



BLENDING FINANCE IN THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN)

Disclaimer: The information provided in this session is for educational purposes only. It does not constitute an offer to sell or a solicitation to any person in any jurisdiction. Any investment terms described are purely informational. The information provided should not form the basis of or be relied upon relating to any investment. In addition, the information provided may be subject to updating, completion, revision, verification and amendment and such information may change materially.

Copyright: Convergence retains all rights, title and interest in and to all copyright, trademarks, domain names, trade secrets, know-how and any other intellectual property rights in and to Convergence training materials. You may not reproduce or distribute Convergence training materials without written prior consent from Convergence to do so.

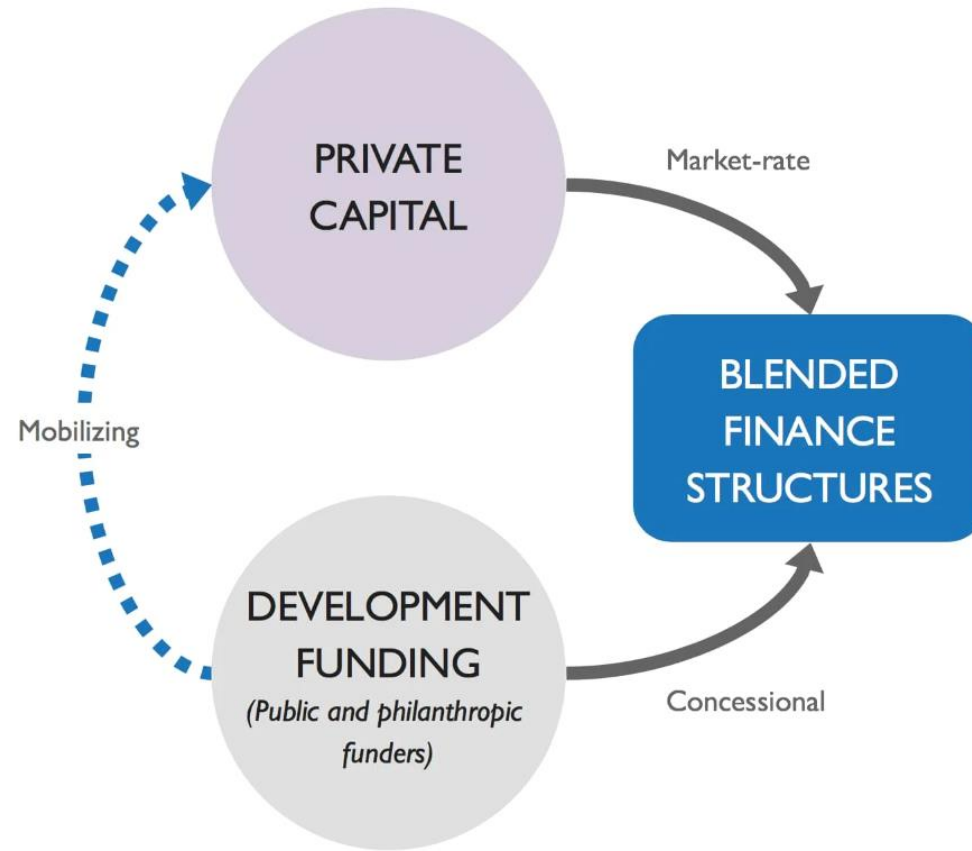
JANUARY 2024



OVERVIEW OF BLENDED FINANCE

WHAT IS BLENDED FINANCE?

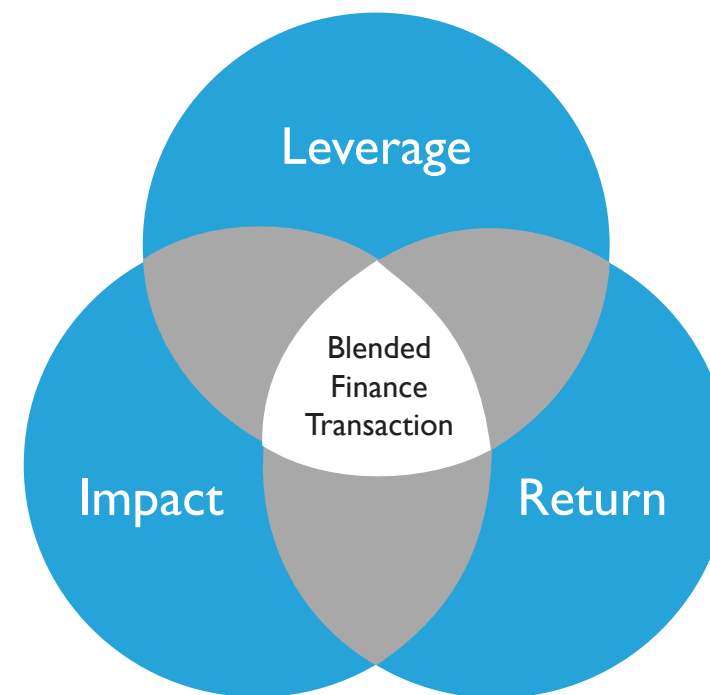
Blended finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development.



KEY CHARACTERISTICS OF A BLENDED FINANCE TRANSACTION

Three signature markings that Convergence believes are important to a blended finance transaction:

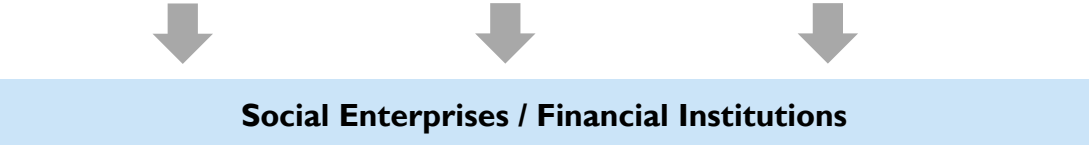
- 1. Leverage** - Commercial capital mobilized by concessional capital
- 2. Impact** - Underlying activity contributes to the SDGs in a developing country; however not all parties need to have development intent
- 3. Return** - Transaction expected to achieve a positive financial return; returns range from concessional to market rate and depend on the type of private sector investor in the deal



