

SUPPORTING BLENDED FINANCE
SOLUTIONS FOR NATURAL CAPITAL IN ASIA:

LEARNINGS FROM THE ASIA NATURAL CAPITAL DESIGN FUNDING WINDOW 2023

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RS Group is a mid-sized Hong Kong-based family office. Its mission is to create a paradigm shift in people's values and priorities so that economic growth will support, instead of jeopardize, human development and environmental sustainability.

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EXECUTIVE SUMMARY

Asia's substantial economic growth in the last few decades has come at a high cost to its environment. Furthermore, limited investment has been directed towards financing natural capital solutions and preservation. According to the 2022 [State of Finance for Nature](#) report by UNEP, finance flows to Nature-based Solutions (NbS) are currently US\$154 billion per year, less than half of the US\$384 billion per year investment in NbS needed by 2025 and only a third of investment needed by 2030 (US\$484 billion per year) to halt biodiversity loss and achieve land degradation neutrality.

Blended finance structures can be an effective tool to address this mounting NbS financing gap. Such structures bring together usually siloed funding sources from conservation and capital markets by designing public- and private-sector sponsored financial structures that reduce risk for commercial investors and attract large-scale private capital to address development challenges. Convergence, together with RS Group, a family office based in Hong Kong, launched the Asia Natural Capital Design Funding Window in 2019, with the objective of supporting the design and launch of catalytic blended finance solutions focused on natural capital in Asia. At the time of launch, the Window was the first of its kind focusing on NbS in Asia and allowed both Convergence and RS Group to test out how blended finance can advance the field of natural capital and build the blended finance and natural capital investment ecosystem.

The objective of this report is to distill successes and lessons learned, as well as provide key take-aways for both practitioners and potential funders/programs who are interested in the space. This report also serves as a Completion Report to the Window which successfully operated for a period of 3 years from November 2019 to December 2022.

This report is organized into 5 chapters:

- **CHAPTER 1** introduces the Window,
- **CHAPTER 2** reports on the current grant portfolio,
- **CHAPTER 3** summarizes the key insights and achievements from operating the Window,
- **CHAPTER 4** reflects on takeaways for practitioners, and
- **CHAPTER 5** provides key takeaways for funders/program managers interested in the space.

THE WINDOW

The Asia Natural Capital Design Funding Window (Window) ran eight application cycles between November 2019 and September 2022 and supported practitioners with two types of grant funding: feasibility study and proof-of-concept.

The current grant portfolio of the Window consists of seven grants, selected from 94 proposals received. The grant recipients include NGOs (Conservation International, Wildlife Conservation Society, Ocean Outcomes, IDH – the Sustainable Trade Initiative), fund managers (ADM Capital Foundation), a fintech company (Alune Aqua), and social enterprises (PT KLIA, Fairventures Social Forestry, Blue Finance)¹. A wider range of NbS sectors were covered through the supported vehicles including sustainable forestry, agroforestry, sustainable agriculture, aquaculture, sustainable fisheries, weather-based climate insurance solutions, and marine biodiversity protected areas. The majority (four out of seven) of the grants target Indonesia, pointing to the urgency of addressing the country's environmental degradation, and the rest focus on Southeast Asia. Only one proof-of-concept grant was awarded, reflecting the nascency of solutions and business models targeting NbS, as compared to other sectors supported by blended finance. A range of activities, from financial structuring to investor outreach, has been supported through the grant. In addition, Convergence leverages its own resources (e.g., complimentary membership, speaking opportunities, training etc.) to complement each grant.

¹ ADM Capital Foundation, IDH – the Sustainable Trade Initiative, and Alune Aqua have received grant funding as a consortium.

Evaluating the applications received in the Window, we observe some key insights into blended finance transactions targeting natural capital in Asia.

- **Aggregation** – A majority of the applicants to the Window pursued feasibility study grants, indicating a strong appetite for early design-stage grants. A sub-majority of these applicants proposed fund structures effective at aggregating smaller opportunities (a characteristic widely noted for NbS projects) into market-efficient investment products and platforms.
- **NGOs as key applicants** – NGOs submitted the greatest number of applications to the Window, indicating that conservation actors are leading the effort of designing NbS projects. It seems that conservation actors are the ones constructing the first planks of the bridge that must be built for natural capital to become an asset class. We have yet to see a commensurately serious overture by financial actors into the natural capital space. This may indicate that asset managers and commercial investors still consider investing in natural capital a novel proposition.
- **International institutions dominate** – A majority of the applicants have been organizations working internationally. Generating good applications from local organizations requires targeted capacity building on blended finance and supporting early design-stage activities through grants. Only one locally originated organization (PT KLIA) has been supported through the Window. However, all the grantees have a local presence.
- **Absence of financial institution applicants** from within the Asia-Pacific region - Other Design Funding windows run by Convergence have received more than a few applications from financial institutions teaming with sector specialists such as NGOs. We note that Asia-domiciled financial institutions have not yet made significant use of blended finance to pursue opportunities in natural capital and other high-impact sectors.
- **Small scale** – The small ticket size and limited or unproven revenue potential of NbS to-date exacerbates typical factors (such as risk-return expectation, unknown market exposure, market immaturity), which has led to low commercial interest at present, and thereby the need for blended finance structures to help derisk and support returns.
- **Sector nascency** – Only one proof-of-concept grant was awarded through the Window, for the Blended Blue Finance Facility. This differs from Convergence's experience with broader-spectrum windows and suggests that the NbS realm was at a more nascent stage than many other sectors supported by blended finance. Convergence's blended finance data support this hypothesis.
- **Need for concessional capital** – At this point in time, we observed a consistently strong need for concessional capital to address the higher risk relative to lower return tradeoff of nascent blended finance structures targeting natural capital. One third of the applicants proposed utilizing a technical assistance fund, in line with the need for such support for downstream businesses. The application of guarantees or risk insurance was not common, perhaps due to the complexity and required financial expertise to design such instruments in an immature market.
- **Top down vs bottoms up** – A common observation was that many applications showed strength either in bottom up field knowledge/on the ground expertise or top down financial structures/acumen, but not both, indicating an opportunity for greater crossover and linkage between the conservation world and financial markets.
- **Lack of technology driven business models** – A majority of applicants focused on traditional NbS i.e. sustainable agriculture, sustainable aquaculture, and landscape management, solutions integrating a technology component or insurance were not very common. This dynamic can be attributed to applicant type as NGOs are less likely to build upon a technology or actuarial competency.
- **Indonesia as top region** – At country-level, Indonesia was the most targeted country, with 30% of all proposals exclusively focused on it. Applicants have also proposed interventions in the Philippines and Vietnam, while Malaysia and Thailand appeared least often. While it is difficult to pinpoint exact drivers, the predominance of Indonesia, and to a lesser extent Philippines-focused proposals, and the comparatively weaker focus on countries such as Malaysia and Thailand may be a result of a combination of country-level dynamics.

IMPACT & ACHIEVEMENTS

The Window has generated early impacts at both the broader market- and grantee-level and has provided a key source of catalytic support in designing blended finance solutions targeting natural capital in Asia.

- **Providing catalytic support in designing blended finance solutions targeting natural capital in Asia:**

The Window was able to attract a significant number of applications from a range of diverse organizations showing promise across various sub-sectors of natural capital in Asia. The support provided through the Window filled a critical financing gap in designing early-stage blended finance solutions for [natural capital](#), especially in Southeast Asia. There are other grant funding windows supporting natural capital or NbS, notably the Ocean Risk and Resilience Action Alliance (ORRAA) managed Ocean Innovation Resilience Challenge (supports ocean NbS), and the Conservation Finance Alliance (CFA) managed CFA Incubator (supports innovative conservation finance solutions); however, none of these programs specifically supports blended finance solutions.

- **Supporting a range of traditional and innovative solutions:** The Window supported a good mix of both traditional and innovative solutions targeting natural capital. The Asia Aquaculture Facility (AAF) and the Bukit Barisan Selatan Landscape Fund, focusing on sustainable aquaculture and agriculture, respectively, are examples of traditional approaches to conservation and NbS within the portfolio, while Restoration Insurance Service Company (RISCO), combining insurance with carbon credit, is an innovative blended finance solution to fund mangrove restoration and conservation activities across Southeast Asia.

