

Ex-Ante Evaluation
Private Sector Investment Finance Division
Private Sector Partnership and Finance Department
Japan International Cooperation Agency

1. Name of the Project

- (1) Region: Southeast Asia Region
- (2) Project Name: Start-up Company Growth Investment Project
- (3) Investee Name: Openspace Ventures IV, L.P.
- (4) S/A Signing Date: September 10th, 2024

2. Background and Necessity of the Project

- (1) Current State and Issues of the Private Sector Development and the Priority of the Project in South Asia

With a total population of 671.7 million, Southeast Asia is the world's third-most populous region. While benefitting from a demographic bonus due to a rise in the proportion of working-age population aged 20 to 50 (59.9% in 2022 and 53.9% in 2020) due to a decline in the birth rate, the region's average GDP growth rate from 2013 to 2022 was 4.1%, and the average GDP per capita growth rate was 3.8% (ASEAN Stats, 2022). However, the region's productivity growth lags behind that of high-growth countries such as India and China (Total Factor Productivity growth rates for 2011-2019 were 1.7% in India and 0.8% in China, compared to -0.4% in Indonesia, 0.2% in Malaysia, 0.6% in the Philippines, and -1.1% in Cambodia) (Source: Total Economy database, 2023). With the demographic bonus expected to diminish in the future, further advancement of industries through innovation and industrial diversification is necessary for the region to maintain high growth rates and avoid falling into the middle-income trap.

In its ASEAN Community Vision 2025, the Association of Southeast Asian Nations (ASEAN) has set forth goals to achieve sustainable economic growth in Southeast Asia, including a systemic and coherent approach towards global economic relations, improvement of business environments to increase investments, expansion of high value-added businesses, and promotion of innovation and diverse businesses. These efforts have resulted in more start-ups with innovative digital technologies and business models that provide high-value services and help address regional social issues through digitalization. By 2021, the number of unicorn companies with an enterprise value of US\$1 billion or more reached 25 in the region, a 2.8-fold increase over

the previous year (JETRO, 2022). For example, Bukalapak, an Indonesian company that provides an online sales platform, has contributed to the development of an environment where single mothers can sell products online, and has grown to be listed on the Indonesia Stock Exchange in its 11th year of operation. Akulaku, another Indonesian company, has grown to an enterprise value of US\$2 billion as of October 2023 while contributing to improving access to finance, including for vulnerable groups, by providing an app-based post-payment service.

With the Internet economy in Southeast Asia expected to reach US\$1 trillion by 2030 (Google, 2022), it is necessary to ensure that startups have sufficient access to financing for the economic advancement of the region and tackling of social issues. Many startups have historically faced challenges in securing loans from private commercial banks due to their short operating histories and insufficient collateral, which is why venture capital is an important source of capital for them. Yet, the venture capital ecosystem in many countries in Southeast Asia are still developing. In 2023, countries other than Singapore (Indonesia, Vietnam, the Philippines, Malaysia and Thailand) accounted for only 36% of total equity investment in the region (Straits Times, 2024). Deteriorating market conditions threaten to hinder the development of the region's ecosystem, with the region experiencing its sixth consecutive quarter of investment declines from Q1 2022 to Q3 2023, the lowest level since 2017, as well as a decline in the median value of investments in early-stage companies (CB Insights, 2023). Enhanced management support and robust systems are needed to empower startups and entrepreneurs with the guidance they require.

Under these circumstances, this project aims to improve access to finance for Southeast Asian startups engaged in innovative businesses and strengthen their management capacities through investing in a fund managed by Openspace Ventures Pte Ltd, a Southeast Asia focused venture capital firm, thereby contributing to the growth of start-up companies in the region.

(2) Japan's and JICA's Cooperation Policy and Operations in the Private Sector Development in Southeast Asia Region

In the Joint Statement of the 23rd ASEAN-Japan Summit on Cooperation on ASEAN Outlook on the Indo-Pacific (November 2020), it was declared that the initiatives under implementation, including the ASEAN-Japan Economic Resilience Action Plan, would be advanced. Regarding economic and other possible areas of cooperation, which is among the four key areas identified in

the AOIP, the digital economy and the 4th Industrial Revolution, and strengthening economic resilience were listed. "JICA Global Agenda No. 4: Private Sector Development" recognizes the need for further industrial advancement to maintain high growth in the ASEAN region, where the demographic dividend is coming to an end and addresses the development of entrepreneurs and businesses and promotion of investment and industries to develop private enterprises in developing countries and improve their competitiveness, promote innovation, investment, and industries, and ensure sustainable and quality growth and development.