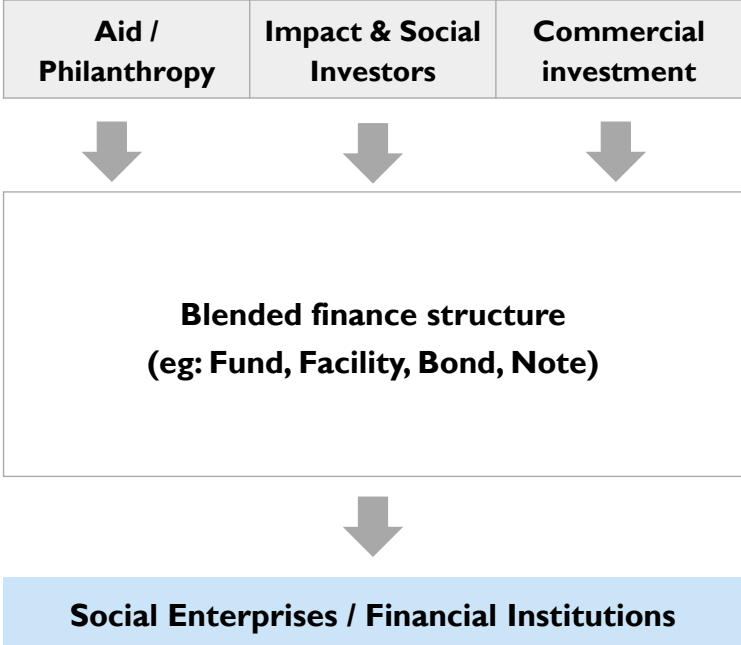
BLENDING FINANCE COMPARED TO OTHER FORMS OF FUNDING

TYPICAL FORMS OF FUNDING

	Aid / Philanthropy	Impact & Social Investors	Commercial Investment
Returns	Social returns; 100% financial trade-off	Social and financial returns (in the context of a social market) and preservation of original capital investment	Market beating net returns (on top of preservation of capital) and no real consideration of social returns
Impact targets	Embedded	Variable	Variable
Risk appetite	Risk-seeking	Neutral to averse	Risk averse
Liquidity required	Low	Medium	High
Vehicles	Grants, Returnable Grants, Concessional Loans, Guarantees	Growth Equity, Debt, Mezzanine, Structured Finance	Growth Equity, Debt, Mezzanine, Structured Finance
Key actors	Aid Agencies, Donors, NGOs, HNI's	Impact Investment Firms	Banks, Institutional investors



BLENDING FINANCE

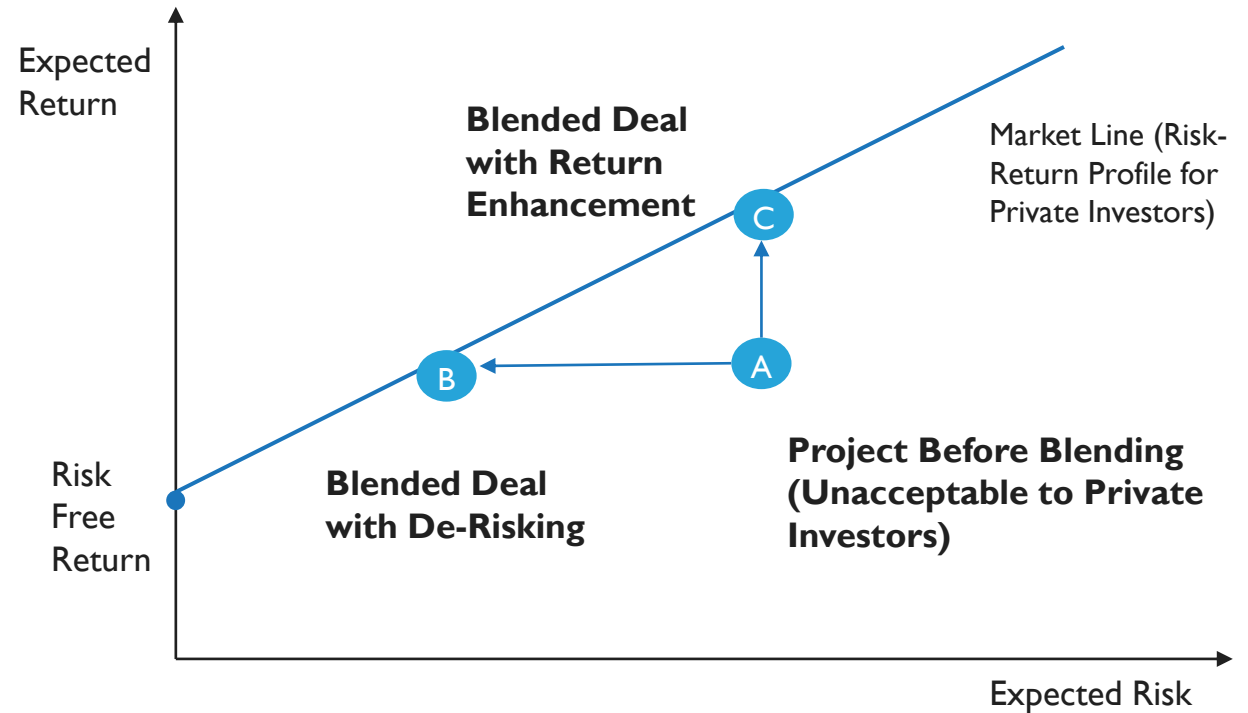


Blended Finance combines **all** of these disparate approaches into **one structure**, where each actor takes on an **acceptable** risk-return profile while concurrently achieving their objectives

