DATA BRIEF

BLENDED FINANCE IN ASIA

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HIGHLIGHTS

- The Asia and the Pacific region needs $1.7 trillion in annual financing to maintain growth momentum, eradicate poverty, and respond to the critical nature of climate change. Development practitioners are increasingly exploring ways to use blended finance to mobilize more private sector finance, building on the momentum behind impact and sustainable investing in Asia.
- According to the Convergence database, there have been 122 blended finance transactions targeting one or more Asian countries, which represent an aggregate volume of $23.3 billion invested in full or in part in the region. To date, India has been the most frequent recipient of the share (47%) of transactions in the region.
- Blended finance transactions targeting Asia have been more likely to be bonds / notes and projects than other transaction types. The transactions have most often been mid-size transactions, with 40% of transactions between $25 and $100 million in total size. Transactions targeting Asia have been significantly more likely to deploy guarantees or risk insurance.
- 45% of the investments in blended finance transactions targeting Asia have been from the private sector, with the largest share from financial institutions, followed by asset managers. Asian Development Bank (ADB) and International Finance Corporation (IFC) are the most frequent investors in transactions targeting Asia.
- Climate finance is a ripe area for more blended finance. China, India, and Japan are leading the call for more renewable energy. Indeed, the largest proportion of blended finance activities in Asia have been in the energy sector, with more than 20% of blended finance transactions targeting Asia mobilizing financing for renewable energy projects.

Asia is poised to be the next frontier for innovative blended finance solutions

Despite major progress across Asia, the region continues to face an increasingly complex development landscape. It is estimated that Asia and the Pacific need $1.7 trillion per year in infrastructure financing alone to maintain growth momentum, eradicate poverty, and – in particular – respond to the critical nature of climate change. Development agencies, philanthropic organizations, and others are increasingly exploring ways to use blended finance and other innovative financing mechanisms to mobilize more private sector finance. This trend comes at an opportune moment: there is growing momentum behind both impact investing and sustainable finance across Asia, which is demonstrating the potential for social impact alongside financial returns.

This Brief considers how blended finance approaches have been deployed in Asia to date. According to the Convergence database, there have been 122 blended finance transactions targeting one or more Asian countries, which represent an aggregate volume of $23.3 billion invested in full or in part in the region. Three quarters of these transactions have targeted Asia exclusively. While Asia has been targeted by only 26% of blended finance transactions since 2005, the trend is positive, with nearly half of blended finance transactions targeting Asia – and more than half of the aggregate deal flow – launched in the past five years (2013-2018).

Figure 1: Blended finance transactions targeting Asia by priority country(ies)

To date, India has been a target country for the largest number (47%) of blended finance transactions in the region. Transactions targeting India have been smaller, on average, compared to those across all Asian countries, which may reflect the diversity of innovative pilot projects (e.g., Utkrisht Bond) and scaled solutions (e.g., Climate Investor One) in the country. While India has been an important testing ground for blended finance in Asia, there is great potential to deploy blended finance approaches throughout the region. Indeed, nearly all of the blended finance transactions launched in the past two years have targeted countries beyond India.

ANALYSIS

Bonds / notes and projects have been relatively more common than other transaction types in Asia

Blended finance transactions targeting Asia have been relatively more likely to be bond / notes (7% versus 3% overall) and projects (31% versus 24% overall). The use of bonds / notes is particularly notable because of the regular coupon payments, which are attractive to many private investors. The average deal size for the bond / notes targeting Asia has been smaller on average, compared to other transaction types, at $38 million. Large infrastructure projects account for a significant number of the blended finance transactions in Asia to date. Projects have been relatively less likely in India and more likely in other Asia countries, such as Bangladesh, Lao PDR, and Nepal. There have been notably fewer blended funds targeting Asia (35% versus 47% overall).

$25-100 million has been the sweet spot for blended finance transactions in Asia to date

Blended finance transactions targeting Asia have been mid-size transactions, with 40% being between $25 and $100 million in total size. This is unsurprising given the number of blended infrastructure projects in the region, which tend to be large. The largest transactions, on average, have been in Lao PDR ($858 million, n=3), Pakistan ($562 million, n=12), and Thailand ($388 million, n=9), while the smallest transactions, on average, have been in India ($86 million, n=57), Nepal ($110 million, n=3), and Cambodia ($112 million, n=12). The average transaction size across all blended finance is $289 million.

