobs is an urgent issue to be addressed (Ministry of Skill Development and Entrepreneurship, 2015), and in order to enhance industrial competitiveness in the international market, it is also necessary to promote innovation. For this reason, the Indian government promotes start-ups as a matter of national policy and is pushing Startup India and other start-up promotion policies. From 2014 to 2019, the number of start-ups established in the country grew at an annual rate of 12-15% as compared to the previous year. It is estimated that during those five years, some 9,300 new start-ups were founded, creating 470,000 new jobs (Ministry of Commerce and Industry, 2021). Meanwhile, nine unicorns (unlisted firms whose valuation is one billion dollars or more) based in India came into being in 2019, nine in 2020, and 17 in 2021 (as of July), making a total of 53 unicorns, the third largest in the world after the United States and China (Venture Intelligence, 2021).

Changing the entire existing industrial structure significantly utilizing digital technology or bringing drastic changes to value creation for customers is called digital transformation (DX). The number of start-ups working for DX has risen in recent years, and the world's DX market was worth 1.18 trillion dollars in 2019

and is expected to grow at an average annual rate of 16% from 2021 to 2026 (UnivDatos Market Insights, 2020). DX has been chosen as a national policy in India, too, and the Narendra Modi administration announced its slogan “Digital India” in 2015 and is pushing initiatives such as e-education, e-health, and e-commerce utilizing digital technology and addressing issues such as disparities in education, healthcare, and other sectors between urban and provincial areas, inefficient distribution, and climate change.

On the other hand, one of the most serious issues that face start-ups is funding, and in particular, immediately after start-ups are established, funding is important to enable them to get through the phase in which business revenue is still limited while costs for business verification and expansion inflate losses. Since there are many cases in which start-ups have difficulties in offering sufficient security as they have a poor track record of past performance, it is hard to procure funds by obtaining loans from private financial institutions or issuing bonds, and basically, start-ups have to procure funds through investment (IFC, 2018). In India, investments by investors and large corporations at home and abroad as well as government-led start-up funds being established under the Startup India policy are available, but it is estimated that while there is 10.5 billion dollars’ worth of demand for funding immediately after start-ups are established, only seven million dollars of funds are actually supplied (IFC, 2018). Although the start-up market is growing rapidly, sufficient funds and investors for start-ups do not exist yet, nor are sufficient investments made for start-ups compared to the current demand for funding. In addition, partly owing to the effects of COVID-19, the start-up funding environment is expected to worsen, and according to a survey conducted by InnoVen Capital in 2020, 58% of start-ups replied that they would have difficulties in fund procurement in 2020 and thereafter.

Under these circumstances, through investments in the RP fund, a Japan-based DX start-up investment fund, this project finances DX start-ups in India and promotes business alliances with Japanese-affiliated companies to provide better access to finance, create employment, and encourage cooperation between Indian and Japanese enterprises, thus contributing to sustained economic growth in India. Therefore, it is consistent with their challenges to be addressed and its government policy.

## (2) Japan and JICA’s Policy and Operations in the Start-up Sector

Japan's Country Assistance Policy for India (March 2016) viewed enhancing

industrial competitiveness as a priority area, stating that the Japanese government would work for assistance to contribute to creating new jobs for the young working population, improving productivity by strengthening the economy's technological foundations, and stepping up development of industrial human resources in such areas as management and practical techniques. The JICA Country Analysis Paper for India (March 2018) positioned developing high-productivity industries as one of its major development challenges, emphasizing that they required the establishment of investment environments and the development of industrial human resources in both tangible and intangible aspects. Individual projects being carried out include organizing new ODA loan projects in the areas concerned as well as the Survey to Collect and Confirm Basic Information on the Formation of Technical Cooperation Facility and Ecosystems for Global Impact Investments for several countries such as India. This project, which aims at supporting India's start-ups that work to solve social issues through DX, promotes and complements Japan's and JICA's initiatives.

