DATA BRIEF | JUNE 2023

Blended Finance in the Association of Southeast Asian Nations (ASEAN)

HIGHLIGHTS

- The Association of Southeast Asian Nations (ASEAN) is one of the fastest growing regions in the world, despite ongoing economic and social challenges.
- The Convergence database has recorded 107 transactions targeting ASEAN in part or in full, representing aggregate committed financing of US$20.7 billion.
- With a commitment from eight out of ten member countries to transition to net zero by 2050, and one by 2060, renewable energy (33%) has been targeted by a plurality of blended transactions in ASEAN.
- Base of the pyramid and the general population (53% and 43% respectively) are the biggest beneficiaries of blended finance transactions in ASEAN, in alignment with the global market.
- Blended finance transactions are the highest in ASEAN by both deal count and aggregate financing in Indonesia.
- ADB (22 transactions) and IFC (18) are the largest commercial investors in ASEAN by deal count, while USAID (11) FMO (11), and JICA (11) are the largest providers of concessionary funding.
- Challenges for increasing the use of blended finance in ASEAN include the long timelines in structuring deals, scalability and lack of bankable projects, and global macroeconomic conditions.
- Opportunities to increase blended finance transactions include growing the sustainable bond market in ASEAN, better using existing capital in a catalytic way, and supporting the region's transition to net zero.

CONVERGENCE
BLENDING GLOBAL FINANCE

Introduction

In 2022, the Association of Southeast Asian Nations (ASEAN)[1] was one of the fastest growing regions in the world, with an annual growth rate of approximately 5.5%. Despite the ongoing COVID-19 pandemic, foreign direct investment (FDI) inflows quickly rebounded in ASEAN in 2021, reaching the 2019 record high of $174 billion. According to the Organization for Economic Development and Cooperation (OECD), this resilience is likely due to a combination of factors, including appropriate monetary and macroeconomic policy responses, sound export performance, and robust domestic demand in some ASEAN countries. While growth is expected to slow slightly in 2023, it is still forecasted to be higher than the global average, with Vietnam, the Philippines, and Cambodia expected to have real GDP growth above 5%.

Despite this, the region continues to face numerous economic challenges. Consider the energy infrastructure gap. To power its manufacturing and meet rising consumption needs, ASEAN countries must invest approximately $490 billion cumulatively between 2025 and 2030, although this gap will be more of a challenge to close in the lower income countries in the region.

Exacerbating this issue, Southeast Asia is predicted to be one of the hardest hit regions by climate change globally. Analysis from the Asian Development Bank (ADB) suggests that the impact of climate change in Southeast Asia may reach 11% of gross domestic product (GDP) by the end of this century.

Moreover the Intergovernmental Panel on Climate Change (IPCC) report found that long coastlines and low-lying areas mean Southeast Asian coastal cities will likely experience significant increases in average annual economic losses between 2025 and 2050 due to flooding.

Asian-Pacific countries are also experiencing difficulties meeting the Sustainable Development Goals (SDGs). While progress towards achieving the SDGs increased from 4.4% in 2017 to 14.4% in 2022, it is likely the region will miss its 2030 target by several decades.

Considering these various challenges, and in the context of changing global macroeconomic conditions such as higher inflation rates, a high debt burden, and the Russian invasion of Ukraine, there is a need to use scarce public and philanthropic funding in a catalytic way. While the trend towards using blended finance is increasing in ASEAN, the concept remains relatively new and further traction is needed to reach its full potential.

This brief analyzes how blended finance approaches have been deployed in ASEAN to date, presenting insights from interviews conducted with industry stakeholders. The Convergence Historical Deals Database (HDD) has recorded 107 blended transactions targeting ASEAN in part or in full, representing aggregate committed financing of US$20.7 billion.