Energy and financial services have been prevalent sectors in Asia

Mirroring broader trends seen across all blended finance transactions to date, transactions targeting Asia have been most likely to focus on the energy and financial services sectors. More than 20% of blended finance transactions targeting Asia have mobilized financing for renewable energy projects. Another 16% of transactions targeting Asia have been focused on microfinance and retail banking. The Philippines and Sri Lanka have been key markets for blended finance transactions focused on the financial services sector, while the largest share of transactions targeting India have been in the education sector. Blended finance transactions targeting Asia have been relatively less like to target agriculture and health.

Guarantees have appeared in nearly half of all blended finance transactions targeting Asia

Blended finance transactions targeting Asia have been significantly more likely to deploy guarantees or risk insurance (40% versus 30% overall) and less likely to deploy concessional debt or equity in the capital structure (56% versus 66% overall). Guarantees have been deployed for infrastructure projects in the region (e.g., Sarulla Geothermal Power Project) as well as investment funds (e.g., Renewable Energy Asia Fund). Transactions with guarantees have had the largest average transaction size ($354 million), while transactions with concessional debt or equity have had a smaller average transaction size ($88 million).

Figure 2: Blended finance transactions targeting Asia by type

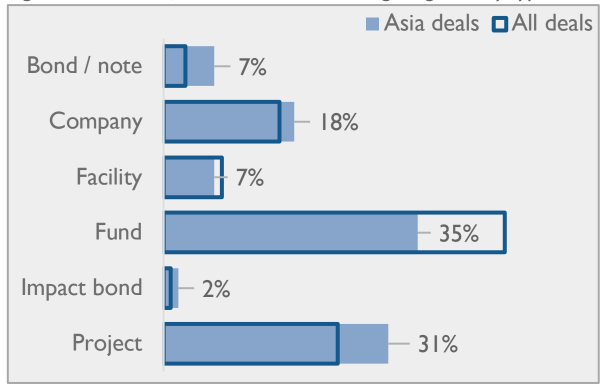


Figure 3: Blended finance transactions targeting Asia by size

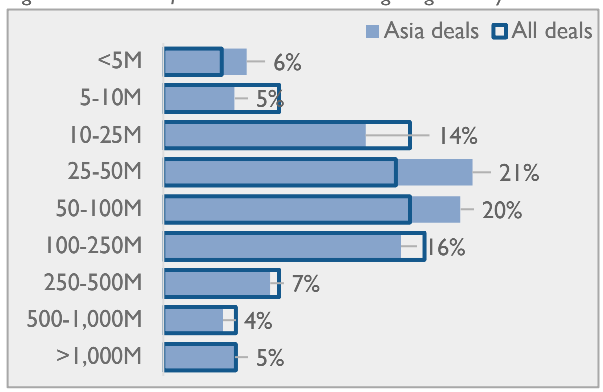


Figure 4: Blended finance transactions targeting Asia by sector

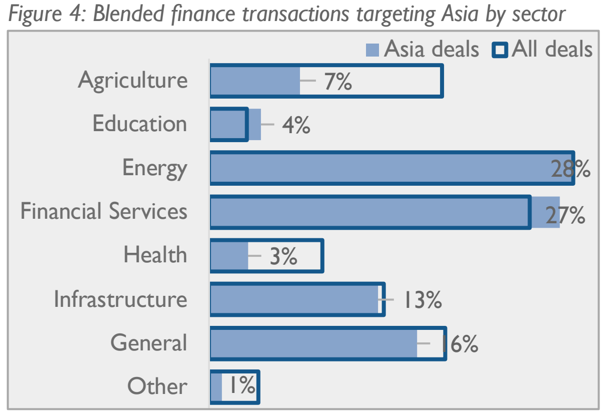
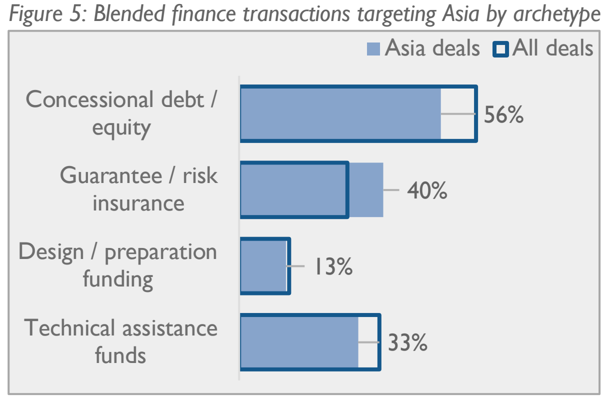