- **Early fundraising success shown by grantees:** One of the first grant recipients of the Window, the Blended Blue Finance Facility proposed a \$10 million fund to invest in eight high-impact marine protected areas (MPAs) in Southeast Asia, the Caribbean, and Africa. As part of the Design Funding support provided through the Window, the grantee developed a pitch deck and financial

model, and undertook investor outreach, and was able to generate a soft commitment of \$2 million of senior debt at the facility level from Mirova's Sustainable Ocean Fund, and \$350,000 (CAPEX and working capital) from the Global Fund for Coral Reefs at the project level, for its [Coral Reef MPAs](#) in the Philippines.

- **Market Building:** A key focus of the Window is market building and the production of supporting activities (such as data briefs, webinars, grantee profiles) to move the field forward as well as to highlight the nexus of blended finance and natural capital. Additionally, Convergence hosted two webinars to market the Window and attract high quality proposals. The last webinar, held in January 2022, showcased current grantees and shared their design journey, lessons learned, and best practices on designing blended finance solutions targeting natural capital. More than 200 participants joined the webinar from a diverse set of organizations (e.g., donors, Development Finance Institutions (DFIs), commercial investors).

It is still too early to meaningfully assess performance against the Key Performance Indicators (KPIs) agreed at the outset of the window by RS Group and Convergence. However, we have seen some preliminary impact, such as grantees Blue Finance and Fairventures Social Forestry being able to secure follow-on funding. Other impacts being tracked on an ongoing basis include: capital catalyzed by supported solutions, number of follow-on funders from Asia (at the Window and solution levels), new investors participating in the space that are new to natural capital / sustainable development, number of proposals received from local institutions, proportion of grants awarded to local institutions compared to international institutions, and number of new natural capital investment models and vehicle managers without track record supported.

KEY LEARNINGS

Several key learnings emerged from operating the Window and managing the grant portfolio.

- **Buy-in at all levels of grantee organization:** As designing blended finance vehicles can be a lengthy process, continued financial and non-financial commitments from proponents are essential to pursue such endeavors. Buy-in at all levels within the grantee organization is essential to secure long-term commitment.
- **Diversified revenue streams:** Diversified revenue streams can derisk and strengthen novel business models on natural capital as often such models have thin economics and unproven revenue streams. This can help satisfy investor expectations and result in equitable returns for the relevant stakeholders.
- **Buy-in from key stakeholders:** As the stakeholder engagement around a natural resource is often multi-tiered and complex, the success of a blended finance natural capital solution often hinges on successfully navigating and managing such relationships. Deep engagement with the relevant local stakeholders can improve the risk-return profile of such investments.
- **Simplified structures:** As the blended finance space is relatively new to commercial investors, standardization of investment vehicles and simplified structures with a limited number of moving parts make sense. Combining some blending archetypes are difficult to structure for NbS projects, and commercial investors are more comfortable with simple, familiar structures in such cases.
- **Financial rigor:** Lastly, blended finance solutions targeting natural capital not only require addressing the contextual sensitivities and dynamics of NbS related business solutions, but also the right level of financial rigor as expected by commercial investors.

The Window also reveals several takeaways for potential funders and program managers interested in the space.

- **Leverage potential:** Early-stage intervention in blended finance structures targeting natural capital provides an outsized leverage potential for future fundraising. Based on Convergence's historical data from its grant portfolio, successful solutions supported under the Window can potentially leverage original grants to commercial capital at the rate of about 150x. Design grants are sometimes structured as repayable grants as well, to enable a more efficient use of capital especially relevant at the proof-of-concept stage.
- **Understanding of the sector:** Funders should develop a detailed understanding of the complex operating environment of NbS projects as well as remain open and flexible to customize their support according to the changing needs of practitioners.
- **Early-stage support:** Funders need to be open to providing early-stage design support through grants and concessional capital.
- **Flexibility:** As the sector is relatively early stage compared to other blended finance sectors, funders need to be flexible and open to experimentation. A blended finance solution on NbS might not tick all the boxes of a funder's particular priorities; however, supporting such solutions can provide an opportunity for experimentation and learning.
- **Patience:** With the potentially lengthy design process of blended finance solutions focusing on natural capital, funders need to be patient and allow for contingencies.

LOOKING BEYOND THE WINDOW

The innovative and pioneering nature of the Window has allowed RS Group and Convergence to understand the nuances of a nascent sector of blended finance (i.e. NbS in Asia).

Capitalizing on the experience and learnings from the Window, RS Group recognized the need for follow-on support for the ventures beyond a feasibility or proof-of-concept stage. In connection with many of the ventures supported through the Window, RS Group identified a “missing middle” in the NbS sector in Asia and found that there is a lack of meaningful intermediary support for ventures at an early growth stage to get them ready for institutional capital. RS Group has therefore been incubating Terratai, a venture builder for NbS in Southeast Asia, over the

past two years. Aimed at providing financial and more importantly, hands-on business and operational support to these ventures over three to five years and beyond, Terratai will help them grow and scale to the point where they are institutional capital ready. Terratai seeks to continue collaboration with Convergence in building project pipeline and strengthening the overall NbS field in Asia. Terratai is scheduled for launch in the first half of 2023 and will initially focus on Indonesia in the first three years.



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INTRODUCTION

OVERVIEW OF THE ASIA NATURAL CAPITAL DESIGN FUNDING WINDOW

The Asia Natural Capital Design Funding Window, launched in November 2019, sponsored and funded by the RS Group, a family office based in Hong Kong, and managed by Convergence, provided grant funding for the design and launch of catalytic blended finance solutions focused on natural capital in Asia. The Window had a clear goal; to find and support blended solutions that have a “direct positive impact” on natural ecosystems and resources, which could eventually attract private investment at scale. This could include solutions that contribute to reducing the degradation of ecosystems, mitigating and adapting to climate change, reducing the unsustainable use of land and oceans, and protecting biodiversity.

The Asia Natural Capital Design Funding Window ran eight application cycles between November 2019 and September 2022. Two types of design-stage grant funding were awarded through the Window:

FEASIBILITY STUDY: Funding to explore the feasibility of a vehicle. For example, assessing the investability/bankability of a transaction, conducting market scoping, and developing the vehicle structure.

PROOF-OF-CONCEPT: If a feasibility study (or equivalent) had been completed, funding to complete all design and structuring activities to launch a vehicle. For example, finalizing the capital structure and financial model, establishing the legal structure, and producing key documents.

MOTIVATION FOR THE WINDOW

Natural capital is a way of valuing the world's stocks of natural assets including water, land, soil, air, plants, and animals. Together, these natural assets provide ecosystem services that are critical for humanity's existence, including food, water, and the regulation of our climate and environment. It is estimated that the benefits of natural assets (often referred to as the world's 'natural capital') are economically important, providing some [\\$125 trillion](#) a year of goods and services essential to a well-functioning global economy. However, as nature does not carry a price tag, businesses often ignore negative externalities on natural capital, leading to the degradation of valuable natural ecosystems.

Despite Asia's wealth of natural capital, the region has disproportionately underfunded the protection of these important assets. The region's enormous economic growth in the last few decades has come at a high cost to its environment, leading to deterioration of land, freshwater, and marine ecosystems, worsening water, and food insecurity, and increasing vulnerability to

climate change. Putting a value on natural assets makes them more concrete and easier to account for, thereby informing sustainable choices and conservation efforts and ultimately ensuring their continued existence.

Blended finance makes it possible to capture the economic value of protecting and preserving natural assets (natural capital) and then draw in commercial capital. Commercial capital will play a critical role in closing the financing gap to preserve the world's healthy ecosystems, as public and philanthropic capital alone will not be sufficient. In addition to supporting the design and launch of catalytic blended finance solutions in Asia, the Window enabled both RS Group and Convergence to test out how blended finance can advance the field of natural capital and build the blended finance and natural capital investment ecosystem.

Many projects supported as part of the Window are still in their early stages, and will require time to demonstrate their full potential. As part of field building, Convergence will publish relevant knowledge products capturing success stories and lessons learned.

“Capital investment and behavior change are needed today to ensure we have a chance at survival, before we reach the tipping point and lose any possibility of a ‘tomorrow’. Through supporting the Window, we aim to use our capital to catalyze exponential investment into preserving the ecosystems that sustain our lives and foster the development of the natural capital space in Asia.”

– Annie Chen, Founder, RS Group (2019).

OBJECTIVE OF THIS REPORT

The objective of this report is to look back at the completed application cycles and analyze the portfolio of innovative blended finance solutions to distill successes and lessons learned, as well as provide key take-aways for both practitioners and potential funders/programs who are interested in the space. This report also serves as a Completion Report to wrap up the three years of successfully running the Window, from November 2019 to December 2022, by recapping the journey and sharing valuable insights with the wider field.