This project is in line with the policies of the Japanese government and JICA. Furthermore, JICA has been promoting gender lens investments, promoting of Gender Smart Business (GSB) through "JICA Global Agenda No. 14: Gender Equality and Women's Empowerment." JICA joined the 2X Collaborative (renamed 2X Global in 2023) launched in January 2022 as an expanded platform of the 2X Challenge, which was established in 2016. This project is aligned with the 2X Challenge and contributes to the promotion of gender equality.

3. Project Description

(1) Project Objective

This project aims to improve access to finance for start-up companies by investing in a fund that invests in start-up companies in Southeast Asia, thereby contributing to the growth of start-up companies in the region.

(2) Target Area: Southeast Asia Region

(3) Project Components: Through this investment, JICA will support to invest in and strengthen management capacities of start-up companies in Southeast Asia and receive distributions from the returns generated by the fund through various exit methods.

(4) Estimated Project Cost: 163 million USD (At the final close of the fund)

(5) Project Implementation Structure

Investee: Openspace Ventures IV, L.P.

(6) Collaboration and Sharing of Roles with Other Donors: In collaboration with Project NINJA, JICA's on-going technical cooperation project, this project is expected to have a greater development impact and contribute to resolving social issues.

(7) Environmental and Social Considerations

① Category: C

② Reason for Categorization: The project is judged to have minimal undesirable effects on the environment under the "Guidelines for Environmental and Social Considerations of the Japan International Cooperation Agency" (promulgated in January 2022).

(8) Cross-Sectoral Issues: It is expected that this project will promote poverty reduction through supporting start-up companies that create jobs in low-income areas and provide services for the poor in such sectors as finance and agriculture.

(9) Gender Category: ■GI(S) (Gender Activity Integration Case)

<Details of Activities/Reason for Categorization> This project contributes to the promotion of gender equality by monitoring the number of female employees in the portfolio companies to address the issue of gender disparity within start-up companies in the Southeast Asia region. This project is aligned with the 2X Challenge criteria and is currently working towards qualification. At the fund level, this project meets 2X Challenge's Governance & Accountability requirements and Leadership criteria (more than 40% representation of women in senior management and more than 30% in the investment committee), and has a commitment to Portfolio criteria (50% of portfolio companies at exit will be 2X aligned).

(1 0) Other Important Issues: N/A

4 . Targeted Outcomes

(1) Quantitative Effects

1) Outcomes (Operation and Effect Indicators)

Indicator	Baseline (Actual value as of June 2023) [At the time of the first close of the fund]	Target (2034) [Expected year that the fund ends]
Number of Investments	0	20
Total Fund Investment Amount	0	US\$130 million

For reference, (1) the amount of sales generated by the portfolio companies, (2) the amount of taxes paid by the portfolio companies, and (3) the number of employees (including the number of female employees) in the portfolio companies will be monitored.

(2) Qualitative Effects

Development and expansion of startups

5 . External Factors and Risk Control

N/A

6 . Lessons Learned from Past Projects

(1) Evaluation results of similar projects

In the past ex-post evaluation of the Local Enterprise Development Fund Project (evaluation year: 2010), etc., lessons were learned that it is necessary to fully confirm that investment targets are secured by checking the pipeline list consisting of candidate investment projects, and that it is effective to evaluate the capabilities of fund managers and to have the authority to replace them if necessary.

(2) Lessons Learned for the Project

The aforementioned risk will be mitigated by obtaining the pipeline list in advance and conducting screening, evaluating the capabilities of the investment team at the time of appraisal, clarifying the duties and responsibilities of the investment team in contracts and other documents, and securing the right to replace the investment team under certain conditions.

7 . Evaluation Results

As described above, this project is in line with the development issues and policies of the Southeast Asian region and Japan's cooperation policies, is recognized as necessary, has an appropriate project plan, and has a good prospect of achievement. Therefore, it is highly significant to support this project through Private Sector Investment Finance.

8 . Plan for Future Evaluation

(1) Indicators to be Used

As indicated in Sections 4.

(2) Future Evaluation Schedule

Ex-post evaluation is scheduled for 2034.

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