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DECODED

Blended Finance In Action In Asia

CAPS
Centre for Asian Philanthropy and Society

DECODED by CAPS Centre for Asian Philanthropy and Society

Our ***DECODED*** series unpacks, explains and crystallizes issues critical for social investment in Asia. It draws upon our expertise in research and access to an extensive network of sector experts and philanthropists in 18 Asian economies. This enables us to identify emerging trends in the region. Through ***DECODED***, we translate these concepts into digestible insights.

This edition of ***DECODED*** explains what blended finance is and how it is deployed in Asia. The initiatives emerging in this region illustrate how blended finance can be a win-win strategy to pool private and public capital and bridge a yawning funding gap in the wake of Covid-19.

Introduction

Asia has experienced robust economic growth in the past decade, bringing incredible progress in education, life expectancy, infrastructure, and poverty reduction. Yet, the region faces a multitude of challenges. Income inequality, aging populations, climate change and the fallout from the Covid-19 pandemic are formidable obstacles that have slowed the region's growth.

An estimated US$1.5 trillion per year is needed for the Asia-Pacific region to achieve the United Nations Sustainable Development Goals (SDGs) by 2030, and the Organisation for Economic Co-operation and Development (OECD) estimates that this financing gap could increase by up to 70% as a result of Covid-19.[1] As public resources will not suffice, governments are increasingly looking to the private sector as partners in bridging the gap. However, for many private capital providers, the return on investment is not proportionate with the level of (real or perceived) risk.[i] This is where blended finance comes in. Public and/or philanthropic funding steps in to lower risk and signal support, thereby making these investments attractive to traditionally risk-averse capital.

[i]For example, risks associated with political climate, regulations, currency, or tax.

Acronyms

ADB	Asian Development Bank
DFIs	Development finance institutions
ESG	Environmental, social and governance
GIBs	Green Investment Banks
OECD	Organisation for Economic Co-operation and Development
PPPs	Public-private partnerships
SDGs	Sustainable Development Goals
SIBs	Social impact bonds
DIBs	Development impact bonds
SMEs	Small and medium-sized enterprises

WHAT IS BLENDED FINANCE?

Blended finance is a broad and flexible term used to describe the merging ("blending") of public and private capital to address social and/or environmental needs. It aims to attract private capital by making investments less risky and/or more profitable. This use of market mechanisms can therefore be a way to multiply resources addressing public problems. For instance, US$1 million in public investment might attract US$10 million of private investment to work alongside the public money. While the practice of merging public and private funding is long-established, the term "blended finance" has only gained prominence in the development space in recent years. Blended finance can be used across different structures, geographies, and sectors, and involve various financing mechanisms.

BLENDED FINANCE COMPONENTS

CAPITAL PROVIDERS

Concessional Capital
- Governments
- Philanthropists
- DFIs
- Impact investors

Commercial Capital
- Commercial banks
- Institutional investors
- Asset managers
- Impact investors

INSTRUMENTS

- Grants
- Debts
- Equity
- Guarantees
- Insurance

STRUCTURES/APPROACHES

- Funds
- PPPs
- Projects
- Banks
- SIB/DIBs
- DFIs

RECIPIENTS

- Funds
- PPPs
- Projects
- Banks
- SIB/DIBs
- DFIs

Let's explore this further. Blended finance transactions are structured in a way that brings together two types of capital: concessional and commercial. Concessional capital, usually provided by governments, development banks or philanthropic institutions, is able to accept lower rates of return or absorb more risk. In doing so, concessional capital paves the way for commercial investment in social and environmental projects. Commercial capital comes from private investors such as banks, asset managers and impact investors and often has market-rate return expectations. This type of capital usually takes the form of traditional investment instruments such as loans and equity investments.

Different financial instruments (see box) can be leveraged by public and philanthropic investors to catalyze private capital toward projects and sectors to create social impact. These instruments, in turn, can be used in a variety of different financial structures and approaches. This study will take a closer look at some of these approaches based on examples from Asia.

COMMON BLENDED FINANCE INSTRUMENTS

Debt (loans and bonds): Debt means money is borrowed with the expected repayment at a future date, typically with interest. Debt is usually raised from bank loans or through the issuance of bonds. This type of funding by the public sector or philanthropic organizations can signal the viability of a project, allowing for more private money to be "crowded in" to new and underfunded regions and sectors.