CONTEXT

At the time of launch, the Window was the first of its kind focusing on NbS in Asia. Since then, the field has progressed significantly with new facilities and initiatives launched by a range of actors.

One example is the Ocean Risk and Resilience Action Alliance (ORRAA), drawing on grant resources from the Government of Canada, that has put out a call for [finance / insurance innovations](#) that build coastal and ocean resilience, and received over 80 applications. Rockefeller Foundation has also set aside [\\$30 million](#) to make three to five NbS investments in decarbonization, with a particular interest in reforestation, conservation, the blue economy, and carbon markets. A new joint venture, Akaria Natural Capital, was announced between asset manager Schroders and Conservation International that will invest in 15-20 projects across Southeast Asia that seek to halt and reverse the destruction of nature due to climate change.

Building on their experience and lessons learned funding the window, RS Group also saw the need for follow-on support for ventures beyond a feasibility or proof-of-concept stage. As a way to support this

The scope of the report does not attempt to generalize findings across the portfolio at this time. Solutions supported in this Window are at an early stage of the design process, potentially requiring years to fundraise and achieve their anticipated impacts. Hence, this report synthesizes lessons to date concerning the Window, and will not report on the full impact of blended finance design funding on natural capital as an ecosystem.

“missing middle” in the NbS sector in Asia, and provide meaningful intermediary support for ventures at an early growth stage to when they are ready for institutional capital, RS Group have been incubating Terratai, a venture builder for NbS in Southeast Asia. Terratai will focus on providing financial and, more importantly, hands-on business and operational support to these ventures over three to five years and beyond, helping them to grow to the point they are institutional capital ready. Scheduled for launch in the first half of 2023, Terratai seeks to continue collaboration with Convergence in building a project pipeline and strengthening the overall NbS field in Asia, and will initially focus on Indonesia in the first three years.

These announcements, as well as a spike in conferences (e.g., [Finance for Nature-based Solutions \(NBS\)](#), [Conservation Finance Conference](#) etc) pertaining to the topic, all point to growing interest and understanding in the field. We hope that the publication of this report and future learnings from the grantees’ work will support continued growth in the field.

CHAPTER 2

VENTURES SUPPORTED BY THE WINDOW

PORTFOLIO

The portfolio consists of seven grants awarded from the 94 proposals received in the eight cycles of the Window. A detailed description of each grant is attached in Annex 1.

The successful proposals showed the following strengths:

- i Strength in financial structuring (clearly articulated structure and rationale behind key aspects of the vehicle),
- ii A solid understanding of the development finance challenges and effectiveness of the vehicle to address such challenges,
- iii Depth of stakeholder engagement (advanced engagement with key stakeholders),
- iv Clearly identified natural capital impacts and related metrics,
- v Progress to date (how the idea had evolved so far),
- vi A strong risk mitigation strategy, and
- vii A strong team with expertise in both NbS and financial structuring, local presence, and a strong track record.







	SECTOR	TYPE	POTENTIAL INVESTORS	CAPITAL TARGET
 BLUE FINANCE Blended Blue Finance Facility for marine biodiversity protection through investment in Marine Protected Areas	Ocean Management	Proof of Concept	DFI / MDBs Foundations	\$50 Million
 OCEAN OUTCOMES Sustainable Seafood Fund to support Fishery Improvement Projects in the Asia-Pacific	Sustainable Fishery	Feasibility Study	DFI, Impact Investors, Foundations	\$50 Million
 PT KLIA Kubu Raya Landscape fund to aggregate adjacent forest concessions for sustainable forest management	Sustainable Forestry	Feasibility Study	Carbon credit buyer	\$10 Million
 WILDLIFE CONSERVATORY SOCIETY BBS Landscape Fund to tackle deforestation around Bukit Barisan Selatan National Park by financing smallholder farmers	Sustainable Agriculture	Feasibility Study	Buyer/trader of coffee, local banks, mdbs	\$10 Million
 CONSERVATION INTERNATIONAL Restoration Insurance Service Company (RISCO) for mangrove restoration and conservation in Southeast Asia	Insurance	Feasibility Study	Carbon credit buyer, insurance companies, foundations	Not yet determined
 ADM CAPITAL FOUNDATION, IDH, ALUNE Asia Aquaculture Facility (AAF) for financing sustainable aquaculture intensification through revenue-based financing	Sustainable Aquaculture	Feasibility Study	DFI/MDBs, Impact Investors, family offices, HNWI	\$10-20 Million
 FAIRVENTURES SOCIAL FORESTRY Fairventures Social Forestry Fund for financing sustainable forest landscape restoration	Sustainable Forestry	Feasibility Study	Private HNWI, DFI, Impact Investors, Foundations	€50 Million

Figure 1: Portfolio Snapshot

Out of the seven grants, four targeted Indonesia and the rest had a Southeast Asia regional focus. The concentration of efforts in Indonesia was to be expected given the size of the economy and urgency of the country's environmental challenges. Sectors targeted through the supported vehicles ranged from sustainable forestry to marine biodiversity protected areas. Only one proof-of-concept grant was awarded through the Window, for the Blended Blue Finance Facility. This

differs from Convergence's experience with broader-spectrum windows and suggests that the NbS solutions realm was at a more nascent stage than many other sectors supported by blended finance. Convergence's blended finance data support this hypothesis. Of the more than 770 recorded blended finance transactions in developing economies, only 47 transactions were in sectors which would be broadly related to natural capital or NbS, with \$4.9 billion in aggregate financing.

ACTIVITIES UNDERTAKEN WITH SUPPORT FROM THE WINDOW

The most common activity supported was financial structuring, from initial financial structuring and market assessment to later work such as defining and fine-tuning key terms of the vehicle, outlining legal structuring, and developing a detailed financial model. Investor outreach, such as testing key assumptions of a vehicle and assessing interest of both concessional and commercial capital providers, was also a commonly

funded activity. Other activities supported through the Window included pipeline development, acquiring regulatory approval, developing pitch decks and preparing for investor roadshows. The Window did not provide investment capital or funding for operational activities of an already established vehicle. A needs-based assessment informed the specific activities supported under each grant.

	STAGE	KEY ACTIVITIES SUPPORTED
Blue Finance	Proof-of-Concept	Investor outreach, developing pitch deck, financial model and business plan for the facility, securing loan for special purpose entities
Ocean Outcomes	Feasibility Study	Pipeline development, investor outreach, developing pitch deck and business plan, conducting gender analysis
PT KLIA	Feasibility Study	Regulatory approval, carbon assessment, investor outreach, developing financial model
Wildlife Conservation Society	Feasibility Study	Assessment of local financial institutions, farmer group assessment, identification of credit enhancement mechanism
Conservation International	Feasibility Study	Engagement with insurance companies, risk-modeling, developing financial model, legal and financial structuring
Fairventures Social Forestry	Feasibility Study	Legal and financial structuring, investor outreach, pipeline development

Figure 2: Key Activities Supported

As a field builder, Convergence strives to connect each grantee with the broader community of blended finance practitioners. As part of the grant, each grantee received a complimentary membership in Convergence's network through which they gain visibility and networking opportunities (e.g., facilitated introductions to other members, speaking roles etc.), access to learning and capacity building opportunities (e.g., trainings/workshops), and data and intelligence (e.g., access to database of historical blended finance transactions and proprietary reports).

Blue Finance, the proof-of-concept grantee, advanced to the stage where it was able to post its transaction on Convergence's live deal platform that connects deal sponsors with potential investors. Convergence also holds regular check-in calls with each grantee to provide support to grantees, share progress (including successes and challenges), and brainstorm how Convergence can be of additional support. This support to each grantee continues for the duration of the grant.

TARGETED IMPACT

Blended finance [mobilizes](#) private investors into underlying activities with cash flows from which they can ultimately expect to be remunerated, and as such, is suitable as a structuring approach only for those Sustainable Development Goals (SDGs) that can generate commercial revenues. The public sector continues to provide almost all adaptation financing, while within the mitigation space, renewable energy attracts higher shares of private finance due to its commercial viability and higher competitiveness.

Unsurprisingly, two thirds (67%) of climate blended finance transactions launched between 2019 and 2021 have targeted SDG 7 (Affordable & Clean Energy), as noted in the [State of Blended Finance 2022](#). Meanwhile, financial services (which tracks economic growth and job creation) and infrastructure (both energy and non-

energy) also continue to feature prominently within climate blended finance, with SDGs 8 (Decent Work & Economic Growth) and 9 (Industry, Innovation, and Infrastructure) accounting for 49% and 41% of climate blended finance transactions between 2019 and 2021 by deal count, respectively. Naturally, SDGs 7, 8, and 9 account for the bulk of aggregate financing amongst climate transactions launched between 2019 and 2021.