(3) Other Donors' Activity: None in particular

### **3. Project Description**

(1) Project Objective

The objective of this project is to improve access to finance, create employment, promote DX, and further cooperation between Japanese and Indian businesses through providing funds to a Japan-based DX start-up investment fund, by financing DX start-ups in India and encouraging business alliances with Japanese-affiliated enterprises, thereby contributing to sustained economic growth in the country.

(2) Project Site / Target Area

Entire India (excluding disputed areas)

(3) Project Component

(i) Loan amount: USD 4 million

(ii) Outline of the Project Plan: Through investments in the Rebright

Partners IV Investment Partnership, the project invests in start-ups that are five years old or less (from the seed to growth phase) and work for DX mainly in India and promotes business alliances between Japanese-affiliated enterprises and Indian enterprises targeted for investment.

(4) Project Implementation Structure

- (i) Investee: Rebright Partners IV Investment Partnership
  - (ii) Executing Agency: Rebright Partners Pte Ltd (RP)
  - (iii) Operation and Maintenance Agency: Rebright Partners Pte Ltd (RP)
- (5) Environmental and Social Consideration / Cross-sectional Issues /Gender Categorization
- 1) Environmental and Social Consideration
    - (i) Category: C
    - (ii) Reason for Categorization: The adverse effects of this project on the environment are considered as minimal in accordance with the JICA Guidelines for Environmental and Social Considerations promulgated in April 2010.
  - 2) Cross-sectional Issues: This project contributes to measures to mitigate and adapt to climate change because its subprojects include undertakings to contribute to prevent global warming by utilizing digital and clean technologies.
  - 3) Gender categorization: [N/A] GI (gender mainstreaming needs survey/analysis project)
 

Reason: Gender mainstreaming needs were confirmed in the review, but it was not decided to carry out specific activities that contribute to gender mainstreaming.
- (6) Other Important Issues: None in particular

#### 4. Targeted Outcomes

##### (1) Quantitative Effects

Indicator	Baseline (Actual value in 2020)	Target (2029) [Expected value at the end of the fund]
Number of DX start-ups targeted for investment	0	15
Number of jobs created	Set at the time of investment decision	Set at the time of investment decision
Number of direct beneficiaries	Set at the time of investment decision	Set at the time of investment decision
Results of business alliances with Japanese enterprises through RP	0 companies	9 companies

- (2) Qualitative Effects: Providing start-ups with better access to finance, enhancing industrial competitiveness, and promoting innovation in Japan and India

## **5. External Factors**

- (1) Prior Conditions: None in particular  
(2) External Factors: None in particular

## **6. Lessons Learned from Past Projects**

- (1) Evaluation Findings of Similar Past Projects

The four lessons learned from the Regional Business Development Fund Project, an overseas investment and finance project for India, were (1) the formulation of fund manager replacement standards, (2) request for the compilation of reports that enable accurate evaluation of development effects, (3) the preparation of a long list of entities targeted for investment, and (4) the importance of confirmation as to taxation on JICA.

- (2) Lessons for the Present Project

In light of the four lessons specified above, examinations confirmed the following points: (1) it has been agreed with RP that if, among the fund managers, one of the two key persons no longer becomes involved in the management of this fund, new investments from the fund shall be suspended until his/her successor obtains the approval of a majority of investors; (2) it has been agreed that the results of the management and effect indicators listed above shall be submitted to JICA each year; (3) factors such as the rate of return and the probability of exit for each start-up have been examined by obtaining a long list that included candidates targeted for investment; and (4) the pass-through method is applied to taxation for this fund, and it has been confirmed that only withholding taxes are levied in India when invested funds are recovered.

## **7. Evaluation Results**

As described above, this project is consistent with India's development challenges and development policy as well as Japan's cooperation policy. Its necessity is recognized, its plan is appropriate, and it is fully expected to achieve goals in the plan. Therefore, the significance of support it provides through overseas investment and finance is high.

## **8. Plan for Future Evaluation**

- (1) Indicators to Be Used: As listed in Section 4
- (2) Timing: Ex-post evaluation when the fund is terminated