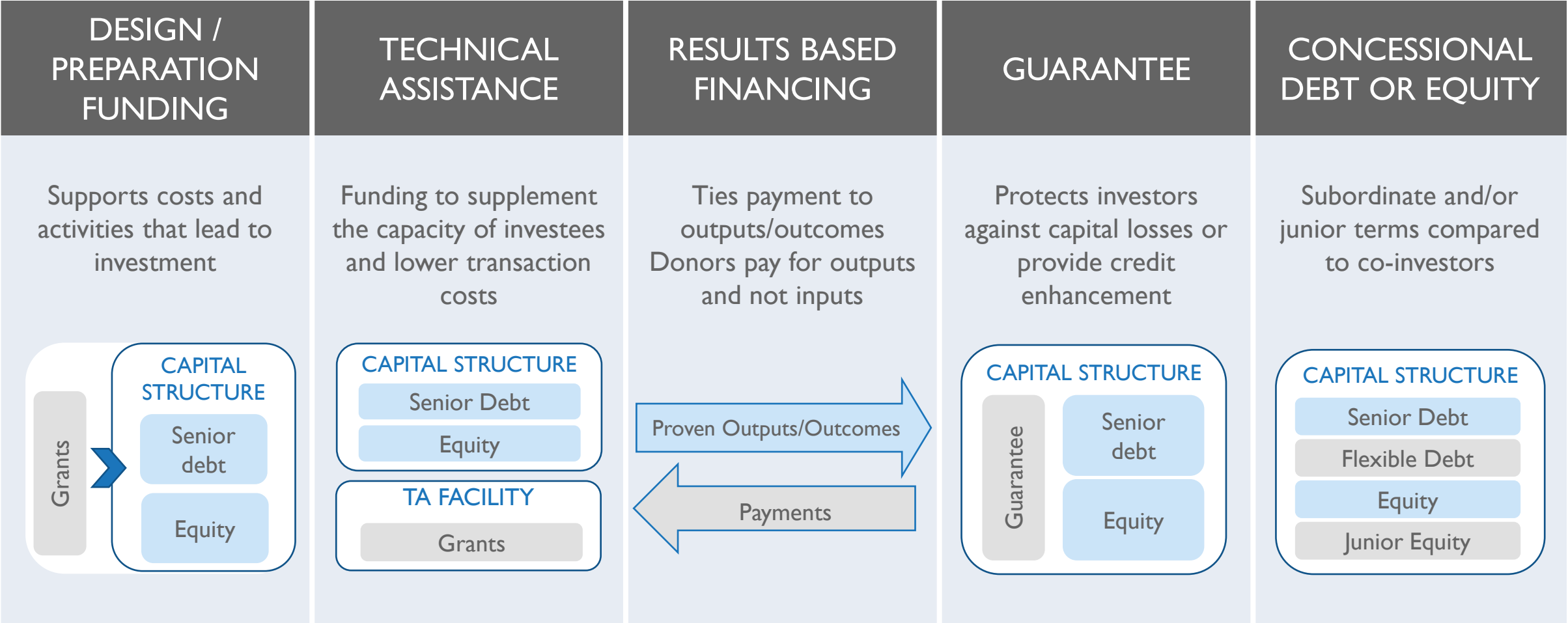
BLENDED FINANCE: CREATING “MARKET” RISK-RETURN INVESTMENTS ACCEPTABLE TO PRIVATE SECTOR INVESTORS

The goal of Blended Finance is to create acceptable risk-return profiles to mobilize private sector investment to SDG projects in developing countries.

Deploying Blended Finance To Achieve Commercially Acceptable Risk – Return Profile