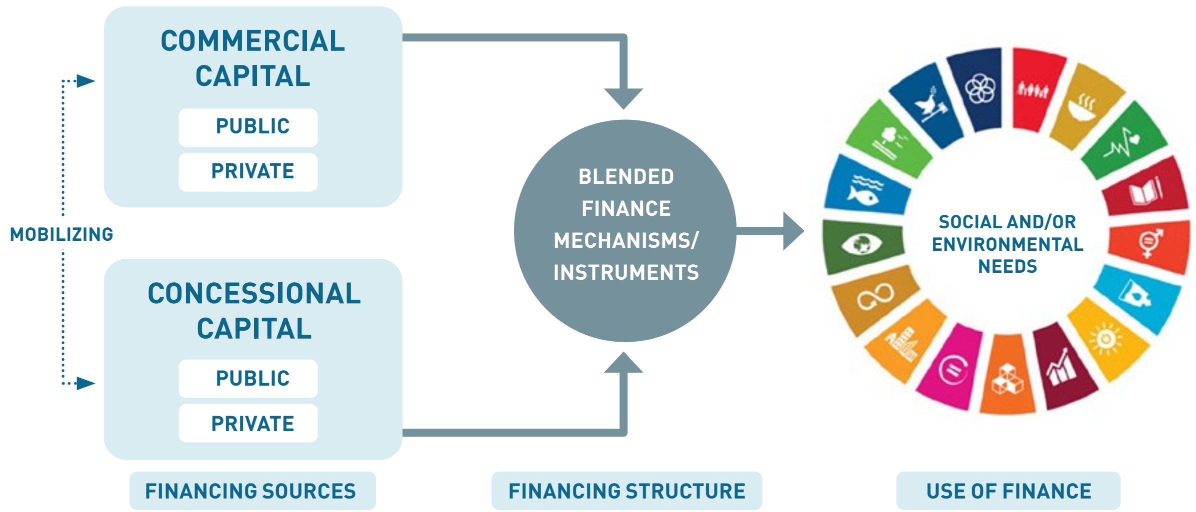
Equity: Equity is the financial ownership of a project or company. In a blended finance model, public or philanthropic capital is invested in an equity stake—traditionally in a "first-loss" subordinate position—which enhances the protection of private sector capital in the event the project is unsuccessful or fails to meet its objectives.

Grants: Grants are funds with no expectation of financial return or repayment. These kinds of "soft" funds are especially useful at the ideation or early stage but can be used at various stages of a project lifecycle to reduce the uncertainty and risk of the project, validate the business model, or improve the impact of the investment. By absorbing much of the risk upfront, grants open an avenue to attract financial, return-oriented private capital with a lower risk appetite.

Guarantees: Guarantees are contracts issued by a third party that back the repayment of debt taken on by a borrower. They protect the investor or lender, with the guarantor repaying the loan if the borrower defaults. Guarantees can be full or partial. In a blended finance strategy, government or philanthropic guarantees can help lower risk and incentivize the private sector to invest in a project by guaranteeing that their investment, or a portion of it, is protected.

Insurance: Insurance schemes can use public funds to mitigate risks that prevent the private sector partner from engaging in the project or sector. An example would be government-sponsored flood insurance or earthquake insurance.

Blended Finance for Social Good



Source: Adapted from "OECD DAC Blended Finance Principles" Report.

WHY BLENDED FINANCE?

Blended finance offers a win-win-win for government, the private sector and communities. While the concept of blended finance is not new, some of the ways in which it manifests itself are—especially in Asia. Significant experimentation has taken place over the past few years, demonstrating the scope and potential of blended finance to mobilize capital for social good.

Asia is now the second most targeted region for blended finance, accounting for 36% of global blended finance transactions in 2020.[2] Some Asian economies are leading the way, with India, Indonesia, Myanmar and Vietnam among the top 10 global economies for blended finance by deal count.[3] But a lot more is needed. Many of these Asian blended finance transactions originate outside the region. Moreover, most Asian governments are yet to adopt a strategic blended finance approach. With a funding gap in meeting the SDGs by 2030—which all of Asia is currently projected to miss—there is a clear imperative to leverage and mainstream blended finance.[4]

In **Part I** of this report, we demonstrate the significant opportunity that blended finance presents for financing sustainable development in Asia. We also spotlight notable Asian examples of blended finance structures and approaches. In **Part II** we explore emerging blended finance institutions or platforms that have a broader approach and the ability to encompass multiple initiatives.

Part I: Blended finance approaches in Asia

Using notable Asian examples, this section takes a closer look at some common blended finance approaches to address social and environmental needs. While it is usually public or philanthropic funding that is deployed to make a social investment less risky or more profitable for private investors, as the cases in the first part illustrate, in some instances it works the other way around. Private or philanthropic investors can help make social investment more viable for government. For instance, by prototyping, testing, or piloting a new service or product, and absorbing the costs (both financial and non-financial) of the research and development. Once a successful proof of concept is established, the government is well positioned to adopt and scale.

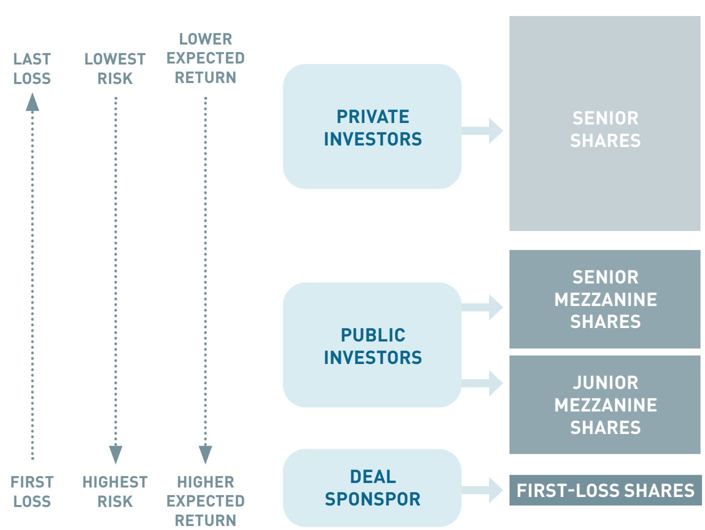
1. PUBLIC OR PHILANTHROPIC SECTOR DE-RISKING