Against this backdrop, looking at the portfolio, the most frequently targeted SDGs are SDG 15 (Life On Land) and SDG 13 (Climate Action). Additionally, almost half of the portfolio projects target SDG 14 (Life Below Water). We did not observe a strong focus on SDG 12 (Responsible Consumption & Production), SDG 8 (Decent Work & Economic Growth), or SDG 2 (Zero Hunger), as these SDGs are often indirectly impacted by NbS.

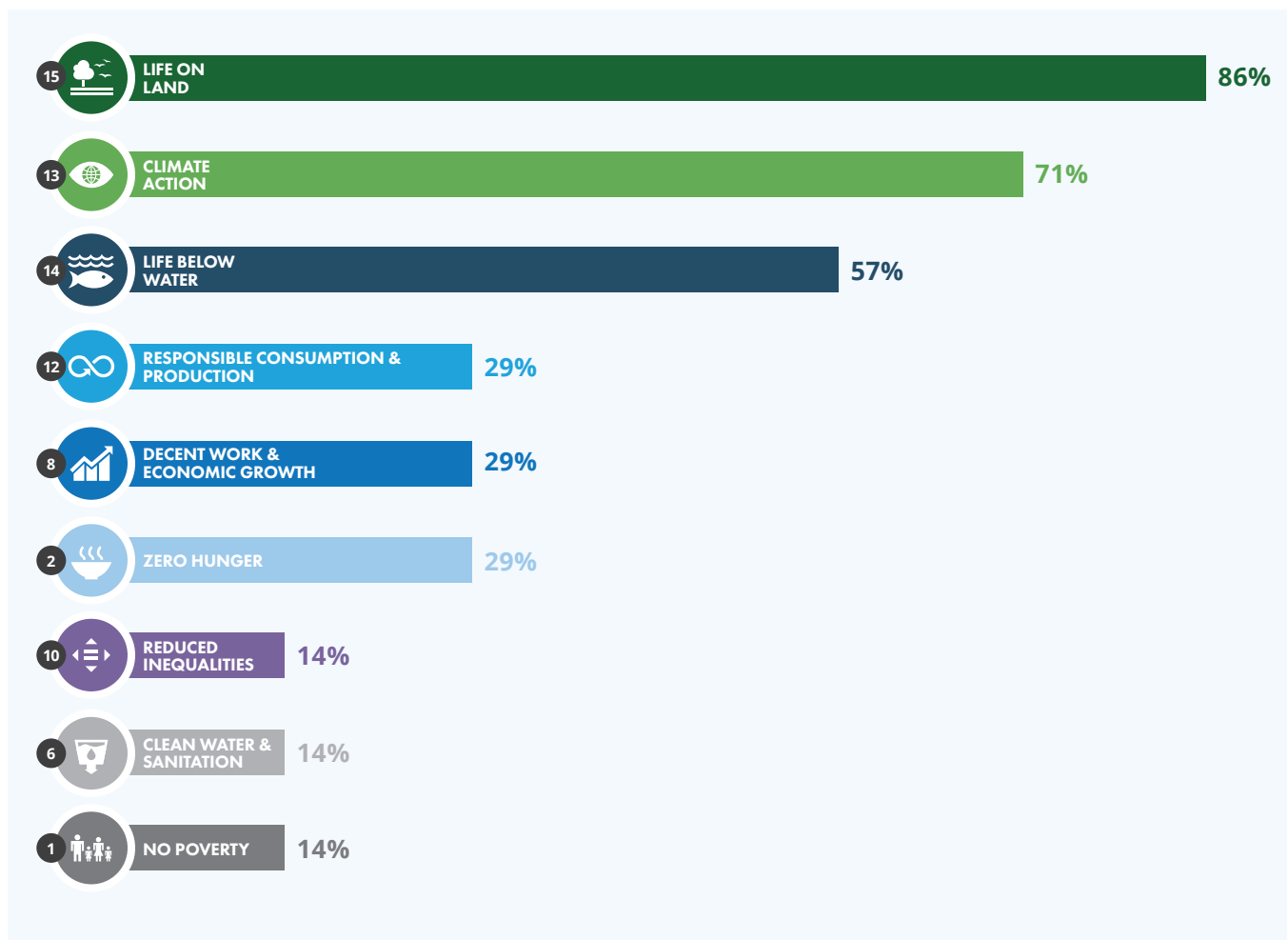


Figure 3: Most Frequently Targeted SDGs by Grantees

Comparing the SDG alignment of the supported solutions with historical blended finance deals, we can clearly see that the Window was able to attract blended finance solutions targeting previously underfunded SDGs, such as SDGs 15 (Life On Land) and 14 (Life Below Water). These SDGs have historically not been significantly targeted, as blended finance structures targeting these SDGs are seen as less bankable compared to structures in more mature sectors like renewable energy.

Consider SDG 14, for example. As noted in the [State of Blended Finance 2022](#), NbS targeting fisheries and aquaculture accounted for only a small proportion (6%) of blended adaptation and hybrid transactions in 2019-22. The blue economy has seen large-scale transactions in recent years, like Mirova's \$132 million [Sustainable Ocean Fund](#), which targets marine and coastal projects in fisheries, aquaculture, the circular economy, and marine conservation. However, the sub-sector [remains](#) emergent, with early-stage and small to mid-sized enterprises prominent, capital costs relatively higher, and economies of scale in many small island developing states (SIDS) relatively limited, which explains the low number of transactions in the field.

Overall, some of the [factors](#) restraining scalable investment in blended NbS [include](#):

- i Balancing short- and long-term corporate goals: corporate goals prioritize near-term, simple, quantifiable project outputs aligning with annual reporting timelines, while NbS may require several years of planning, stakeholder engagement, fundraising, and implementation;
- ii an underdeveloped pipeline of bankable nature-based projects; and
- iii a lack of clarity on how exactly to invest in nature-based projects, with simple, quantifiable outcomes not existing within the complex space of natural systems, and
- iv NbS projects are place based and varying views on how to choose priority locations and approaches and measure progress can be a challenge.



Unsplash: Sunita Fah

CHAPTER 3

REFLECTIONS FROM OPERATING THE ASIA NATURAL CAPITAL DESIGN FUNDING WINDOW

KEY TRENDS IN APPLICATIONS RECEIVED

Convergence utilized a tiered evaluation process to shortlist applications (Annex 2). Of the 94 applications received, 13 proposals were shortlisted in Stage 1 and the rest were rejected (following a review against the eligibility and evaluation criteria (Annex 3)). Several common weaknesses were observed in the rejected proposals:

- under-developed concepts
- weak financing thesis
- low likelihood of ability to crowd-in private capital
- weak financial structuring
- inability to demonstrate local partners and/or knowledge of local context

We do not detect a predominance of a particular weakness, rather, in most cases, a combination of several weaknesses is observed. Out of the 13 shortlisted proposals, five more were rejected at Stage 2 (after completion of due diligence and funding committee review). These were rejected due to:

- lack of an Asia focus
- having only preliminary investor engagement
- being too early-stage
- having impact potential that did not match the objectives of the Window
- having an overly complex structure

Finally, one grant was rejected during the grant negotiation as the structure deviated from the one originally proposed at the time of application.

FUNDING TYPE

In the eight application cycles of the Window, we received 94 proposals of which almost two-thirds were applications for feasibility studies. The high proportion of feasibility study applications indicates a high demand for early design-stage grants to more comprehensively test blended finance solutions that target natural capital. As we have already noted, some applications were rejected as they did not demonstrate the right financial rigor and were too nascent stage (i.e the structure concept required further development, the team needed technical assistance as opposed to design funding).

The Convergence and UN Joint SDG Fund [data brief](#) on “Blended Finance and the Blue Economy” reports the importance of technical assistance support on financial literacy and high demand for continued support for evolving financial needs. The report also notes the need for concessional capital, especially in the form of early-stage grants as demonstrated in the Window, where concessional funding can bring projects to commercial viability and help transition to more advanced commercial models. In addition to technical support on structuring a financial solution such as design funding, there is a strong need for first loss concessional backing as there are only a few organizations facilitating this and the process of accessing such backing is usually time-consuming.