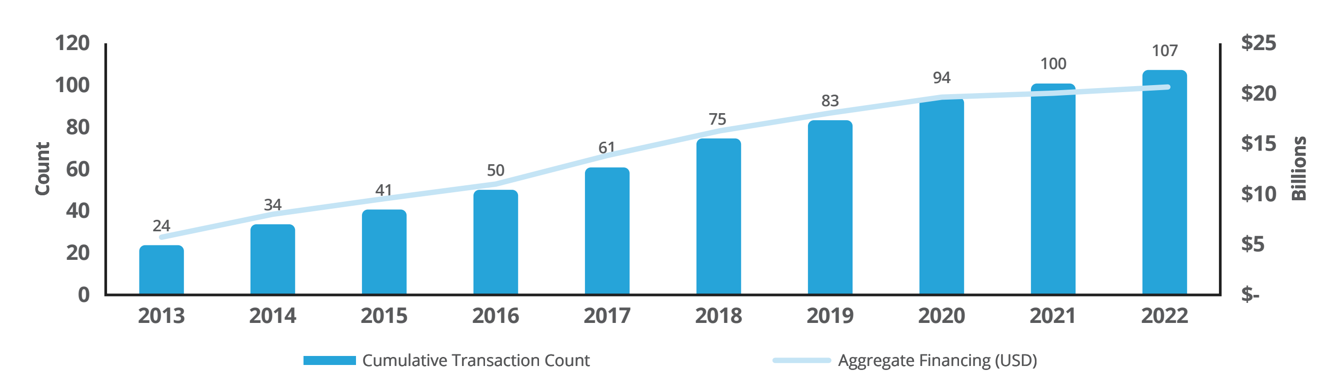

Figure 1: Market size and growth of blended finance in ASEAN

[1] Member states include Brunei, Cambodia, Lao PDR, Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

Blending for ASEAN: Analysis

RENEWABLE ENERGY: KEY SUB-SECTOR IN ASEAN

Within the ASEAN energy sector, which accounts for 31% of ASEAN deals in the HDD, renewable energy is currently the largest sub-sector by deal volume (33%). The Cambodia Solar Project is one example within this category. The project involved constructing and operating the first utility-scale solar power project in Cambodia with a capacity of 10MWp DC. ADB provided A and B loans and concessional debt through the Canadian Climate Fund for the Private Sector in Asia. Recently, ASEAN countries have agreed to increase the share of renewable energy in installed power capacity to 35% by 2025, with eight out of ten members committing to net zero by 2050, and one by 2060.

Financial service transactions (30%) are largely related to microfinance, which as a sub-sector accounts for 19% of ASEAN deals. As of 2022, over six in ten Southeast Asians were underbanked or unbanked. Microfinance can provide access to the poorest among this population. Meanwhile infrastructure (27%) remains an ongoing challenge in the region. One of the largest factors impeding the growth of private infrastructure spending includes inadequate project preparation. Blended finance can help by de-risking opportunities that would otherwise be unattractive to private investment.

There is also room for blended finance to increase innovation in the agricultural sector, which as a share of employment and GDP is amongst the most important sectors in ASEAN; as of 2017, approximately 25% of Southeast Asians were employed in the sector, while it contributed around 14.6% to total GDP. One of the agriculture sector's main challenges in attracting financing is related to high transaction costs among sector operators and financial institutions or investors.

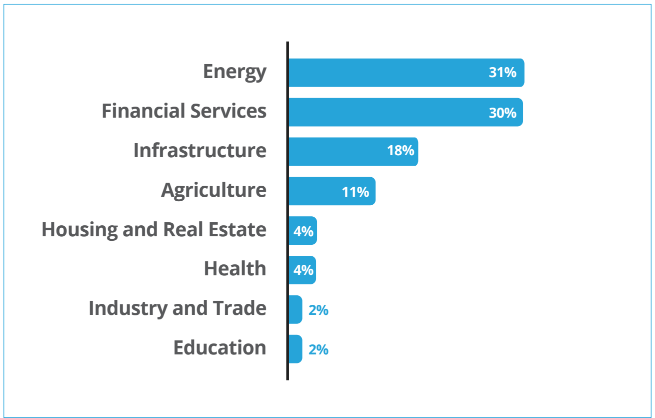

Figure 2: ASEAN transactions by sector

PROJECTS AND FUNDS PREDOMINANT IN ASEAN

Funds and projects account for most of ASEAN transactions (37% and 30% respectively). An example of a blended fund targeting ASEAN is the Climate Finance Partnership. This is a BlackRock-managed private equity fund originally conceived by Aligned Climate Capital with grant support from Convergence's design funding program. The Fund was structured as a dual-tier equity vehicle, featuring a first-loss equity tranche to provide downside coverage to senior equity providers.

Project finance most commonly funds the long-term development of natural resource and physical infrastructure assets, with financing being repaid from the cashflows of operating assets. Technical assistance can play a key role in the design of higher quality projects. One such project was the Philippines Water Revolving Fund, which provided loans to water service providers to finance municipal water and wastewater projects in the Philippines. The Japanese International Cooperation Agency (JICA) provided a concessional loan at below market interest rates with longer maturities, backed by a sovereign guarantee from the government of the Philippines. As well, JICA and the United States Agency for International Development (USAID) provided technical assistance to help with risk assessment and performance.

Compared to the global market, bonds play a much larger role in ASEAN. This follows recent years of rapid growth with the sustainable bond market in ASEAN, with record issuance of green, social and sustainability (GSS) debt.