BLENDED FINANCE FUNDS (OR MULTI-LAYERED INVESTMENT VEHICLES)

Public-private funds are a common blended finance strategy. The mechanism embodies how public capital acts as a catalyst to attract additional private capital. Typically designed as a multilayered fund, the first- or second-layer investors—from the government or philanthropic sector—usually absorb the first risk. These funds typically disburse loans or financial products to beneficiaries. Let's look at one such fund in Japan.

Investing in women entrepreneurs is a priority for many governments. Yet, an acute financing gap holds female entrepreneurs back. To address this gap, impact investment manager BlueOrchard established the Japan ASEAN Women Empowerment Fund (JAWEF) in 2016 with the support of the Japanese government.[5] The fund gives loans to third-party microfinance institutions, which, in turn, lends to female entrepreneurs in the Association of Southeast Asian Nations (ASEAN) region, India, Pakistan, and Sri Lanka. This type of blended finance structure helps attract institutional investors to new sectors and new geographies through risk-sharing.

Multi-Layer Capital Structure



An examination of JAWEF's three-tiered investment structure shows how risk is shared in this type of financing mechanism. The bottom tier is capital provided by BlueOrchard and one of its business partners, Summit Financial. They provided around US$1 million in first-loss shares, meaning their money absorbs losses before losses are absorbed by other investors.

The middle tier comprises two concessional mezzanine tranches: senior and junior. Investors in this tier will only be repaid after the senior tranche investors (institutional/private investors). In return they receive higher returns than investors in the senior tranche. In the case of JAWEF, two public investors, the Japan Bank for International Cooperation and the Japan International Cooperation Agency, provided around US$120 million in mezzanine shares.

The fund leveraged the lower two tiers—first-loss capital and mezzanine tranches—to catalyze investment from private investors into the senior tranche. Because investors in the lower tiers take the hit if the investment doesn't perform well, the risk for senior investors in the highest tier is reduced. The highest tier attracted around US$120 million from private investors Sumitomo Life and The Sasakawa Peace Foundation.

JAWEF is just one of many funds in Asia using a multi-layer capital structure to attract additional private capital. Others include the Korean Social Value and Solidarity Foundation created by the government of Korea as part of its Social Finance Promotion Strategy in 2019, and the Indonesian Resilience Fund, a US$40 million fund launched in 2020 to provide credit to small and medium-sized enterprises (SMEs) in the healthcare sector.[ii,6]

SOCIAL BONDS AND GREEN BONDS

Bonds are another financial instrument that can be used in blended finance structures. They are a form of debt similar to loans a bank makes to a borrower. In the case of bonds, the borrower receives funds from investors instead of a bank. Projects with social or environmental goals can borrow money in the form of social or green bonds on bond exchanges around Asia. While the social or environmental angle distinguishes them, these bonds function the same way as any commercial bond: they are a mechanism by which investors lend to governments, international finance institutions and/or private sector entities.

While social and green bonds in themselves do not necessarily constitute blended finance, they often use blended finance structures to help make the bonds more attractive for traditionally risk-averse investors. Take, for example, the Women's Livelihood Bond (WLB) series. To help bridge the persistent funding gap in women's economic empowerment, Singapore-based Impact Investment Exchange launched the WLB in 2017 to raise capital for loans to social enterprises focusing on women's development.[7]

The first WLB used three blended finance mechanisms from various public institutions (including the United States Agency for International Development (USAID)), the private sector (DBS Bank), and philanthropic organizations (including Rockefeller Foundation) to mobilize private investment. The first was an early-stage grant to support the design process of the bond. The second was a partial guarantee on loans to borrowers and the third was a small capital contribution to absorb first losses.[8] These mechanisms helped lower the risk of investing in these bonds, attracting private investors to the table.

[ii] "Korea" and "Hong Kong" refer to the Republic of Korea and the Hong Kong Special Administrative Region, China.

The WLB series now includes three listed bonds that raise money for social enterprises focusing on women's development, and a fourth is planned.[9] To date, the WLB series has unlocked US$48.2 million for women in South and Southeast Asia, and by 2023, three million women across Asia are expected to have benefitted from the bond series.[10,11]

While social bonds represent only a small percentage of the overall debt market, they are becoming increasingly popular. Green and social bonds emerged in the early 2000s, and interest in them has grown steadily ever since, reaching a record total volume of US$284 billion globally in 2019, up 71% from 2018.[12] Their appeal has also been fueled by the growth of environmental, social and governance (ESG) investing.