COMMON BLENDED FINANCE ARCHETYPES

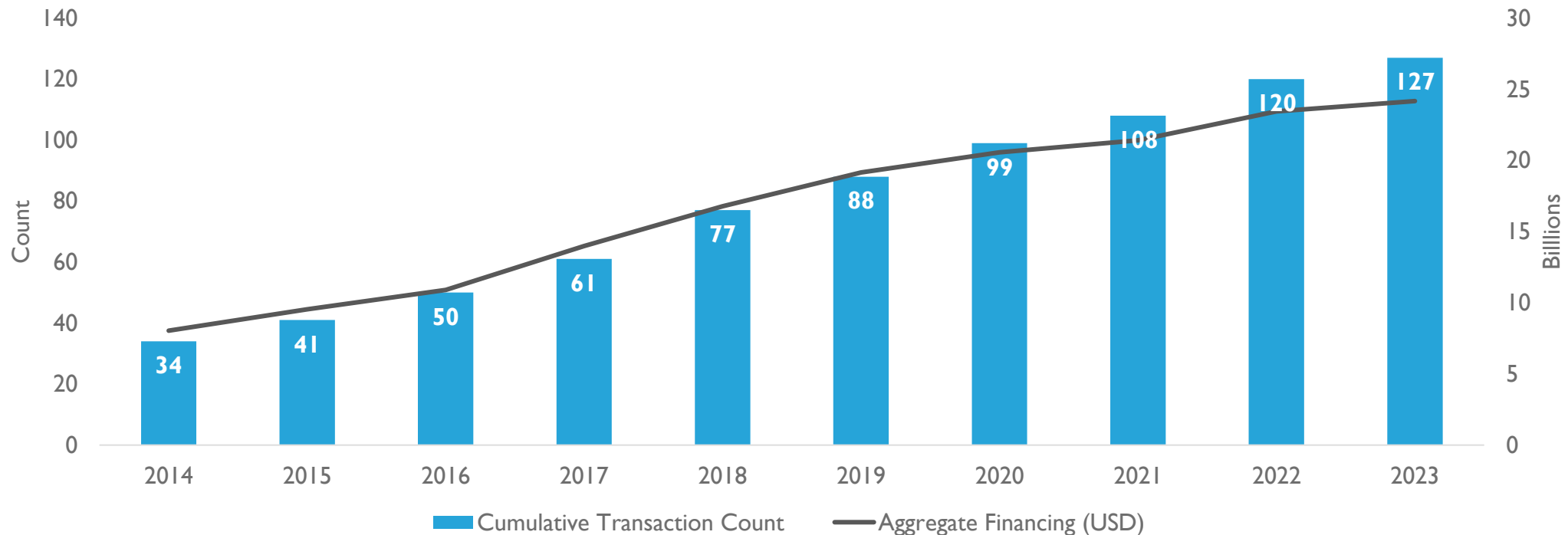




BLENDED FINANCE IN ASEAN

ASEAN BLENDED FINANCE TRANSACTIONS ARE GROWING ANNUALLY BY COUNT AND AGGREGATE FUNDING

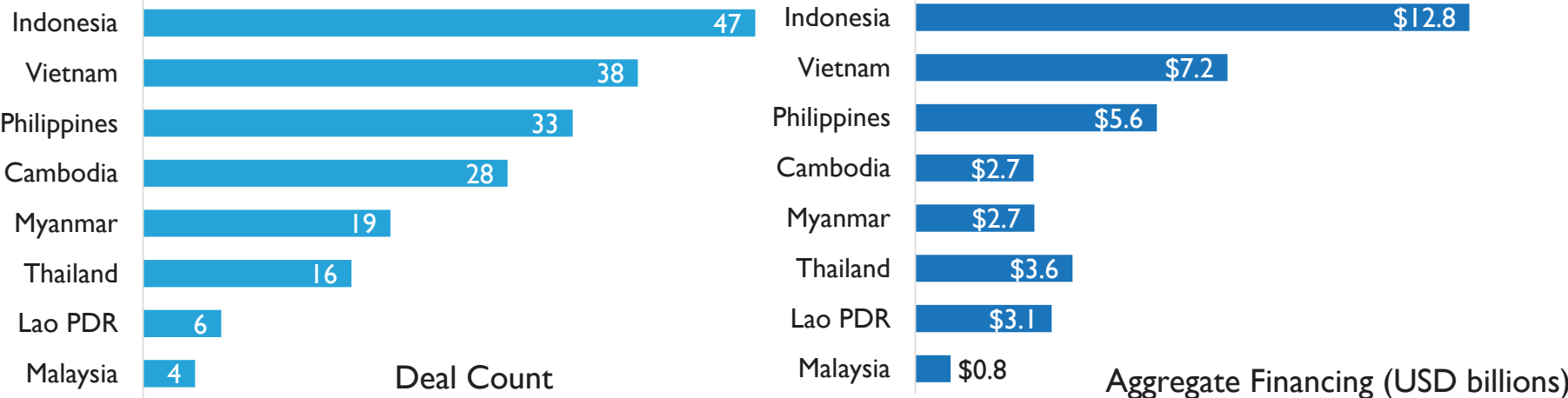
- ASEAN represents a diverse socio-economic region with varying challenges, from the energy infrastructure gap to threats from climate change.
- The Convergence Historical Deals Database (HDD) has recorded 127 blended transactions targeting ASEAN in part or in full, representing aggregate committed financing of US\$24.2 billion.



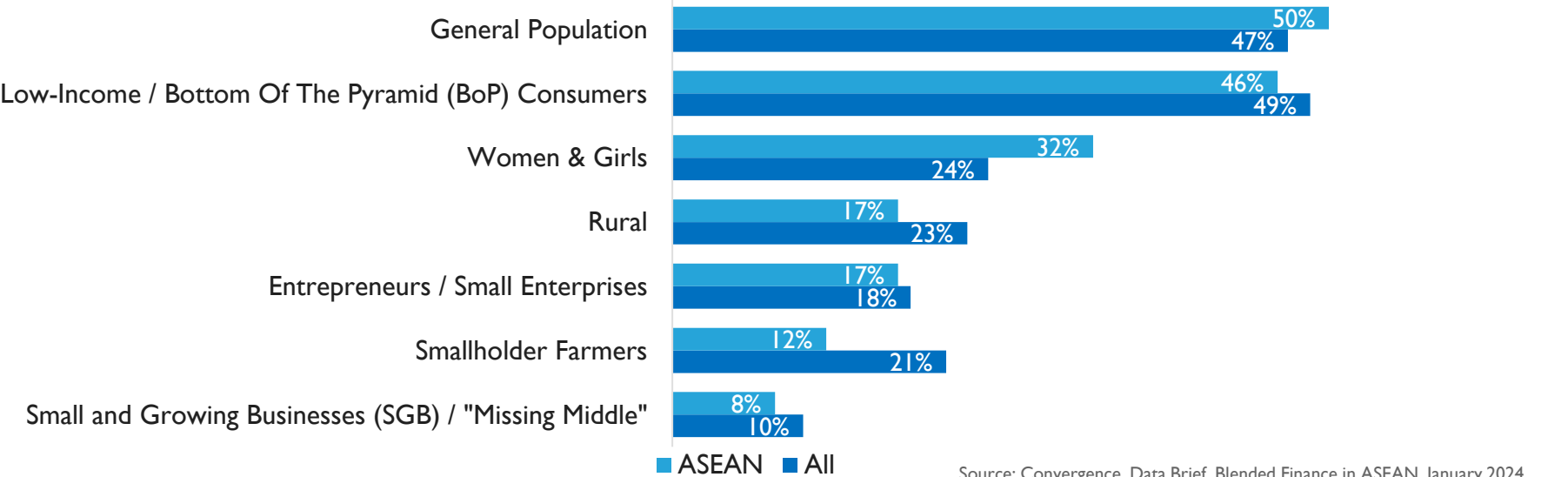
Source: Convergence, Data Brief, Blended Finance in ASEAN, Jan 2024

INDONESIA IS LARGEST RECIPIENT OF BLENDED FINANCE FUNDS; GENERAL POPULATIONS ARE GREATEST BENEFICIARIES

ASEAN transactions by country
(deal count and aggregate financing)