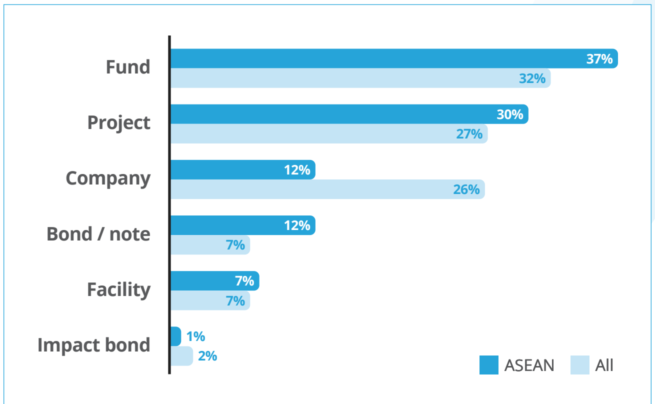

Figure 3: ASEAN transactions by blended vehicle type

ASEAN TRANSACTIONS TYPICALLY LARGER IN SIZE COMPARED TO OVERALL MARKET

ASEAN transactions have a median size of $90 million (compared to $50 million for all blended transactions), with 36% below $50 million and 46% above $100 million. Financial services and energy transactions are the most common sectors found in medium and large deals. Infrastructure transactions are also nearly one-third of the largest deals (over $500 million), whereas those in housing and real estate tend to be smaller. The largest ASEAN-based project in the Convergence database, the Sarulla project, is a $1.6 billion 320MW geothermal power project that provides electricity from renewable energy sources in North Sumatra, Indonesia. The project received $100 million in concessional mezzanine financing from the Clean Technology Fund and the Canadian Climate Fund for the Private Sector in Asia. Senior debt was provided by private banks and development finance institutions (DFIs), while the Government of Indonesia provided a guarantee. The Japan Bank for International Cooperation (JBIC) then issued a political risk guarantee on the senior debt provided by commercial banks.

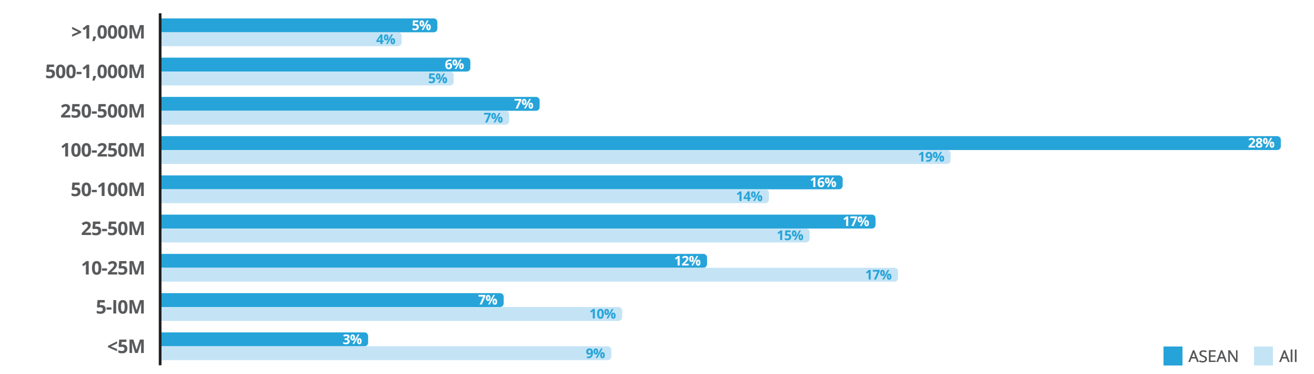

Figure 4: ASEAN transactions by total size

BASE OF THE PYRAMID AND GENERAL POPULATION LARGEST BENEFICIARIES

Women & girls are more supported as end beneficiaries in ASEAN deals compared to the global market (32% to 23%), while the lowest-income and general populations are the largest beneficiaries overall (53% and 43% respectively). There are some challenges in reaching those that are the most rural or in the lowest income bracket. Kota Yasumura from JICA suggests, *"The compound challenges of the acute raise of interest rates in USD, the crisis of the Ukraine conflict and COVID-19 means the macroeconomic situation worldwide is not doing well, and the risk appetite becomes less. This applies to [low-income ASEAN countries] as well. To reach out to vulnerable households, we need to nudge local institutions to expand their access. Together with co-financiers, they can mobilize funding to equip those customers who are normally unreachable. This is a trend we see increasing in area of gender and financial inclusion."*