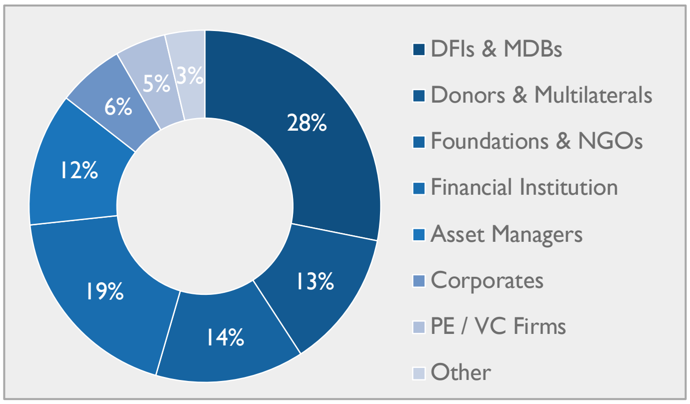
Figure 5: Blended finance transactions targeting Asia by archetype



DFIs, MDBs, and foundations have been the most prominent investors in blended finance transactions in Asia

The public and philanthropic sectors together have accounted for over 55% of investments (by count) into blended finance transactions targeting Asia. Development finance institutions (DFIs) and multilateral development banks (MDBs) account for the largest share of investments, which is also reflected in the league table below. The private sector has accounted for the remaining 45% of investments into blended finance transactions targeting Asia, with the largest share from financial institutions (19% of investments), followed by asset managers (12%).

Figure 6: Investments in transactions targeting Asia by investor type



IFC, FMO, and ADB have most frequently invested in blended finance transactions targeting Asia

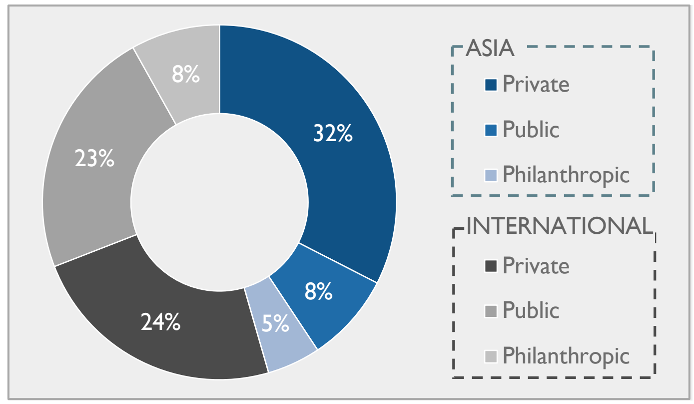
The Asian Development Bank (ADB) and International Finance Corporation (IFC) have been the most frequent investors in blended finance transactions targeting Asia, with these investments representing about 90% and 20% of each organization's total blended finance activities, respectively. The United States Agency for International Development (USAID) is the most active donor agency in blended finance for Asia and GuarantCo, a donor-funded vehicle, also plays a key role regionally. The Green Climate Fund (GCF) has participated in select blended finance solutions for Asia (4 investments), but has had a greater focus on public sector projects.

Figure 7: Investors in transactions targeting Asia by number of investments

Private project sponsors have been most common in the region

45% of blended finance transactions targeting Asia have been led by Asian organizations ('project sponsors'), with the majority (55%) of transactions to date led by project sponsors domiciled outside of Asia (e.g., the U.S., Europe). The majority (71%) of domestic project sponsors have been private sector organizations (e.g., energy developers, fund managers). Outside of Asia, both public and private organizations have led blended finance transactions targeting Asia, such as GuarantCo and USAID, as well as fund managers such as LeapFrog Investments and Small Enterprise Assistance Funds (SEAF).