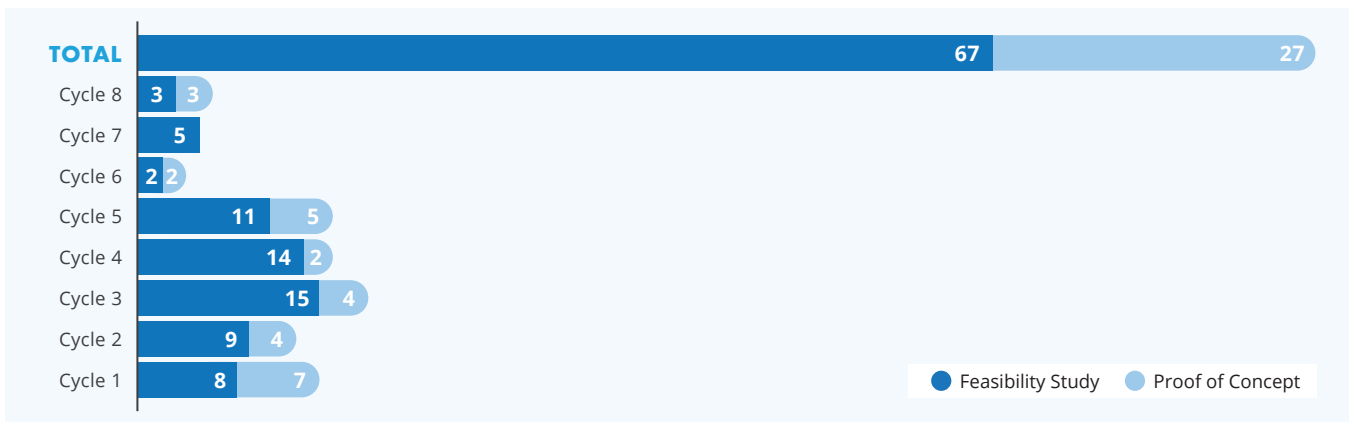


Figure 4: Funding Requests across Eight Cycles of the Window.

VEHICLE TYPE

Convergence tracks blended finance structures according to [six vehicle types](#):

- i bond/note;
- ii company;
- iii facility;
- iv fund;
- iv impact bond (including development impact bonds (DIBs) and social impact incentive bonds (SIINCs)); and
- iv project.

The structures submitted to the Window largely matched the distribution of historical blended finance transactions.

A majority of the applicants proposed a fund structure, a trend well observed in historical blended finance deals. Funds are particularly useful constructs for aggregating smaller opportunities into market-efficient investment sets, which is what many applicants were working towards in their proposed approaches.

Project financing is under-represented in the Design Funding applications as compared to historical blended finance deals. This is not surprising: project finance, whether blended or fully commercial, typically occurs at scale and in mature sectors where NbS deals are relatively smaller, nascent, and early stage. A majority of the historical project deals are energy and infrastructure-focused, with a median deal size of \$639 million and \$356 million respectively, whereas the few

historical projects focusing on SDG 15: Life on Land average a deal size of only \$28 million. By contrast, project-specific applications to the Asia Natural Capital Window had a deal size of \$2-5 million.

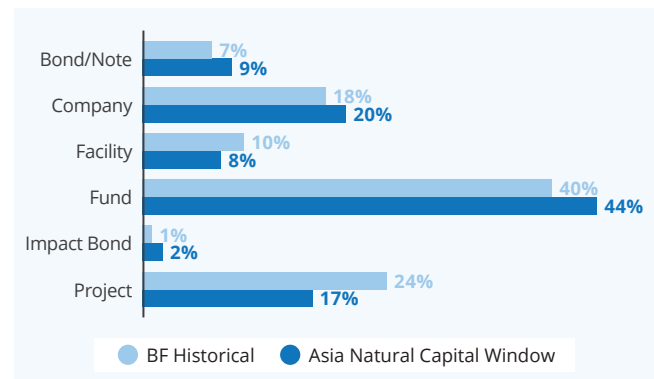


Figure 5: Vehicle Types across Applicants, Compared to Historical Blended Finance Deals

BLENDING ARCHETYPE

Convergence categorizes blended finance transactions into four commonly used archetypes:

CONCESSIONAL CAPITAL: public and/or philanthropic investors providing capital on below-market terms into a transaction's capital stack, thereby enhancing its credit profile or adding loss protection to the benefit of more senior investors (typically called "concessional debt or equity", or grant funding);

GUARANTEE OR RISK INSURANCE: public and/or philanthropic investors extending partial or full guarantees or insurance instruments on below-market terms to enhance the credit profile of a transaction and/or mitigate specific risks (i.e. currency risk, political risk);

DESIGN STAGE GRANT: project design, preparation and structuring activities being grant-funded to ensure and accelerate transaction launch (i.e. “design-stage grants”); and

TECHNICAL ASSISTANCE FUND: a transaction being linked with a grant-funded technical assistance facility, used to finance pre-investment (business design), post-investment (personnel training), and cost-of-investment (legal structuring fees) activities to improve the bankability of a transaction.

A majority of the applicants proposed the use of concessional capital which is in line with historical deals. The use of concessional capital is more dominant in applications as compared to historical blended finance deals, perhaps to address the higher risk-return profile of NbS projects. Guarantees or risk insurance is another commonly used blending approach with 29% of historical deals using such an approach. Guarantee or risk insurance has been less prioritized in the applications to the Window with only 15% of the applicants proposing their use. The complex structuring process, required financial expertise, and limited awareness about the availability and benefits of [guarantees](#) can explain the limited application of guarantees in the proposed structures. Design stage grants are another widely used blended finance instrument with 30% of historical blended finance deals having received such support. We have not reported on this as all the applicants applied for such funding. We do observe a stronger focus on technical assistance funds in the proposed vehicles, technical assistance components are especially relevant for blended finance NbS vehicles as many of the downstream businesses require such support.

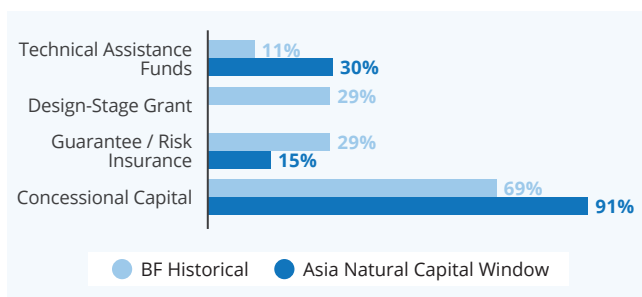


Figure 6: Blending Archetype across Applicants, Compared to Historical Blended Finance Deals.

APPLICANT ARCHETYPE

NGOs submitted the most proposals (37%) to the Window followed by advisory firms and social enterprises. It is expected that NGOs would heavily target NbS as it is part of their organizational mandate to seek sustainable solutions to conserve and protect natural assets. Advisory firms and asset/fund managers have not been very active in the Window, only submitting 19% and 10% of the applications respectively.

Our general observation is that:

- i Conservation actors are constructing the first planks of the bridge that must be built for natural capital to become an asset class, and
- ii Commercial financial actors are not making commensurately serious overtures to the natural capital space.

In addition to the typical factors (e.g., risk-return expectations, market exposure concerns) contributing to lower commercial involvement, the small ticket size and limited or unproven NbS revenue models may further limit commercial investor interest at this time indicating that financial actors still consider investing in natural capital a novel proposition and still value continued support to navigate the sector.

The aforementioned blue economy data brief further elaborates on the slow growth of commercial investors’ appetite to participate in the blue economy space. The data brief states that the slow pace of project preparation and development creates timing barriers for commercial investors and that the conservation actors do not fully understand the requirements of the commercial investors.

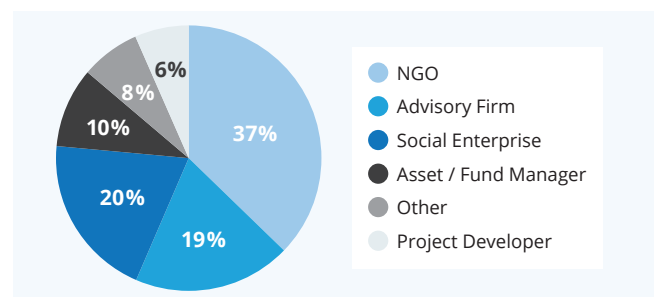


Figure 7: Applicant Type

We also see that, generally, the solutions proposed by NGOs are built from the ground up, with direct engagement at the field level and close integration with the local stakeholders. Unfortunately, some of these proposals were weak in financial structuring and lacked a thesis that is likely to attract commercial investment. On the other hand, proposals submitted by advisory firms and asset managers showcased a robust financing thesis which addressed the commercial interest of the investors and displayed strong financial structuring skills, but often failed to incorporate on the ground realities. **Many proposals were not selected for funding because they showed strength either in field knowledge or financial acumen, but not both.** Again, the gap between these worlds is considerable and the bridge remains to be built.