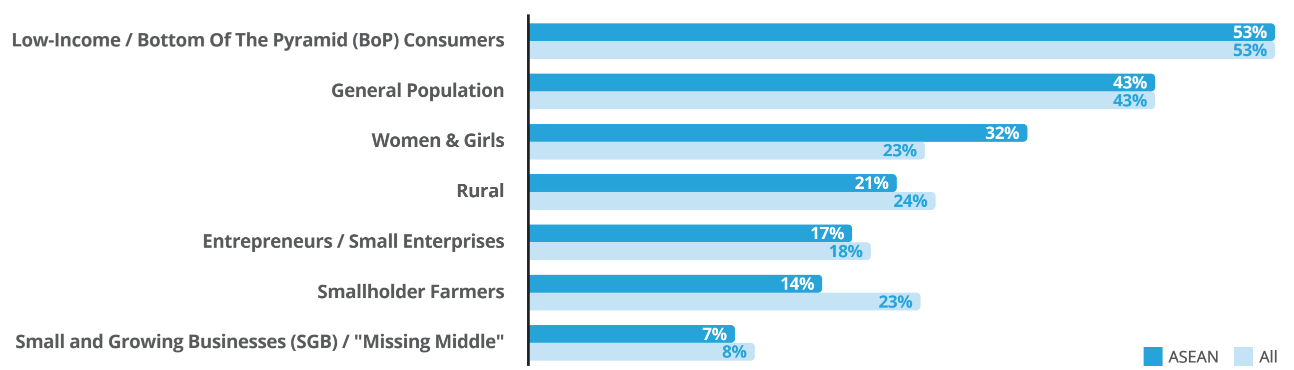

Figure 5: ASEAN transactions by end beneficiary

INDONESIA IS ASEAN'S LARGEST BLENDED FINANCE PLAYER BY DEAL COUNT AND FINANCING

Indonesia (42 transactions) is the most active blended finance market in the ASEAN region, accounting for more than a third (39%) of all the blended finance deals in the region. Indonesia is followed by the Philippines (28), Vietnam (28) and Cambodia (25). The breakdown of aggregate financing received by individual ASEAN countries mostly matches the breakdown by deal count. Cambodia, however, accounts for lower aggregate financing among ASEAN countries when compared to the number of transactions. This reflects smaller transaction sizes in Cambodia when compared to other countries, including Myanmar and Thailand, which have a lower deal count but higher deal size and financial flows. Note the HDD has not captured transactions in Singapore or Brunei.

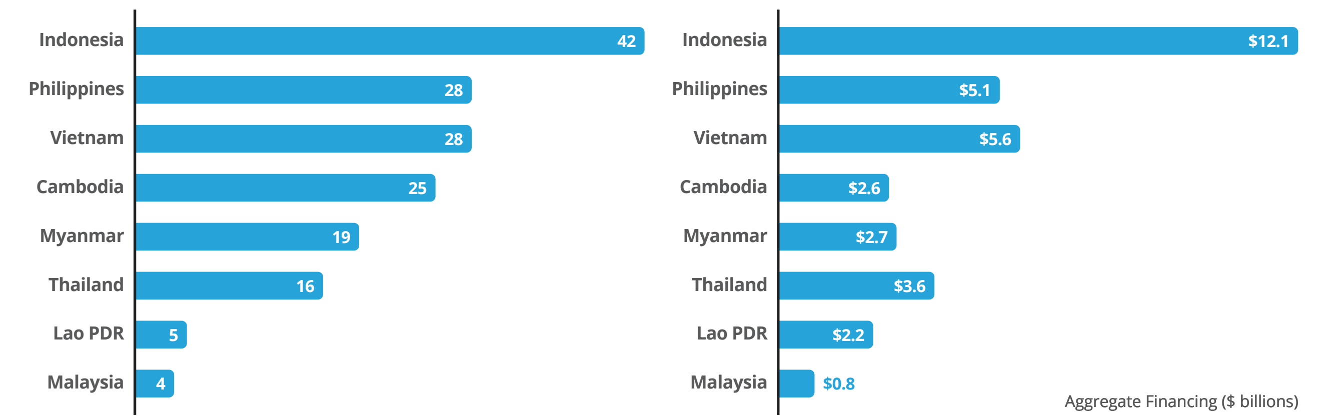

Figure 6: Deal count and aggregate financing by ASEAN country

CONCESSIONAL CAPITAL & GUARANTEE/RISK INSURANCE KEY IN ASEAN

Guarantees/risk insurance transactions occur in ASEAN at a higher rate than the global market (36% versus 26%). According to a representative of a global investment company based in ASEAN *"[ASEAN] is seeing the power of guarantees. Investors are very careful about their risk-returns profile, especially in emerging markets. Guarantees are scalable. I think there's a lot of work being done on that."* Guarantees and risk insurance can also help commercial investors hedge against currency risk, which can be high in emerging economies.