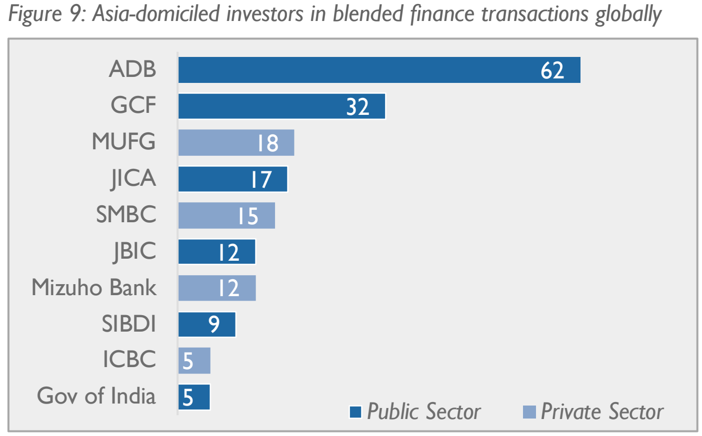
Figure 8: Sponsors for transactions targeting Asia by domicile and sector



Asian-domiciled investors have been active in blended finance beyond the region's remit

Beyond transactions targeting Asia, Asian organizations have been active in blended finance globally. ADB has been the most active Asian organization, with its region-specific activities accounting for just over half of its total commitments to date. Japan International Cooperation Agency (JICA) and Japan Bank for International Cooperation (JBIC) have been the most active bilateral organizations. Beyond the public sector, several Asian commercial banks have been active in blended finance, including Mitsubishi UFJ Financial Group (MUFG), Sumitomo Mitsui Banking Corporation (SMBC), Mizuho Bank, and Industrial and Commercial Bank of China (ICBC).

Figure 9: Asia-domiciled investors in blended finance transactions globally



REFLECTIONS

Asia is well positioned to be the next frontier for innovative blended finance solutions that can mobilize additional sources of financing for development impact, particularly climate mitigation and adaptation. While Asian governments and regional development agencies have primarily deployed public sector-led approaches to development, there are a number of positive signals that blended finance is a growing practice in the region. Asset managers are among those leading the charge in integrating sustainability into the core of their investment models, often in novel ways. For example, Japan's Government Pension Investment Fund (GPIF) recently announced that it would incorporate environmental, social, and governance (ESG) factors into its investment decisions.

Climate finance is a particularly ripe area for more blended finance. The Asia and the Pacific region is one of the most disaster-prone regions and the possibility that climate change may exacerbate the frequency and severity of extreme weather events is a real threat to progress made towards achieving sustainable development. China, India, and Japan are among those leading the call for renewable energy – with renewable energy capacity in Asia nearly doubling over the past five years (2012-2017). Indeed, the largest proportion of blended finance activities in Asia has been in the energy sector, with more than 20% of blended finance transactions targeting Asia mobilizing financing for renewable energy projects. ADB recently announced intentions to ensure that 75% of the number of its committed operations will be supporting climate change mitigation and adaptation by 2030.

This Brief aims to benchmark how blended finance approaches have been deployed in Asia to date to support the greater adoption of good practice blended finance approaches that can mobilize additional sources of financing for Asian development. Asia has the unique opportunity to build on the models and lessons learned from blended finance solutions deployed around the world to date. Early analysis indicates that practitioners in Asia have been particularly innovative and private sector-oriented in the use of blended finance, including innovative solutions that leverage well-established instruments. For example, the first green sukuk, a green bond compliant with Islamic finance principles, enabled a new segment of investors to invest in green growth in Malaysia. Convergence anticipates greater volumes of blended finance flows to Asia in the future, with Asian-domiciled institutions like ADB, JICA, and GCF playing an important role.

METHODOLOGY AND NOTES

1. **Convergence's database:** Convergence maintains the largest and most detailed database of blended finance transactions that have reached financial close. Given the current state of information sharing, it is not possible for this database to be fully comprehensive. We have made efforts to capture all relevant blended finance transactions targeting one or more Asian countries from many sources; however, there are likely more transactions that have not been captured.
2. **Scope of available data:** This Brief analyzes 122 blended finance transactions that have targeted, in full or in part, one or more countries in Asia. For the purpose of this analysis, the following countries and territories were included in the sample: Afghanistan; Bangladesh; Bhutan; Brunei; Cambodia; China; East Timor; Hong Kong SAR, China; India; Indonesia; Japan; Kazakhstan; Korea, Dem. People's Rep.; Korea, Rep.; Kyrgyzstan; Lao PDR; Macao SAR, China; Malaysia; Maldives; Micronesia, Fed. STS.; Mongolia; Myanmar; Nepal; Pakistan; Papua New Guinea; Philippines; Russia; Singapore; Sri Lanka; Tajikistan; Thailand; Timor-Leste; Turkmenistan; Uzbekistan; and Vietnam.
3. **Target regions and countries:** Convergence tracks region and country data by stated region(s) and countries of focus at the time of financial close, not actual investment flows. Often, regions and countries of eligibility are broader than those explicitly stated.