The issuance of social and green bonds has experienced a recent surge in Asia as governments are recognizing them as key financing mechanisms for meeting climate change targets, as well as for mitigating the socioeconomic impact of the Covid-19 pandemic.[13,14] In 2017, Asia's social bond issuance comprised only 12% of total global issuance, but in 2020, its share grew to 23% of the global total.[15] And green bond issuers in the Asia-Pacific accounted for 24% of global issuance in the first three months of 2021 (up from 18% for all of 2020).[16] The growth of green bonds has been particularly high in China, where volumes have soared threefold, making it the largest issuer of green bonds in the world.[17] Although the Asian social bond market has been dominated by issuers in high-income economies such as Japan and Korea, others are starting to catch on.[18] Thailand, with support from the Asian Development Bank (ADB), has issued both a sustainability bond (totaling ฿30 billion, approximately US$899 million) and a social bond (totaling ฿6.8 billion, approximately US$203.8 million) to aid its Covid-19 recovery.[19]

BLENDING THROUGH GUARANTEES

Historically, governments have also turned to loan guarantees to mobilize private capital. With a guarantee, the guarantor agrees to pay all or part of a loan, equity or other instrument in the event of a default or loss of value.[20] In other words, they act as "a type of insurance policy protecting banks and investors from the risks of nonpayment"[21]. In doing so, the guarantee can thereby attract more risk-averse private capital. Guarantees come in many different shapes and sizes and can serve a variety of development purposes. The following will highlight two very different but effective guarantee schemes in Asia.

In early 2021, the government of Cambodia launched a US$200 million credit guarantee fund to support SMEs to enhance their access to formal loans and help them stay afloat during the Covid-19 crisis. The initiative, launched by the state-owned Credit Guarantee Corporation of Cambodia under the technical and financial guidance of the Ministry of Economy and Finance, makes it less risky for private lenders to issue loans to SMEs by acting as collateral for 70-80% of the loan.[22]

Another example of blended finance using guarantees is so-called development guarantees. These have an explicit development motive and aim to mobilize private investment to SDG-aligned projects in developing economies. Development guarantees are relatively popular in Asia, with guarantees appearing in nearly half of all blended finance transactions targeting the region.[23]

To illustrate, the Sarulla Geothermal Power Project in North Sumatra is part of the Indonesian government's push to reduce dependence on crude oil and produce alternative sources of energy. The project leveraged a risk guarantee from the Japan Bank for International Cooperation and a 20-year Business Viability Guarantee Letter from the Indonesian government to help crowd-in commercial funding. As one of the largest geothermal projects in the world, it is estimated to save 1.3 million metric tons of carbon dioxide as well as positively impact the local community through job creation.[24]

2. PRIVATE SECTOR DE-RISKING FOR GOVERNMENT

PUBLIC-PRIVATE PARTNERSHIPS (PPPs)

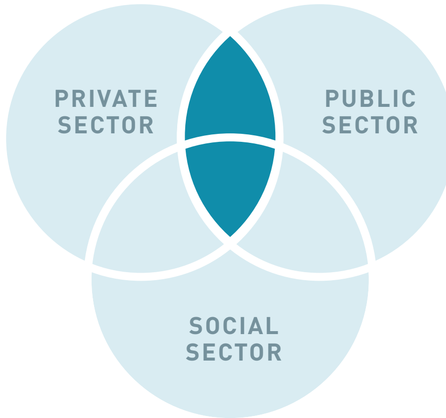
Private sector de-risking can sometimes be seen in PPPs when private-sector capital and assistance are used to support government provision of public and social services.[iii,25] In Malaysia, the Yayasan AMIR Trust Schools Programme is a PPP between the Ministry of Education and Yayasan AMIR, a nonprofit organization established by the Malaysian sovereign wealth fund Khazanah Nasional Berhad. The partnership leveraged private funding to pilot a new approach to improve the quality of learning and teaching in select government schools. The successful program has expanded to 83 schools across 12 states.[26]

Another example is the Zuellig Family Foundation's partnership with the Philippine Department of Health to roll out its existing public health leadership program across the nation. Under the joint Health Leadership and Governance Program, local government officials are offered training under Zuellig's leadership formation program with technical and resource support from the Department of Health.[27] Government support for the project has been crucial in helping the program scale.

In other cases, the public sector actor strategically deploys initial capital to help get a PPP off the ground. This can be through grants, loans or concessions. In India, government-donated, prime real estate was used for a much-needed specialized children's hospital, now jointly run by a trust (the Society for Rehabilitation of Crippled Children (SRCC)) and a private company (Narayana Health).[28]

In the quest to address social and environmental issues, PPPs offer a mutually beneficial solution. Governments benefit as the private sector often injects much-needed upfront capital into such partnerships. But beyond dollars, the private sector can also bring in industry-specific expertise and resources, which can help achieve sustainable impact at greater speed and scale. When the government partner also brings in capital to scale a program, the private sector benefits from a higher social or environmental return on their initial investment.

PPPs for Social Good in Asia



Source: CAPS. (2021). Public-Private Partnerships for Social Good.