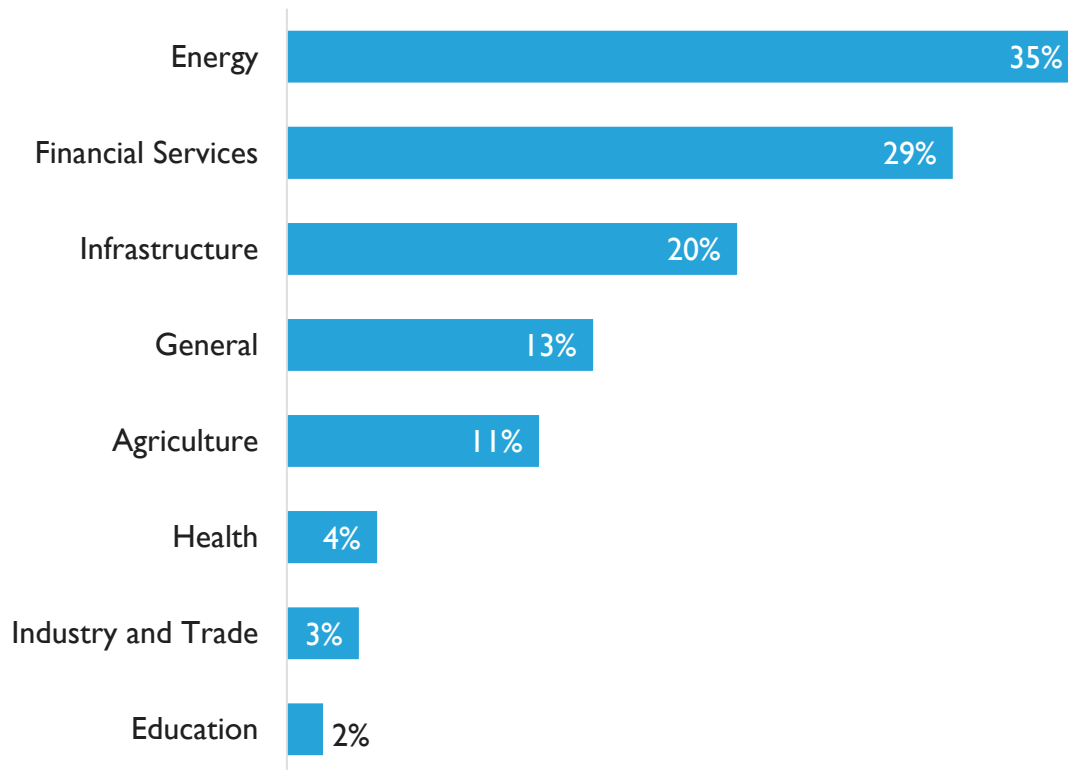
ASEAN transactions by end beneficiary



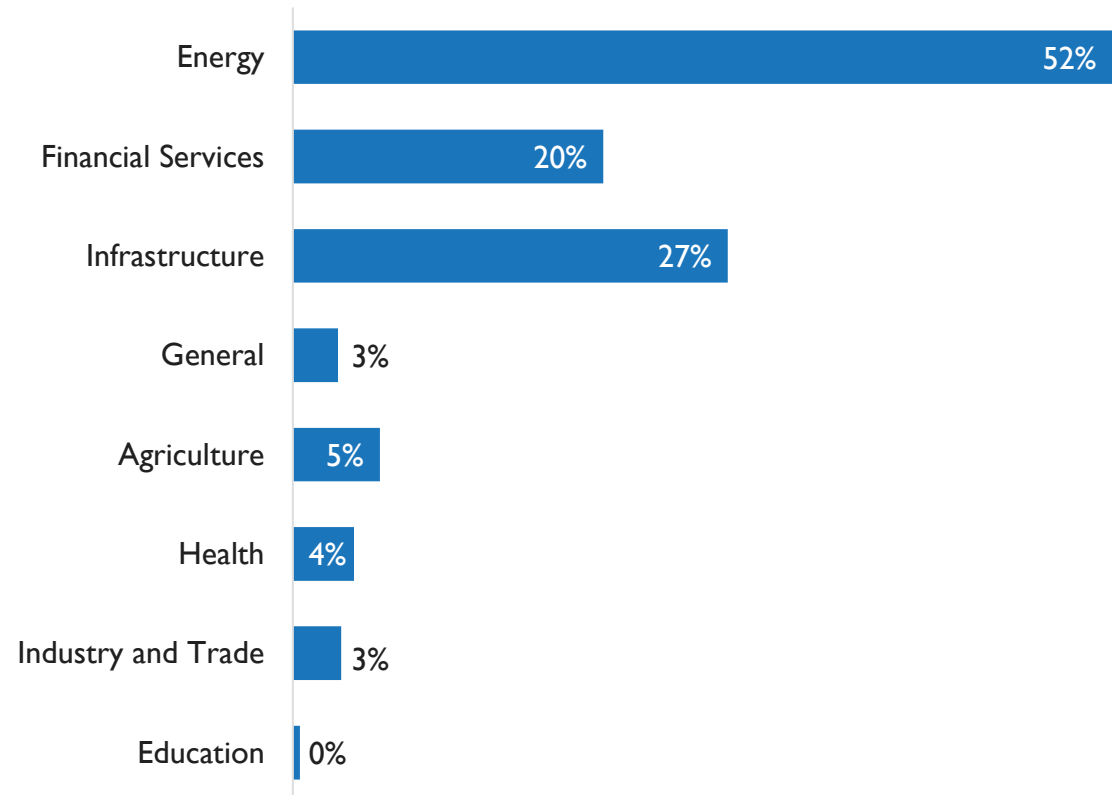
Source: Convergence, Data Brief, Blended Finance in ASEAN, January 2024

ENERGY A KEY SECTOR IN ASEAN, RENEWABLE ENERGY A KEY SUB-SECTOR

ASEAN transactions by sector (deal count)