The fund and project guarantees constituting the bulk of the ASEAN-focused guarantees in the HDD are most often joined by another archetype (e.g., concessional debt/equity or technical assistance) within the transaction. For example, EVNFinance, a non-bank financial institution, issued a bond that was arranged and placed by the Vietnamese investment bank Vietcombank Securities. It was the first-ever internationally certified, onshore local currency green bond in Vietnam. The bond received credit enhancement support from GuarantCo in the form of a 75% guarantee to enable the product to meet the investment criteria of institutional investors, as well as technical assistance funding from the Global Green Growth Institute during the green bond certification and structuring process.

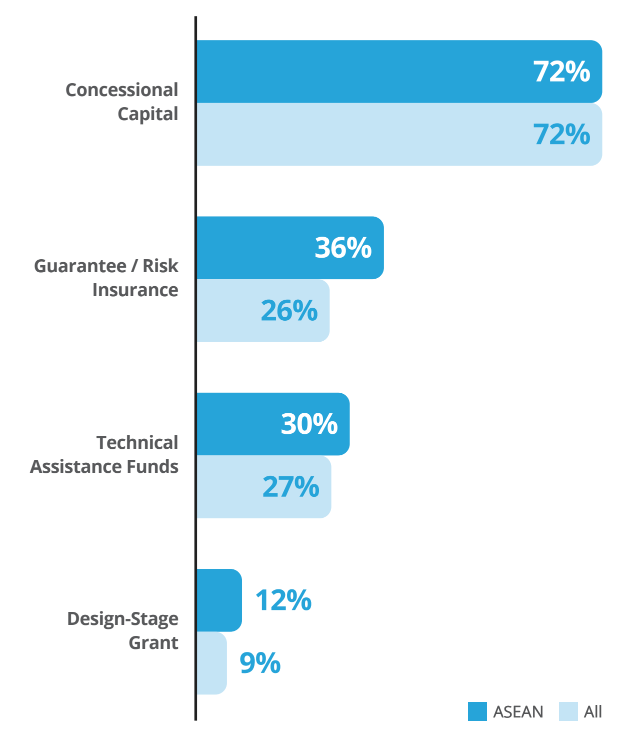

Figure 7: ASEAN transactions by blending archetype(s)

COMMERCIAL INVESTORS MORE ACTIVE AS BLENDED FINANCE INVESTORS IN ASEAN

Commercial investors (39%) have been more active as blended finance investors in ASEAN-focused transactions than in the global market. Meanwhile DFI/multilateral development banks (MDBs), while remaining significant actors, and impact investors have been much less active (24% and 9% respectively). The former, while they can play a role in providing concessionary funding, will often participate in blended finance deals on commercial terms. Development agencies are equally active in ASEAN and the broader market. Many of these investments came through JICA (11), and USAID (11).

There is potential to increase the role of commercial investors even further, especially when looking for opportunities to scale private sector engagement. A representative from a global development institution that is active in ASEAN notes: *"Without new approaches or models, commercial banks and financial intermediaries are better positioned simply because they have the resources to do it. We cannot do it from our central locations, but the banks and the intermediaries with the branch networks have the manpower to deploy the funding where it is supposed to go. I think that's where the scaling has the best chance to be successful."*