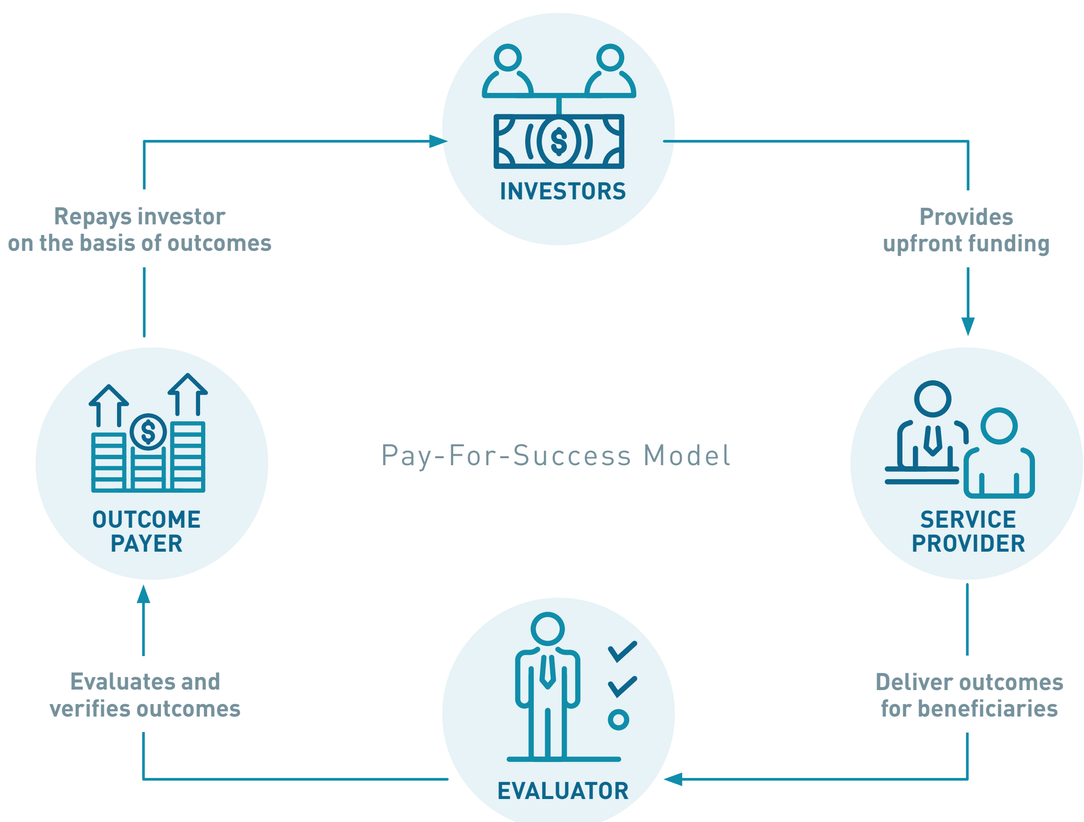
[iii] While traditionally associated with large infrastructure projects, the term PPP has expanded to include a wide range of activities and projects where the private sector works with government.

SOCIAL IMPACT BONDS (SIBs) AND DEVELOPMENT IMPACT BONDS (DIBs)

Impact bonds are another example of how private actors de-risk development finance projects. Although called bonds, they are not capital market financial instruments like social or green bonds (yes, we know it's confusing!). Impact bonds are, in essence, pay-for-success schemes and fill an important gap in social innovation financing.[iv]

Impact bonds are commonly used when an actor or government is willing to pay for the successful delivery of a social service, but they are not willing to bear the risk of the service failing. Both SIBs and DIBs are bespoke financial contracts bringing the public, private, and sometimes social sectors together in a mutually beneficial project. The outcome payer (government, aid agency, or philanthropic organization) agrees to reimburse the upfront investor (usually a private sector or philanthropic entity) with interest if an innovative project run by a service provider (usually a nonprofit) succeeds. In the best-case scenario, an impact bond demonstrates a social innovation that can be scaled by the government to address wider needs. If expected outcomes are not met, the upfront investor absorbs the cost, and the outcome payer does not have to reimburse the upfront investor.

While the SIBs and DIBs share the same structure, they are differentiated by their outcome payer. For SIBs, this is the government; for DIBs, this is an external donor such as an aid agency, multilateral agency or philanthropic organization.[29] DIBs are more common in developing economies where there may not be sufficient domestic revenue or appetite for the government to be the outcome payer.



[iv] Impact bonds are relatively new concepts and sometimes referred to as results-based financing or pay-for-success tools. The world's first SIB was established in the United Kingdom in 2010. The Peterborough SIB successfully reduced recidivism among offenders and repaid its private investors in full with a return of 3% per annum.