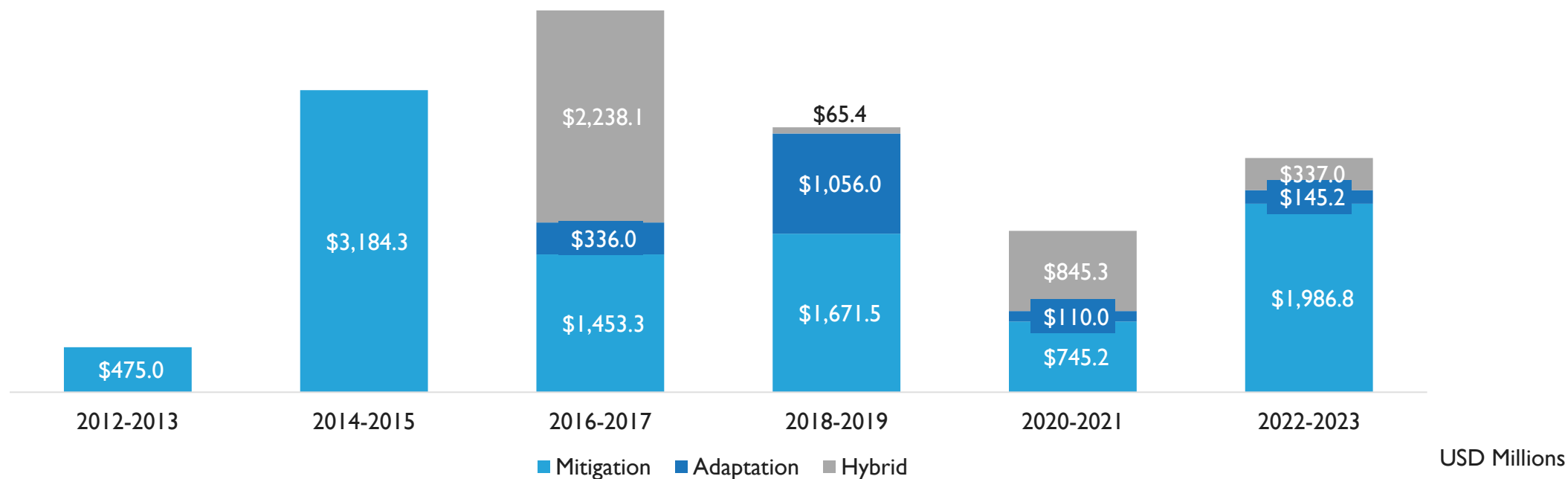
ASEAN transactions by sector (aggregate financing)



Source: Convergence, Data Brief, Blended Finance in ASEAN, January 2024

HYBRID AND MITIGATION DEALS MOST COMMON IN ASEAN

- Climate related deals represent 57% of ASEAN-focused transactions in the HDD
- Funding to support climate transactions peaked in 2016-2017, with the majority of deals being hybrid
- The cost of the transition is estimated at over \$9 trillion annually through 2050*

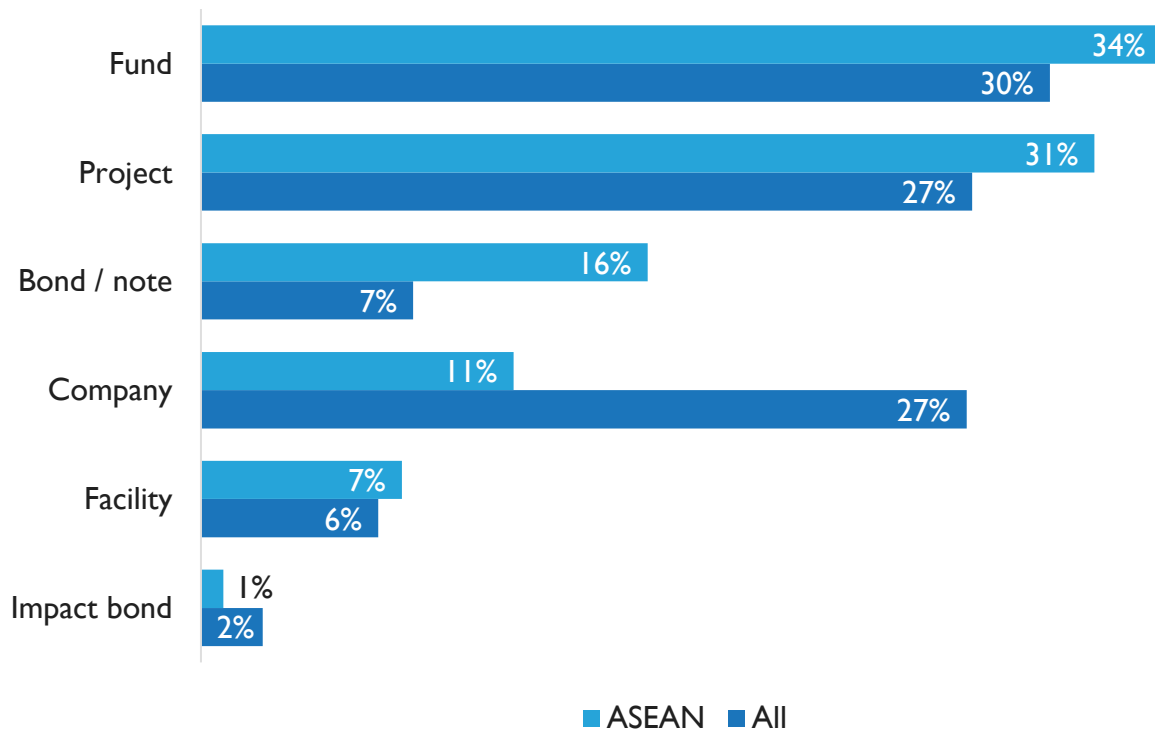


* Asian Development Bank, Scaling Blended Finance to Support the Net Zero Transition in Asia, May 2023