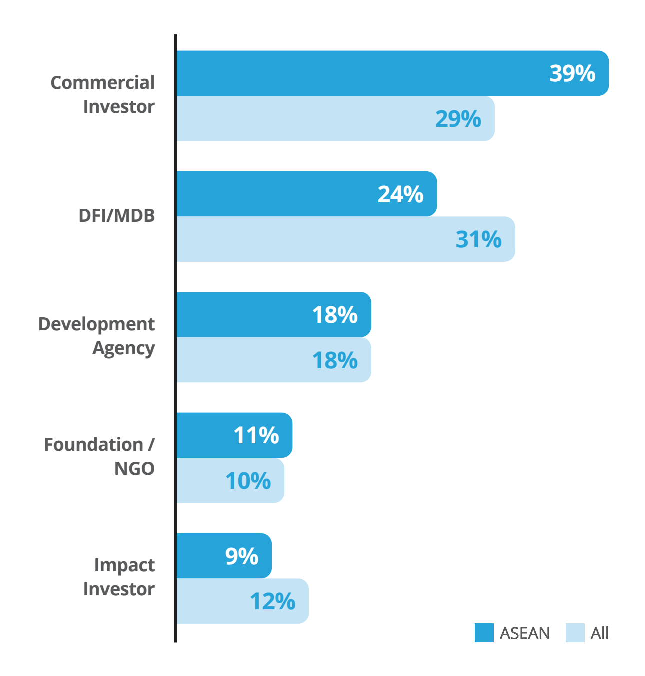

Figure 8: Investors in of ASEAN transactions by type of organization

ADB, IFC, FMO: TOP COMMERCIAL INVESTORS IN ASEAN

Every blended transaction mobilizes capital from at least one private sector investor. Most commercial commitments to ASEAN-focused transactions have come from commercial investors (55%) and DFIs/MDBs (25%). ADB, IFC and the Netherlands Development Finance Company (FMO) have provided the highest number of commercial commitments to ASEAN-focused blended finance transactions to date. IFC focuses its blended finance deals mostly on lower income countries within ASEAN. One example is Yoma Micro Power Ltd., an off-grid solar/hybrid distributed generation developer in Myanmar, which seeks to expand access to electricity in rural Myanmar communities through mini-grid development. IFC's contribution comprised of three parts: a $30 million A-loan, $7.4 million in equity, and a $20 million loan via its Managed Co-lending Portfolio Program account. An additional $30 million in concessional financing was disbursed by IFC on behalf of the International Development Assistance 19 (IDA19) Private Sector Window.

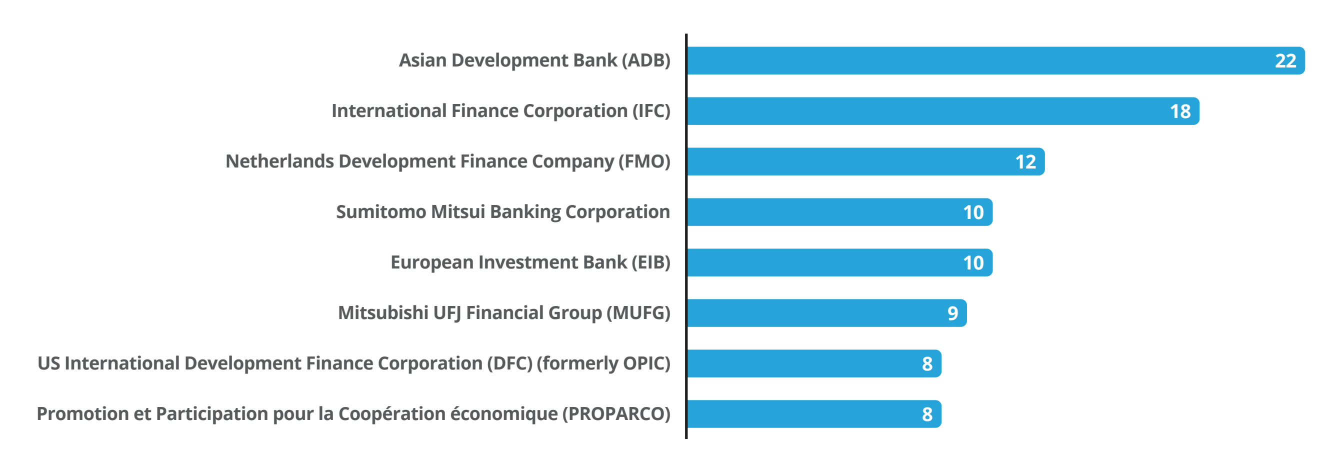

Figure 9: Top providers of commercial finance to ASEAN transactions

USAID, FMO, JICA: TOP CONCESSIONAL INVESTORS IN ASEAN

Development agencies (50%), foundations/non-governmental organizations (NGOs) (22%) and DFIs/MDBs (20%) have been the main concessional actors in ASEAN, with USAID, FMO, and JICA providing the highest number of concessional commitments to ASEAN-focused blended finance transactions to date. The amount of concessional financing provided to a transaction depends on many factors. ADB, for example, employs a concessional assistance policy that includes a theme-based component intended to incentivize governments to consider projects with strong national and regional positive externalities and with a focus on strategic areas such as disaster risk reduction and supporting SDG 5 (Gender Equality).