While Asia is still in its early days of adopting SIBs, recent developments show deepening and expanding SIB interest and expertise in the public sphere. In Japan, the Cabinet Secretariat-led Future Investment Strategy includes the promotion of SIBs.[30] In 2015, three small-scale pilots in the areas of dementia services, childcare and youth employment services launched under the leadership of and with funding from The Nippon Foundation. Following these pilots, the Ministry of Health, Labor and Welfare set up a grant program in 2017 for the research and development of Japanese SIBs.[31] During 2017 and 2018, several relatively small SIBs launched nationwide.[32]

Impact bonds are also gaining traction elsewhere in Asia. In 2016, the Seoul Metropolitan Government established the SIB Local Government Council of Korea, which aims to promote SIBs among local governments.[33] The Korean Ministry of Interior and Ministry of Foreign Affairs are also inviting proposals for SIBs.[34]

Hong Kong recently saw the launch of its first SIB in September 2020, and India is also seeing developments in this space.[35] The world's first DIB in education—the Educate Girls DIB—was launched in 2015 in Rajasthan, India. Rajasthan lagged in education for girls: in 2011 the female literacy rate was 52% compared to 79% for men and well below the national average of 65% for women.[36] At this time, the nonprofit Educate Girls was working extensively to enhance girls' education and decided to pilot a DIB as a proof of concept. After receiving upfront capital provided by the UBS Optimus Foundation, the three-year pilot project enrolled 768 girls into school, surpassing its initial target.[37] As a result, the UBS Optimus Foundation was repaid its principal with an internal rate of return of 15% from the outcome payer, the Children's Investment Fund Foundation. The DIB paved the way for similar bonds, including the Quality Education India Development Impact Bond, the world's largest education DIB.[38]

Part II: Facilitating blended finance through platforms and institutions

This section introduces some emerging platforms and institutions that help leverage and catalyze blended finance in Asia. Rather than focusing on pure financing, these platforms act more as a facilitator to promote and channel blended finance, often to specific sectors such as public infrastructure and clean energy.

GREEN INVESTMENT BANKS (GIBs)

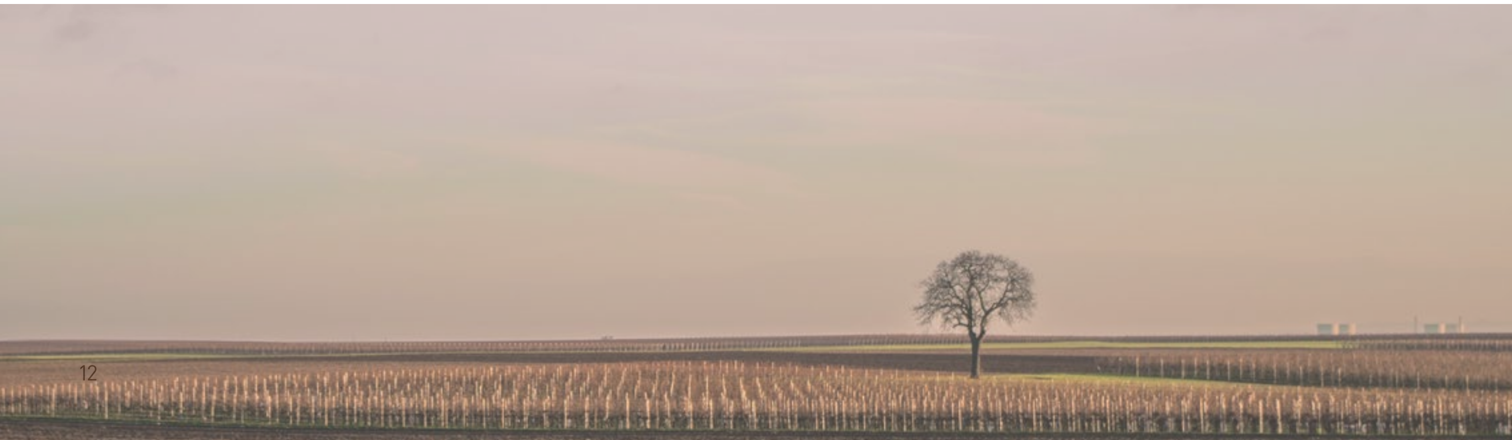
When it comes to investing in green infrastructure and development, public funding alone is not enough to "greenify" Asia. Private investment also falls short because projects involving green infrastructure and technologies that address greenhouse gas emissions are often deemed too risky or too small to attract private investors.

As one of the newest institutional kids on the block, GIBs are stepping in to offer a solution. By helping overcome investment barriers in green infrastructure, leveraging the potential of available public resources, and centralizing expertise, GIBs can complement a government's climate policies and catalyze capital in support of these policies.

While GIBs differ in scope and approach, they generally share the same core characteristics. For one, GIBs are a type of public financing institution established by governments specifically to mobilize and enable private investment into domestic low-carbon and climate-resilient infrastructure or water and waste management.[39] They also operate with independent authority to design and execute projects on their own mandate, but with a focus on cost-effectiveness and performance reporting.[40] Unlike grant-making public institutions, GIBs are required to be profitable and focus on financial sustainability.