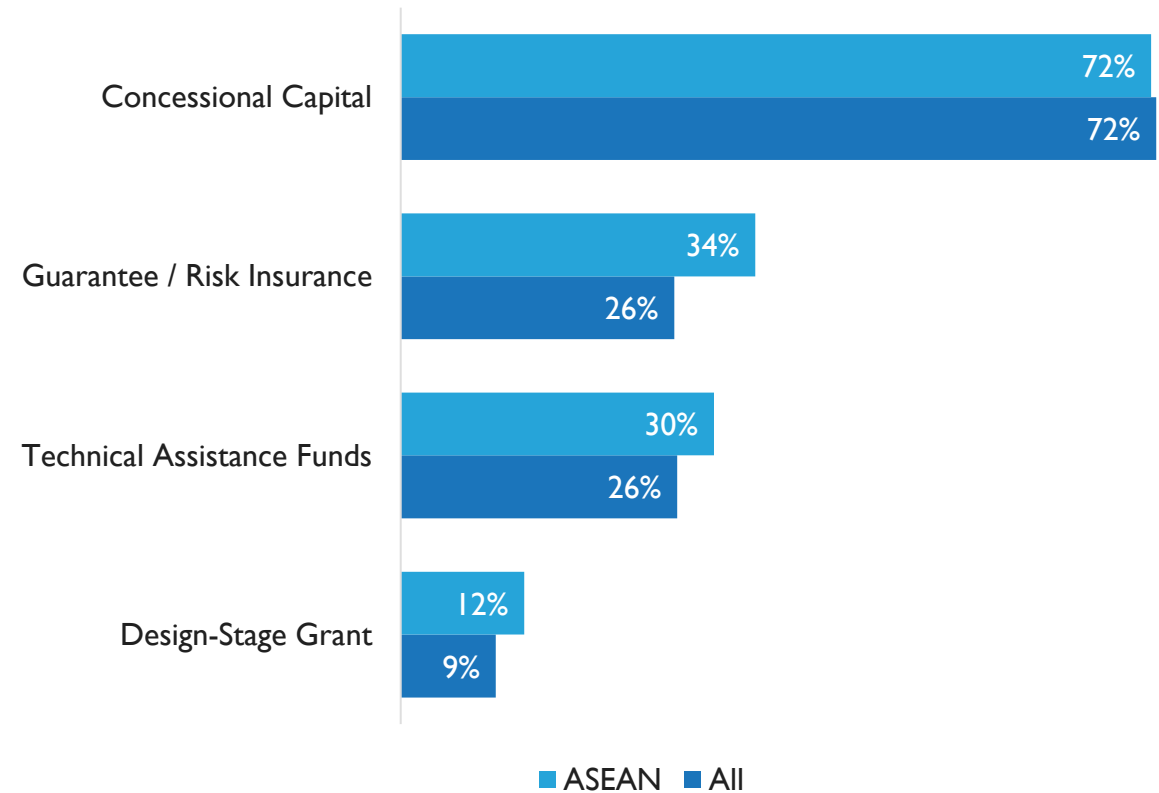
Source: Convergence Historical Deals Database, January 2024

HOW IS BLENDED FINANCE WELL POSITIONED FOR IMPACT IN ASEAN?