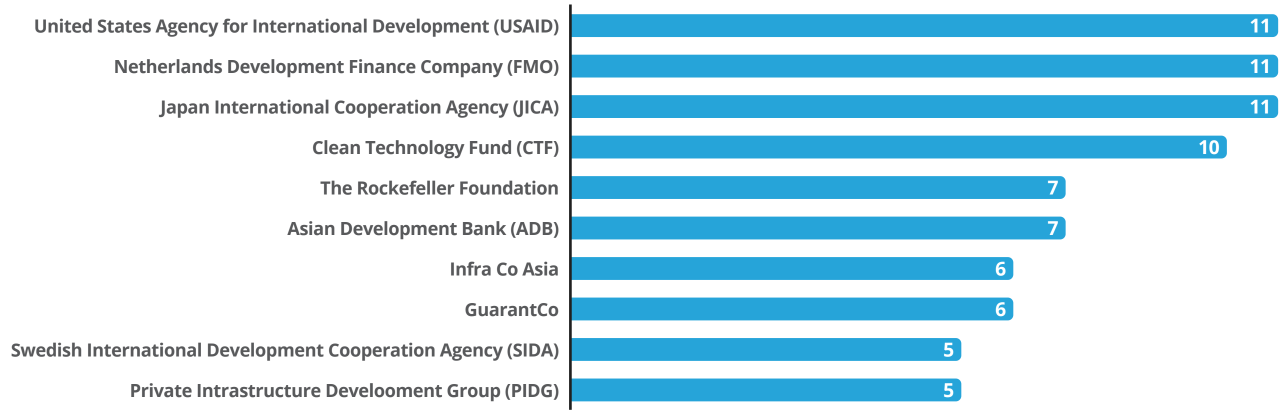

Figure 10: Top providers of concessional finance to ASEAN transactions

Reflections

In our conversations with various blended finance practitioners, several themes became apparent regarding challenges and opportunities for blended finance in ASEAN.

CHALLENGES

LONG TIMELINES IN STRUCTURING DEALS

One challenge facing the increased use of blended finance in ASEAN is the long runway between a deal's conception and its launch. A blended finance practitioner interviewee suggests, *"Time is key. You start having conversations with potential donors and there's interest, but getting these agreements and agreeing on structures and on investment criteria – it can easily take a year or longer until you actually have a facility in place."*

This is in part due to the complex and unique structure of each individual transaction. According to another blended finance practitioner, the key to overcoming the lengthy timelines is standardization: *"It's still quite technical. Every deal and every project is different, so you have to customize accordingly. This can take a very, very long time. Standardized, replicable blended finance structures, that are proven and familiar to investors over time, will help to scale."*

Different organizations may also have different timelines and objectives. Catalytic capital providers are often slower to commit their funds, which leaves commercial investors waiting to make their decisions on a potential deal. Moreover philanthropic organizations may be more focused on measuring sustainable outcomes, which can cause delays in the process of structuring a deal.

SCALABILITY AND LACK OF BANKABLE PROJECTS

According to a member of a global development institute, *"Scaling remains the key challenge. Deploying blended concessional finance in a responsible way requires thorough scrutiny for which there are no shortcuts. Large efficient wholesale processes are often not suitable to ensure that the principles of concessional blended finance are complied with, for example, that subsidies in each case are structured at a minimum and the concessional funding indeed reaches the intended recipients and does not lead to market distortions or provides undue advantages."*

Not only is the scale of projects often an issue, but there is also a lack of bankable projects in the region. Several of those interviewed discussed the difficulties of finding transactions that are feasible, large enough, and within the mandate of their organizations. A lack of bankable projects means it is difficult for blended finance players to find investments into which they can deploy catalytic capital.

MACROECONOMIC CONDITIONS

Several other challenges based on macroeconomic conditions facing blended finance growth in ASEAN came to light. For example, Yasumura of JICA suggests that one challenge developers are facing is *"supply cost increase, mostly in renewable energy transactions. [These transactions] are through a bidding process, so developers bid for them. Once they win the bid and start preparing the project, their assumptions all change, for example if the interest rate goes up and cost of engineering, procurement and construction contract has also increased causing project cost increases. They face project viability issues, so some of the transactions we support are to mitigate such cost increases with blended finance scheme."*

Meanwhile, currency volatility can cause hedging to become prohibitively expensive for commercial investors in emerging markets, while increased political risk may lower the expected return calculations.

OPPORTUNITIES

INCREASING IMPORTANCE OF SUSTAINABLE DEBT

In 2021, the ASEAN sustainable debt market hit a record peak for the issuance of GSS bonds and loans, totalling $24 billion. Building off the GSS field is the emerging economy of blue finance. Blue bonds and loans are financing instruments that earmark funds exclusively for ocean-friendly projects and critical clean water resources protection. According to Ayaka Matsuno from the Sasakawa Peace Foundation, *"The blue economy is kind of included in the green economy, but I can really see that it has started to spin off and have more attention. Asia is really, really focusing on blue- it's a significant market for blue bond issuance. Apart from dollar-denominated bonds, there are some players like Thailand and China that have issued different bonds for the blue economy. It could potentially become a big market."*

Indeed while Singapore led the way in ASEAN for total GSS bonds and loans issued in 2021, Thailand came second, adding $4.4 billion of GSS debt, largely within the sustainability theme.

Blended finance can play a role in these types of transactions. For example, in 2016 Convergence provided a proof-of-concept grant for a $364 million Blue Bond for Ocean Conservation, which closed in 2021 and funds debt sustainability and marine conservation in Belize, backed by $610 million of U.S. International Development Finance Corporation (DFC) political risk insurance.