SUB-SECTORS

We **observed a strong focus on sustainable agriculture** with more than one-quarter of applications proposing sustainable agriculture related solutions. We believe the drivers for this pattern are twofold: unsustainable agriculture is a major concern as it produces a range of negative externalities on natural capital; and sustainable agriculture taps natural endowments to produce goods with an assessable market value (or even a market premium), offering a ready link between the worlds of conservation and financial markets. According to Convergence and the UN Joint SDG Fund’s [data brief](#) on “Blended Finance for Food Systems”, agri-businesses are under increased pressure to ensure sustainability within their supply chain, down to the primary farmer.

Other frequently targeted sub-sectors include **sustainable aquaculture, landscape management, coastal and marine ecosystem management, and sustainable forestry.**

Vehicles targeting these sub-sectors follow a similar thesis as vehicles targeting agriculture: producing goods with an assessable market value. Aquaculture focuses on the sale of aquatic resources (fish/shrimp), landscape management on the sale of environmental and social outcomes (carbon credits), sustainable forestry on the sale of sustainable forestry products (timber, honey), and so forth.

While the Window also received proposals on insurance, tech-enabled solutions, and infrastructure, **the primary focus of applicants has been on traditional NbS.** We associate this pattern with the type of the applicants. NGOs are more likely to start from field knowledge and less likely to start from a technology or actuarial competency. The weak focus on insurance also reflects the externalities of properly managed natural capital. While the avoided cost of a particular NbS can be calculated, aiming that benefit solely (or even largely) at the purchasers of an insurance product can be a challenge as the purchasers might not actually understand the link between the NbS and avoided cost and hence not be willing to pay. Additionally, a particular natural asset needs to be fully protected to produce the desired benefit, thus requiring a critical mass of purchasers to make the initiative commercially viable.

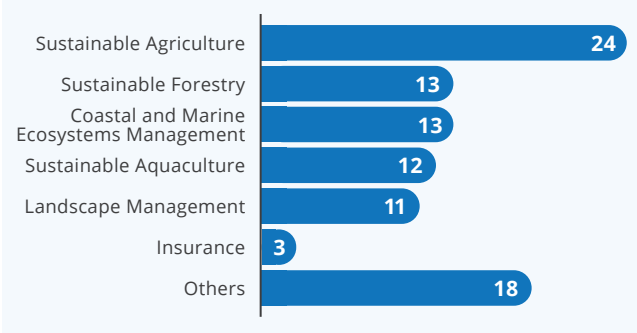


Figure 8: Sector Focus of Applicants

GEOGRAPHY

More than 60% of the submitted proposals had an East Asia and Pacific-only focus. **At country-level, Indonesia was the most targeted country with 30% of all proposals exclusively focused on it. Applicants have also proposed interventions in the Philippines and Vietnam, while Malaysia and Thailand appeared least often.** While it is difficult to pinpoint exact drivers, the predominance of Indonesia- and to a lesser extent Philippines-focused proposals and the comparatively weaker focus on countries such as Malaysia and Thailand may be a result of a combination of country-level dynamics:

- Stock of natural capital resources: Indonesia contributes 56% of the 206.5 million hectares of forest cover in [Southeast Asia](#) and along with the Philippines and Malaysia, constitute three of the world’s 17 [“mega-diverse” countries](#);

- Urgency of addressing environmental degradation: amongst Southeast Asian countries, Indonesia is projected to lose the most (48%) forest cover by 2050 if [current unsustainable forestry management practices](#) are continued and 70% of coral reefs in the Philippines are in danger due to [overfishing and destructive fishing practices](#);
- **Effectiveness of existing conservation efforts:** Malaysia avoided 15% of forest cover loss in protected areas whereas in the Philippines, [protected areas](#) lost three times more forest cover than unprotected areas.

Political buy-in and macroeconomic factors such as population size, per capita income, and GDP may also play a role.

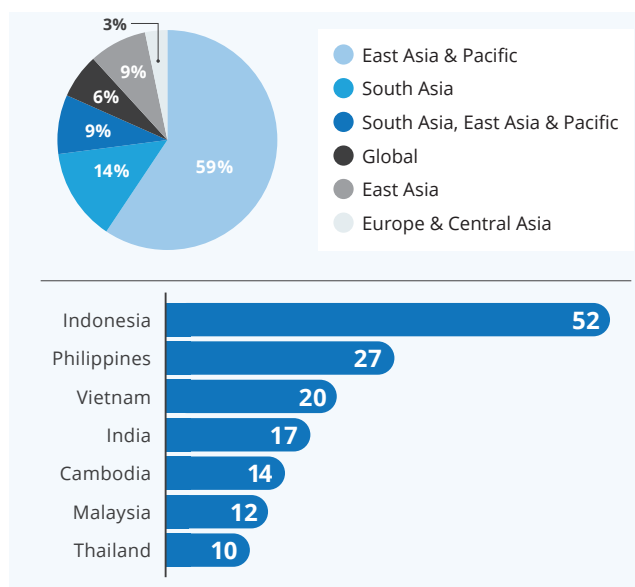


Figure 9: Targeted Geography by Applicants

EARLY ACHIEVEMENTS

PROVIDING CATALYTIC SUPPORT IN DESIGNING BLENDED FINANCE SOLUTIONS TARGETING NATURAL CAPITAL IN ASIA:

The Asia Natural Capital Design Funding Window was able to attract a significant number of applications from a range of diverse applicants showing promise across various sub-sectors of natural capital in Asia. The support provided through the Window filled a critical financing gap in designing early-stage blended finance solutions for [natural capital](#), especially in Southeast Asia. There are other grant funding windows supporting natural capital or NbS notably the Ocean Risk and Resilience Action Alliance (ORRAA) managed Ocean Innovation Resilience Challenge (supports ocean NbS), and the Conservation Finance Alliance (CFA) managed CFA Incubator (supports innovative conservation finance solutions); however,

none of these programs specifically supports blended finance solutions. The recently launched International Union for Conservation of Nature (IUCN) managed [Nature+ Accelerator Fund](#) will provide seed-stage grants and technical assistance for NbS attracting private finance to conservation and has a global scope.

SUPPORTING A RANGE OF TRADITIONAL AND INNOVATIVE SOLUTIONS:

The Window supported a good mix of both traditional and innovative solutions targeting natural capital. The AAF and the Bukit Barisan Selatan Landscape Fund, focusing on sustainable aquaculture and agriculture, respectively, are examples of traditional approaches to conservation and NbS within the portfolio, while Restoration Insurance Service Company (RISCO), showcasing the protection

“The Convergence Asia Natural Capital Design Funding Window has been transformative to the Asia Aquaculture Facility (AAF). Since receiving the grant, the support has enabled us to spend more time on ground, mapping the opportunity space compared to what would normally be practical. This has led to insights and ideas that will meaningfully shape the ability of the AAF to impact natural capital and livelihoods.”

– Managing Director, ADM Capital.

value of mangroves, is an innovative blended finance solution to fund mangrove restoration and conservation activities across Southeast Asia. The Window has also received proposals utilizing other approaches, such as establishing a community seed bank, nature-based infrastructure assets, and urban greening; showcasing the Window's ability to generate interest from proponents with a wide range of approaches.

EARLY FUNDRAISING SUCCESS SHOWN BY

GRANTEES: One of the first grant recipients of the Asia Natural Capital Window, the Blended Blue Finance Facility, led by Blue Finance, has shown promising progress. The Blended Blue Finance Facility is a proposed \$10 million fund to invest in eight high-impact marine protected areas (MPAs) in Southeast Asia, the Caribbean and Africa. As part of the Design Funding support provided through the Window, the grantee developed a pitch deck and financial model, and undertook investor outreach. Blue Finance has been able to generate a soft commitment of \$2 million of senior debt at the facility level from Mirova's Sustainable Ocean Fund, and \$350,000 (CAPEX and working capital) from the Global Fund for Coral Reefs at the project level, for its [Coral Reef MPAs](#) in the Philippines. Such investments showcase the ability of the Blended Blue Finance Facility to fundraise.