Japan was one of the first Asian countries to establish a national-level GIB: the Green Finance Organisation (GFO). Established in 2013, the GFO was created by the government to run Japan's Green Fund, which invests in clean energy projects to support communities facing the dual challenges of slow economic growth and aging populations.[41]

The GFO makes equity and mezzanine level investments in these projects, assuming first-loss risk. These are partly financed from carbon taxes imposed by the government. These investments act as catalytic capital to attract additional funding from private sources. In addition to financing, the GIB also shares information associated with projects with private players and other project owners. Doing so enhances the bankability of projects as it creates a shared understanding of the technical and financial feasibility, risks, and sustainability of clean energy projects. As of March 2018, the GFO, through the Green Fund, had invested US$123 million into projects with a total value of over US$1 billion, achieving a private source leverage ratio of 1:11—meaning that for every US$1 in public investment, US$11 in additional private investment was raised.[42]



In Malaysia, the Ministry of Environment and Water is also leveraging a GIB-like scheme.[43] Launched in 2010, the Green Technology Financing Scheme (GTFS) aims to provide easier access to funding for green technology ventures and is managed and overseen by the Malaysian Green Technology and Climate Change Centre (MGTC).[v] The GTFS is a loan guarantee scheme that offers a rebate of 2% per annum on interest or profit rates charged by financial institutions while also providing a government guarantee of 60% for the green costs of the financing amount.[44]

While initially set to last through 2015, the scheme was extended first in 2017 and again in 2020. The GTFS has been instrumental in driving private capital to green investments and has been credited for encouraging 28 financial institutions to join.[45] As of May 2020, the GTFC had approved 349 projects with a total financing amount of US$1.04 billion. Sectors receiving funding include energy, water, transportation, manufacturing, building and township and waste.[46] These projects are expected to contribute to the avoidance of 3.7 million metric tons of carbon dioxide every year.[47] This is comparable to the annual carbon dioxide emission from over 445,556 homes' electricity use.[48]

Like the GFO in Japan, the MGTC is helping private capital to flow at scale to green projects. As well as leveraging limited public capital to crowd in a much larger pool of private investment, the MGTC can provide technical expertise and insights on industry sectors. As a result of the GTFS, many companies have been encouraged to undertake large-scale environmental projects and positively impact the local green market.

Plans to launch GIBs are underway in India, the Philippines, Hong Kong, and Indonesia. China is also considering the creation of a National Green Development Fund, a GIB which has a potential capitalization target of approximately US$47 billion.[49]

[v] The MGTC is an agency under the Ministry of Environment and Water, which leads Malaysia's climate change and green agenda.

SOCIAL STOCK EXCHANGES (SSEs)

On 28 September 2021, the Securities and Exchange Board of India approved the framework for a social stock exchange (SSE). The aim of the SSE is to unlock large pools of capital and encourage the use of blended finance structures to support social enterprises.[vi,50] India's SSE follows similar models in the United Kingdom, United States, Brazil, South Africa, and Canada.

While similar in concept, each exchange has taken on a slightly different format. At their core, these SSEs facilitate the flow of private and public capital to social sector organizations. Building on the traditional stock exchange model, they are regulated platforms for social sector entities that need funding and investors who are willing to invest money but are seeking social, and often also financial, returns.[vii] An SSE creates a market to provide investment capital to entities that can satisfy the listing requirements of the exchange. Listing requirements include meeting reporting standards and demonstrating measurable positive social impact. Such vetting and reporting processes can help improve market access, reduce transaction costs, and improve transparency and accountability. Eventually, SSEs could also accommodate the listing of green, social or sustainability bonds (debt instruments).

India's SSE offers eligible social enterprises—both nonprofit and for-profit enterprises—the opportunity to raise funds on a transparent and regulated platform. It will operate as a separate segment under the existing stock exchanges.[viii, 51]

BLENDED FINANCE PLATFORMS

Several platforms aimed at helping put blended finance into practice have emerged in recent years. They bring relevant public and private sector actors together, connect interests and share resources and sometimes provide private investors with access to a pipeline of blended finance projects.

The two major global blended finance platforms, the Sustainable Development Investment Partnership and Convergence, both have many Asian institutions and businesses among their members. These platforms play an important role in supporting blended finance in Asia through the sharing of data and knowledge, curating deal flows, networking, and building capacity. Members include private investors, development agencies, development finance institutions, commercial banks, asset owners, and philanthropic foundations.

Beyond these global platforms, notable blended finance platforms have also emerged in Asia. In 2019, the Indonesian government established the SDG Indonesia One platform to channel public and private funds to SDG-related infrastructure projects.[52] The platform comprises four pillars tailored to match donor and investor interest, including a development facility to increase the preparation of projects through the provision of grants; a de-risking facility to increase the bankability of projects through concessional financing; and a financing facility to provide flexible financial products such as senior loans and subordinated loans. By 2020, the platform reached US$3.03 billion in commitments from a range of donors and investors, including Global Affairs Canada, the European Investment Bank, Standard Chartered and Bloomberg Philanthropies.[53]

Also in Indonesia, the Blended Finance and Innovation (BFI) Institute aims to align global partners around innovative financing for the SDGs. Set to be established in 2022, the institute will leverage and formalize the convening power of the Tri Hita Karana (THK) Forum and partners including the OECD, the World Economic Forum, the International Chamber of Commerce and the Global Environment Facility.[ix,54] The BFI Institute will aim to function as a best-practice hub, convene leaders, matchmake capital to projects and forge new collaborations.