ASEAN transactions by type



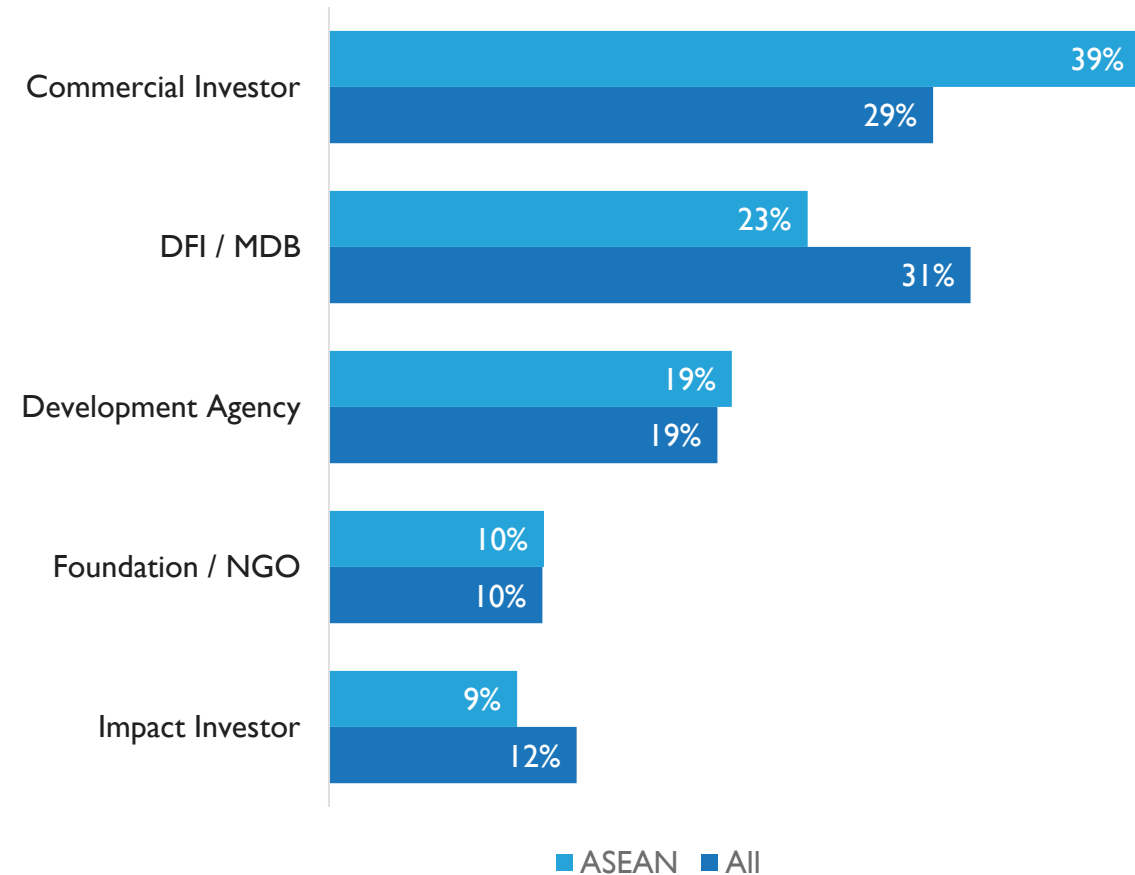
ASEAN transactions by archetype



Source: Convergence, Data Brief, Blended Finance in ASEAN, June 2023

COMMERCIAL INVESTORS AND DFI/MDB ARE LEADING INVESTORS IN BLENDED FINANCE TRANSACTIONS IN ASEAN

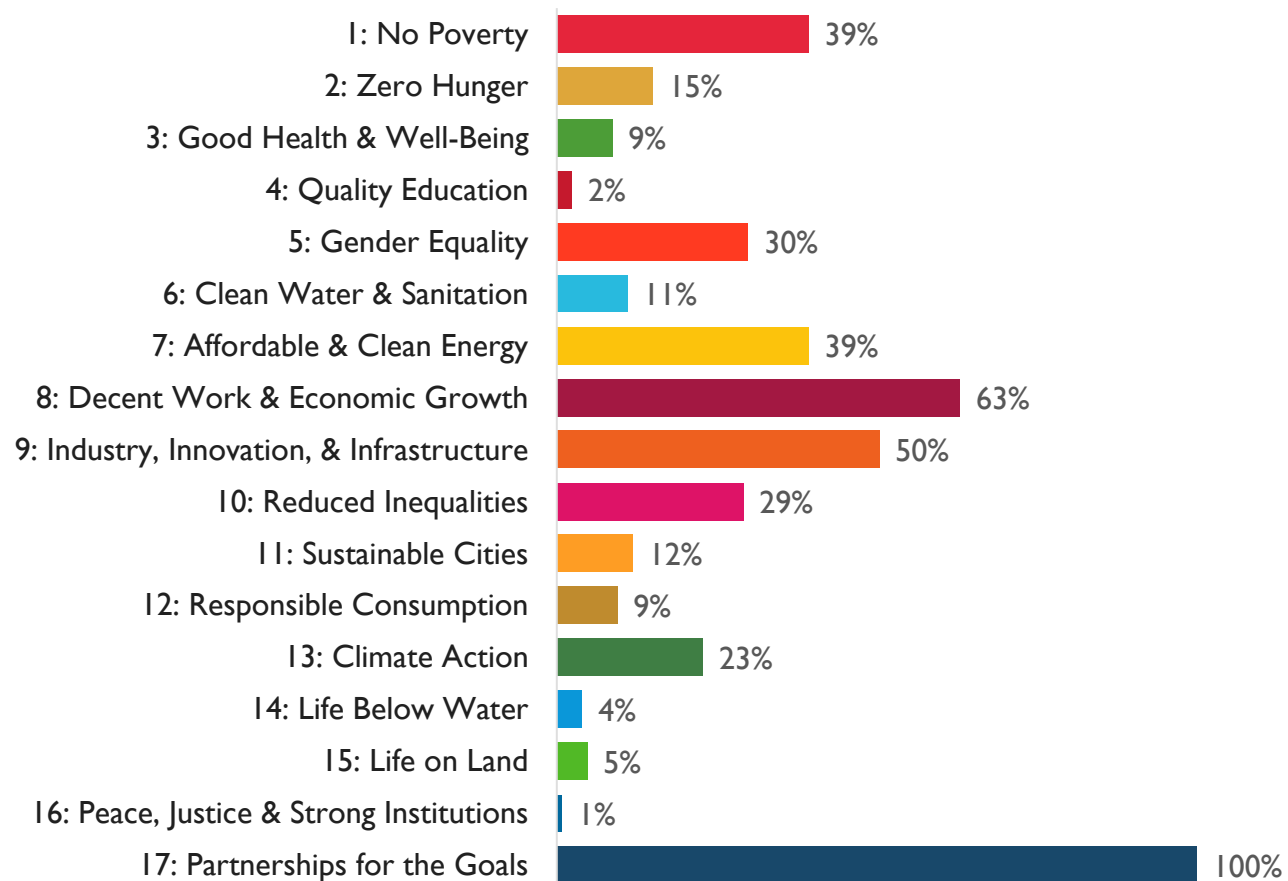
- Commercial investors (39%) have been more active as investors in ASEAN-focused transactions than in the global market.
- DFI/MDBs and impact investors have been less active (23% and 9% respectively).
 - DFI/MDBs will often participate in blended finance deals on commercial terms
- Development agencies and foundations/NGOs are equally active in ASEAN and the broader market.



Source: Convergence, Data Brief, Blended Finance in ASEAN, June 2023

SUSTAINABLE DEVELOPMENT GOAL ALIGNMENT

- 100% of deals captured in the HDD that impact ASEAN are included under SDG 17 because of the collaborative approach to blended finance
- The majority of ASEAN blended finance transactions focus on economic growth and industry (SDGs 8 and 9)
- ASEAN has announced its intention to prioritize projects that focus on the transition to net zero (SDG 7)



Source: Convergence Historical Deals Database, August 2023

EXAMPLE INVESTORS

PUBLIC INVESTORS

(CONCESSIONAL OR COMMERCIAL CAPITAL PROVIDERS)



PRIVATE INVESTORS

(COMMERCIAL CAPITAL PROVIDERS)



PHILANTHROPIC FUNDERS



(MOSTLY GRANT PROVIDERS)



Frequent investors in ASEAN-focused transactions according to number of investments

Source: Convergence Historical Deals Database, June 2023

EXAMPLES OF ASEAN BLENDED FINANCE TRANSACTIONS

Funds	Climate Finance Partnership (\$673 million) Philippines Water Revolving Fund (\$234 million) Agri3 Fund (\$80 million)	
Projects	Lotus Onshore Wind Power Project (\$248 million) Cambodia Solar Power Project (\$12.5 million)	
Facilities	Mercon Coffee Facility (\$450 million)	
Bonds/notes	Hattha Kaksekar Bond (\$29.8 million) Tropical Landscape Bond (\$95 million) Ho Chi Minh Infrastructure Bond (\$50 million)	

Source: Convergence Historical Deals Database, June 2023

REFLECTIONS ON BLENDED FINANCE IN ASEAN

Challenges for increasing the use of blended finance in ASEAN include:

1. Long timelines in structuring deals
2. Scalability and lack of bankable projects
3. Adverse global macroeconomic conditions leading to increase in currency volatility and political risk

Opportunities for increasing the use of blended finance in ASEAN include:

1. Growing the sustainable bond market in ASEAN
2. Strategic use of catalytic capital – philanthropic capital and public finances
3. Potential to support the region's transition to net zero



THANK YOU