Fairventures Social Forestry Fund, led by Fairventures Social Forestry, one of the latest grantees of the Window, has also shown early fundraising success. Fairventures has closed an impact loan, provided by UBS Optimus Foundation, which will be used to finance the further development of the 3,000 hectares showcase project of [Fairventures Social Forestry](#) in Central Kalimantan (Borneo, Indonesia). The long-term loan, structured with support from the United States Agency for International Development (USAID)

Green Invest Asia program, has an interest rate linked to impact metrics such as carbon sequestration, local employment, and gender equality. Fairventures has also won the \$1 million grand prize of the Temasek Foundation sponsored [Liveability Challenge](#).

MARKET BUILDING: A key focus of the Window is market building and the production of supporting activities (such as data briefs, webinars, grantee profiles) to move the field forward as well as to highlight the nexus of blended finance and natural capital. Under each grant agreement, the grant recipient is required to assist in the development of a knowledge brief that synthesizes key learnings and outcomes from design activities to inform other practitioners' efforts designing similar financial instruments. As grant recipients complete their funded work, the knowledge briefs contribute to a broader understanding of the field.

Convergence hosted two webinars to market the Window and attract high quality proposals. The last webinar, held in January 2022, showcased current grantees and shared their design journey, lessons learned, and best practices on designing blended finance solutions targeting natural capital. More than 200 participants joined the webinar from a diverse set of organizations. These included donors (Global Affairs Canada (GAC), Sida, the Australian Department of Foreign Affairs and Trade (DFAT), USAID, the Japan International Cooperation Agency (JICA)), development banks (International Finance Corporation (IFC), World Bank, KfW, European Investment Bank (EIB)), NGOs (World Wildlife Fund (WWF), Fauna & Flora International, Water.org, SNV, Plan International), commercial investors (Allianz, Rabobank, UBS, Société Générale), and impact investors (Align Impact). The lively Q&A session focused on structuring concessionality, generating investor interest, and engaging relevant stakeholders.

“The support received from the Asia Natural Capital Window has been key in the structuring of an innovative blended finance facility for investments in our MPAs. The funding support, as well as expert advice received from Convergence, has allowed us to design a facility that aggregates all of our projects, previously managed as individual investments. The aggregating facility simplifies the investment process for investors – one due diligence process and access to a portfolio of different projects with common impact metrics.”

– Nicolas Pascal, Executive Director, Blue Finance.

PERFORMANCE AGAINST WINDOW-LEVEL KPIS

As part of the grant agreement between RS Group and Convergence, the following KPIs were agreed upon to assess the effectiveness of the funding to support the design and launch of catalytic blended finance solutions focused on natural capital in Asia.

CAPITAL CATALYZED BY SUPPORTED SOLUTIONS:

This KPI, along with the third on this list, will take time to assess. As noted earlier, the Blended Blue Finance Facility has attracted soft commitments of \$2.35 million out of a target \$10 million raise. Blue Finance has completed the majority of the designing and structuring work and is close to the launch of the facility. Fairventures Social forestry Fund, led by Fairventures Social Forestry, has secured an impact loan (undisclosed amount) from UBS Optimus Foundation. The rest of the Window portfolio is relatively young, with three out of the six grants having been awarded in the final six months of the window and it will take time for the results to materialize. Designing blended finance solutions is a [lengthy process](#), often taking one to two years to complete the design and structuring and another one to two years to raise funds.

NUMBER OF FOLLOW-ON FUNDERS FROM ASIA (AT THE WINDOW AND SOLUTION LEVELS):

We were not able to generate follow-on funding at the Window level. The pandemic played a role, creating travel and capacity challenges within the Convergence team that hindered fundraising for a Window with a tight geographical boundary and thematic focus. In the same period, Convergence was successful at fundraising for related, but broader themes, such as sustainable infrastructure and gender and climate finance. That said, Convergence will apply the knowledge gained from the Window in future Design Funding work. Convergence will also seek to include the natural capital theme in future Design Funding windows that address a broader set of issues and geographies.

At the solutions level, each of the grantees under the Window has been actively fundraising. Two of the eight proposals, namely Blue Finance and Fairventures Social Forestry, have been able to raise funding as of the time of this report. As a benchmark, we compared this progress to Convergence's Global Emerging Markets Design Funding Window, which ran from 2016 to 2019.

In that window, eight of 20 grantees secured follow-on funding during the grant period. One notable difference between the Windows is that a majority of the Asia Natural Capital Window grantees are undertaking feasibility studies, whereas the Global Emerging Markets Window backed more proof-of-concept grants. The time and maturity issue should not be underestimated - with the passage of time, and well after the grants expired and the Window closed, 19 of the 20 grantees in the Global Emerging Markets Window went on to land follow-on funding.

NEW INVESTORS PARTICIPATING IN THE SPACE THAT ARE NEW TO NATURAL CAPITAL / SUSTAINABLE DEVELOPMENT:

As none of the proposed vehicles have been launched yet, we cannot report on new investors participating in the space at this moment.

NUMBER OF PROPOSALS RECEIVED FROM LOCAL INSTITUTIONS, AND PROPORTION OF GRANTS AWARDED TO LOCAL INSTITUTIONS COMPARED TO INTERNATIONAL INSTITUTIONS:

A majority of the applicants to the Window were international organizations (organizations having an international focus such as Conservational International and Wildlife Conservation Society). Around one-third of the applicants were local organizations (organizations focusing on one or two Southeast Asian countries such as PT KLIA), and the remaining had an Asia focus. 60 out of the 71 applicants (some organizations applied multiple times to the Window) have a local presence through either a local office or project.

One of the six portfolio grantees, PT KLIA, is local. Another grantee, Fairventures Social Forestry, although registered in Germany, operates primarily in Indonesia. One grantee, ADM Capital Foundation, has a regional focus. Each of the grantees has either a local or regional team. We do not observe any major patterns as to why there were not more local organizations in the mix. Proposals from both local and international organizations shared similar weaknesses, such as under-developed concepts, low likelihood of ability to crowd-in private capital, inability to demonstrate local partners and/or knowledge of local context etc. It was apparent, however, that many of the local organizations

have limited resources compared to international organizations, which often have dedicated sustainable finance teams, and local players generally are less exposed to the blended finance ecosystem.

These observations relate to applications received. Taking a step back, one noticeable absence was financial institutions from within the Asia-Pacific region. Other Design Funding windows run by Convergence have received more than a few applications from financial institutions teaming with sector specialists such as NGOs. We note that Asia-domiciled financial institutions have not yet made significant use of blended finance to pursue opportunities in natural capital and other high-impact sectors. Our statistics indicate that, of all of the financial institutions active in blended finance in 2019-21, only 18% were domiciled in Asia and they accounted for 29% of the value of financial commitments. There is substantial room for growth in the involvement of regional financial institutions who are better positioned to assess risks and to raise capital for concepts created specifically for the region.

Generating strong applications from local organizations would require:

- i Financial support at the pre-feasibility stage: grants/funds for developing the preliminary financial structure or the investment thesis,
- ii Technical assistance to build capacity on blended finance, and
- iii Continued engagement with larger financial players to build familiarity with the asset class and the potential for blended finance as a tool to create investible transactions.

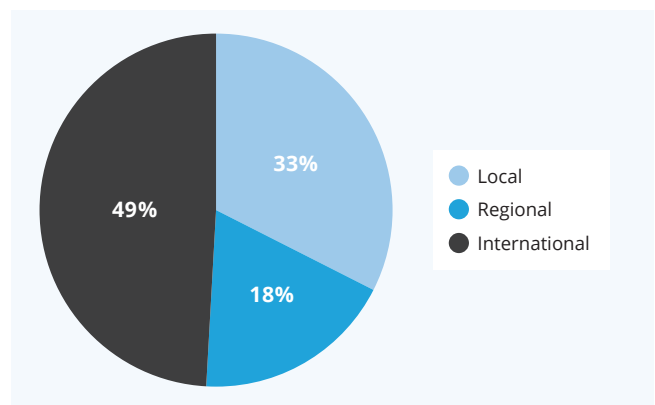


Figure 10: Organization Type across Applicants.