[vi] A social enterprise is an organization that follows business principles to meet a social or environmental need through a product, service, process, or distribution of profit. Social enterprises can be both nonprofit or for-profit organizations.
[vii] While SSEs typically focus on for-profit social impact organizations (i.e., social enterprises), they also have the potential to unlock funds for nonprofits. By issuing "zero-coupon zero-principal" bonds, for instance. This type of innovative bond is a debt security that does not pay interest and essentially acts as a grant. Its tenure is equal to the duration of a particular project, after which it is written off the investee's book.
[viii] To be eligible, social enterprises must have a social intent or impact as their primary goal and will have to engage in one or more of 15 approved social activities.
[ix] The Tri Hita Karana (THK) Forum on Sustainable Development was first organized by the Indonesian Government alongside the World Bank meeting in Indonesia in 2018. One of the outputs of the first THK Forum was the THK Roadmap on Blended Finance, which was followed in 2020 by the launch of the TKH Blended Finance Platform, a multistakeholder platform to facilitate the exchange of ideas.

ASIAN TRAILBLAZER: INDONESIA

Indonesia is one of the Asian economies that is embracing blended finance as a way to reach key development and environmental objectives. With the total financing needed to achieve the SDGs calculated at approximately US$1.5 trillion per annum, a figure far above the economy's gross domestic product, the government is turning to other financing opportunities to bridge the tremendous gap.[55] Blended finance is one of these opportunities. And with success, Indonesia now accounts for roughly 40% of blended finance transactions in Southeast Asia by volume and 59% by value.[56]

Blended finance in Indonesia is deep-rooted, starting from infrastructure-focused PPPs in the 1970s to the recent establishment of climate change and SDG-focused blended finance initiatives.[57] Some notable examples include the Sarulla Geothermal Power Project, the Indonesian Resilience Fund and SDG Indonesia One. In addition, the Indonesia Infrastructure Guarantee Fund was created by the Ministry of Finance in 2009 to provide government guarantees for infrastructure PPPs.[58] With the 2018 launch of the THK Roadmap for Blended Finance, an international framework for mobilizing blended finance for the SDGs, the government is positioning itself as a major player in this space.[59]

While there is still a long way to go to reach the necessary financing needs, with its commitment to leveraging private capital through blended finance, Indonesia serves as a model for others in Asia seeking to shrink the development financing gap.

JARGON BUSTER

Concessional capital: Also known as catalytic capital, concessional capital comes from public and philanthropic sectors. It is patient and has low or no return expectations, or can take on outsized risks. It is used in blended finance transactions to attract commercial capital that would otherwise not participate.

Development finance institution (DFI): DFIs are national or international organizations aimed at promoting economic development in developing nations. They are usually majority-owned by national governments and raise funds by selling bonds to the public. DFIs include national development banks (e.g., Finance Corporation of India) and multilateral development banks (e.g., World Bank, ADB, International Finance Corporation).

First-loss: Investments often have different tiers of investors, with one set of investors accepting that, should the investee suffer financial difficulties, it will lose the money it invested before any of the other investors. These investors will bear the "first loss."

Impact investing: This approach to investment seeks to generate both financial returns and development impact.

Junior/senior tranche: A junior tranche is an unsecured debt that ranks lower in repayment priority than other (mezzanine or senior) debts in the event of default. It is also known as subordinated debt. Due to the higher risk associated with junior tranches, they pay higher interest rates than the senior tranches. A senior tranche is usually secured debt with collateral and is repaid first in the event of default.

Mezzanine tranche: A mezzanine tranche is a layer positioned between the senior tranche and a junior tranche. The mezzanine tranche carries intermediate-risk and will absorb any losses not absorbed by the junior tranche. In blended finance, public sector resources typically finance riskier mezzanine tranches that can catalyze additional private investment.

Multilayered investment vehicle (structured fund): This type of financing structure combines different asset classes with distinct risk and return profiles. Public or philanthropic donors generally invest in the riskiest junior tranche and get paid back only after private investors receive a target return on their investment. The junior tranche also gets tapped first if the fund experiences financial losses.

Social enterprise: A social enterprise is an organization that follows business principles to meet a social or environmental need through a product, service, process, or distribution of profit. Social enterprises can be both nonprofit or for-profit organizations.[60]

Conclusion

Blended finance is growing in Asia. In a region where companies choose to work in tandem with government, there are many examples of private and public capital coming together to achieve greater impact. While the form blended finance takes varies, the objective remains the same: reducing risk and amplifying the flow of capital toward social and environmental needs.

Yet, despite the sharp increase in blended finance in the region, there is room for further growth, and most Asian governments are yet to develop a coordinated and strategic blended finance approach. For blended finance to reach its full potential in Asia, governments should take on a leadership role and set the direction of travel through policy, funding and capacity building to help ensure the sustainability and scalability of blended finance.

The catalytic and de-risking aspects of blended finance offer a promising avenue to tap into Asia's vast vast pool of wealth and resources. Blended finance strategies also harness the Asian proclivity for pursuing win-win strategies and working in alignment with the government. Above all, today's colliding social and environmental crises present a compelling case for combining capital and the comparative strengths of all sectors to solve them. It is no surprise that Asia is steadily growing as a blended finance center as it both adapts existing models and forges its own unique partnerships and policies for collective prosperity.

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