BETTER USE OF CATALYTIC CAPITAL

There is a tendency in ASEAN-based DFIs/MDBs to use capital in a risk-averse way, meaning there is less focus on contributing concessionary funding to blended finance deals. The Convergence data supports this finding; the largest contributors of commercial financing are DFIs/MDBs. According to an interviewee, there is potentially a huge role for these institutions to play in blended finance, but right now their mandates do not support large-scale use of catalytic funding. This leaves an opportunity for these institutions to use capital in a more catalytic way.

Regarding philanthropic funding, with almost a quarter of the world's high net worth individuals (HNWIs) and the population of ultra-HNWIs on an upward trend, Asia Pacific is experiencing a surge in the creation of family offices. In 2019, Asia's high-net-worth population held $22.2 trillion, up 7.9% from 2018.

Singapore has been particularly successful in courting HNWI wealth. The number of family offices in Singapore increased fivefold from 2017 to 2019, and doubled again in 2020 to reach approximately 700.

Conversations are now turning to how to use this capital in a sustainable way. Impact investing is on the rise, but there is also a movement towards using philanthropic funds as catalytic capital. In discussing their current priorities, Eleonore Dachicourt from BNP Paribas stated, *"BNP Paribas Wealth Management chairs the philanthropy workgroup in the context of PBIG (Private Banking Industry Group). Last year, the discussion with PBIG transitioned from initially discussing traditional philanthropy to innovative philanthropic models and impact investing, bridging the gap between pure philanthropy and impact investments. We have been working closely with MAS and WMI to help analyze the landscape of what has been done already in that space, including blended finance, and what are the best practices we can come up with for Singapore and Asia."*

Matsuno echoes these ideas, noting the changing role of foundations in this space: *"Philanthropy should be more catalytic and it needs to change. [Japanese foundations] need to be a little bit more proactive in changing the way we operate. Together with our parent foundation, we are trying to bring foundations in Asia together to start talking about how we can be more catalytic and impactful. Eventually I think that blended finance will be picked up."*

TRANSITION TO NET ZERO

Blended finance will be essential to achieving the transition to net zero by 2050. The cost of the transition is estimated at over $9 trillion annually through 2050, with an additional need to source $3.5 trillion per year required and to reallocate $1 trillion of current spending from high to low emission assets. Catalytic financing can help to crowd in private investments for otherwise risky projects in the energy sector, allowing the region to move closer to its target.

One growing sub-sector of renewable energy within ASEAN is electric vehicle (EV) inputs. As global demand for EVs increases, there is a push within certain ASEAN countries to take advantage of the need for batteries. For example, Indonesia has the world's largest deposits of nickel, tin and copper, making it a prime location for battery manufacturing. Likewise, Vietnam's nickel reserves have encouraged Vinfast to invest in a battery manufacturing facility, while in Malaysia, there is a strategy underway to create a regional EV battery manufacturing hub.

JICA sees an opportunity in this space for blended finance. According to Yasumura, *"The batteries are definitely one of the opportunities that we see in the market. In terms of financial viability, batteries are still not cost effective, so there might be an additional push to use concessional funding to make it bankable. Once a track record is established, we hope to see more private capital coming in."*

Overall, ASEAN is primed to benefit from an increase in catalytic capital. Its commitment to net zero, the availability of financing, and its focus on sustainability, combined with its high projected economic growth, means that blended finance can be an effective tool in solving some of the challenges facing the region.

Methodology & 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; however, there are likely more transactions that have not been captured.
2. **Scope of available data:** This brief analyzes 107 blended finance transactions targeting ASEAN countries. This brief also draws upon stakeholder interviews conducted with Eleonore Dachicourt, Managing Director – Head of Sustainability, Asia, Wealth Management at BNP Paribas; Philipp Farenholtz, Investment Officer, Blended Finance Department at International Finance Corporation; Ayaka Matsuno, Director, Asia Women Impact Fund, Gender Investment and Innovation Program at Sasakawa Peace Foundation; Kota Yasumura, Director, Private Sector Investment Finance Division at Japan International Cooperation Agency; and Temasek.
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.

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BLENDING GLOBAL FINANCE

CONVERGENCE is the global network for blended finance. We generate blended finance data, intelligence, and deal flow to increase private sector investment in developing countries.

BLENDED FINANCE uses catalytic capital from public or philanthropic sources to scale up private sector investment in emerging markets to realize the SDGs.

Our **GLOBAL MEMBERSHIP** includes public, private, and philanthropic investors as well as sponsors of transactions and funds. We offer this community a curated, online platform to connect with each other on blended finance transactions in progress, as well as exclusive access to original market intelligence and knowledge products such as case studies, reports, trainings, and webinars. To accelerate advances in the field, Convergence also provides grants for the design of vehicles that could attract private capital to global development at scale.