NUMBER OF NEW NATURAL CAPITAL INVESTMENT MODELS AND VEHICLE MANAGERS WITHOUT TRACK RECORD SUPPORTED:

Five out of the six concepts under the portfolio utilized a fund structure, except for Conservation International, with its climate-based insurance venture, which pursued a social business model. While the predominance of the fund structure is not necessarily a new investment model in itself, it matches the trend observed in Convergence’s Historical Deals Database and each of these grants is testing out novel approaches to natural capital investment models. For example, PT KLIA tested out the feasibility of an aggregation of neighbouring forestry concessions, while Wildlife Conservation Society is testing out the feasibility of a credit enhancement mechanism to design financial products with conservation outcomes. Apart from ADM Capital Foundation, none of the grantees have a track record of fund management.

CHAPTER 4

KEY TAKEAWAYS FOR PRACTITIONERS

The following section draws upon learnings from the Asia Natural Capital Design Funding Window to guide practitioners interested in the nexus of blended finance and natural capital.

DESIGNING A SUITABLE BLENDED FINANCE

VEHICLE: Convergence has published a [report](#) titled ‘Designing Blended Finance Vehicles: Learnings from Convergence’s Design Funding Program’ which identifies key learnings and best practices

on designing blended finance vehicles. To avoid repetitiveness, this report does not provide a commentary on the topic, but key points of the report are worth reiterating.

STRUCTURING	FUNDRAISING
<ul style="list-style-type: none"> Engage with funders early in the design process to streamline structuring and avoid delays downstream When transitioning from desk research to the field, feasibility studies can help to validate initial risk assumptions in the local context New stand-alone blended finance structures are not always needed; seek partners where applicable In the absence of market benchmarks, consider collecting data before structuring concessional capital in your financial model Allocate time and resources to ensure structures fit the regulatory environment 	<ul style="list-style-type: none"> Intermediaries play a key role managing stakeholder engagement To accelerate the fundraising process and demonstrate credibility, it is helpful to partner with brand name anchor investors To simplify structuring and avoid delays, identify the non-negotiables of various parties early-on Build buffer time into the design process and manage launch expectation accordingly
INVESTMENT ACTIVITY	IMPACT REPORTING
<ul style="list-style-type: none"> Where possible, tap into the networks of existing institutions Establish a local presence Identify pipeline during structuring activities 	<ul style="list-style-type: none"> To measure impact meaningfully, develop metrics and reporting practices alongside structuring activities

STANDARDIZING AND SIMPLIFYING INVESTMENT ASSETS AND STRUCTURING WITH A LIMITED

NUMBER OF MOVING PARTS MAKE SENSE: Many of the proposals received through the Window are overly complex: proposing multiple financial instruments, complex governance structures, and multiple investment streams. Often, partners and stakeholders are proposed

with no clear rationale for the selection of such partners or evidence of their engagement. While such structuring is perhaps needed to address the complexity around natural capital solutions (engaging with multiple stakeholders such as local communities, local and state governments), blended finance structures should be [simplified](#) with a limited number of moving parts, and standardization of the

investment assets. Additionally, the governance structure and stakeholder engagement plan need to be guided by a robust assessment of the need of a particular vehicle and have built-in systems to address potential complexity.

VEHICLES MUST BE DESIGNED BEARING IN MIND BOTH THE POTENTIAL INVESTOR SET AND THE REALITY ON THE GROUND: Solutions conserving and protecting natural capital need to demonstrate financial rigor and an awareness of what kind of capital would be interested, while also taking into consideration site-specific natural, societal, and cultural [contexts](#). A case in point is the AAF grant where ADM Capital Foundation brings in strong structuring skills and a close read of investor preferences, Alune Aqua designs and provides the technical assistance to aquaculture farmers, and IDH contributes with deep local expertise. The current structure of the facility has been finalized after several iterations: taking into consideration investor feedback, learning from field trials, and previous engagement of both Alune and IDH. Solutions on natural resource protection and conservation have traditionally been supported through concessional capital (e.g., grants, technical assistance etc.); however, blended finance has the potential to improve the risk-return profile of these investments, and in turn, bring commercial investors to the space.

BUY-IN AT ALL LEVELS WITHIN THE GRANTEE ORGANIZATION IS ESSENTIAL IN DESIGNING BLENDED FINANCE SOLUTIONS: An early grant under the Window, Ocean Outcome's Sustainable Seafood Fund, was for the design of a \$50 million debt fund to invest in fishery improvement projects. Convergence terminated the grant agreement with Ocean Outcomes after the departure of its long-time CEO, when Ocean Outcomes' Board of Directors undertook a broader strategic reassessment and decided to discontinue support for the development of the concept in the absence of the former CEO. The fact that the CEO's departure ended the work suggests it was not viewed as core to the organization.

DIVERSIFIED REVENUE STREAMS IMPROVE SUSTAINABILITY OF BUSINESS MODEL AND LIKELIHOOD OF INVESTABILITY: Blended finance concepts under the Asia Natural Capital Window generally utilized two major revenue streams: traditional (e.g.,

tourism fees, sale of non-timber products in case of social/sustainable forestry etc.) and non-traditional (e.g., sale of carbon credits, payment for ecosystem services, payments by insurance providers etc.). The success of transactions in this space often hinges on revenue generation not only to attract and sustain commercial investors, but also to sustain the communities on whom the transaction relies upon for conservation activities. In the case of the Kubu Raya Landscape Fund, a proposed investment vehicle that would connect two neighbouring forestry concessions, the structure provided a mechanism for local communities to share in the economic benefits but failed to generate investor interest. Investors considered the carbon revenue potential of one concession insufficient to justify the required investment.

The pattern in this application stream of a composite revenue approach demonstrates the difficulty of a field in which so many benefits and costs are hard to capture, price, and allocate in an equitable way. Blended finance structures for natural capital should seek to diversify revenue streams by looking at multiple sources of revenue that together generate enough return to satisfy investor expectations, while providing equitably for the local communities involved. The continued evolution of other tools and markets, perhaps including widely tradeable forest and soil credits, that capture economic externalities, will make it progressively easier to synthesize revenue lines and create viable and more standardized structures.

EARLY KEY STAKEHOLDER BUY-IN AND ONGOING COMMITMENT SENDS THE RIGHT SIGNAL TO INVESTORS: As natural capital is still an unfamiliar concept to many investors, early stakeholder commitment in any investment model is key in generating investor interest. While interest from a name brand anchor investor is certainly helpful, it is often not feasible to generate such interest and often, the investor interest depends on engagement and commitment from other key stakeholders such as offtakers. The success of the RISCO model depends on insurance companies paying for the protection value of mangroves and a key component of the Bukit Barisan Seletan Landscape Fund is the offtake agreement with coffee buyers, which can influence coffee farmers to follow sustainable farming practices.² Additionally, the engagement and

² Likewise, the presence of Michelin, an international tire manufacturer, as offtaker in the inaugural transaction under the [Tropical Landscape Finance Facility \(TLFF\)](#) was cited as a significant factor in its \$95 million raise. TLFF was a Convergence grantee under an earlier Design Funding window.

commitment of local government agencies, regulatory bodies, and local communities also play a crucial role in NbS projects. For example, the implementation of the social forestry approach of the Fairventures Social Forestry Fund is dependent on

- i securing community buy-in, as the local community will be responsible for implementation of the projects and
- ii acquiring land permits from state-owned enterprises.

Securing such commitment addresses a key risk around the financial viability of the blended finance structure and proponents should engage with such stakeholders early in the design process.

SHOWCASE RELEVANT EXPERIENCES AND DEMONSTRATE PROGRESS:

Many funders want to understand the stage of the vehicle and customize their support (e.g., technical assistance, grants, etc.) to ensure optimal utilization of the ongoing resources and support. Therefore, practitioners are encouraged to communicate to funders their relevant ongoing experiences when designing a new vehicle and demonstrate the progress on the proposed vehicle itself. When seeking out funding, for example, a practitioner should articulate the completion of a pilot related to the proposed vehicle which informed its initial design or their deep experience working with relevant stakeholders, specifically in the field.



Unsplash: Hiroko Yoshii

KEY TAKEAWAYS FOR FUNDERS

The following section draws upon learnings from the Asia Natural Capital Design Funding Window to guide funders interested in the nexus of blended finance and natural capital.

BUILD UNDERSTANDING OF THE SECTOR: Funders looking to engage in the sector need to understand the unique challenges of designing solutions targeting natural capital to provide the right facilitation support. Practitioners need to address the tension between conservation and commercial usage of a natural asset, ensure equitable distribution of benefits, and navigate the legal and regulatory environment. A strong understanding of the challenges can inform funders of the specific needs of such solutions and ensure that they are addressed properly, whether through a grant, technical assistance, or concessional capital.

PROVIDE EARLY-STAGE SUPPORT: Funders need to be open to supporting solutions with early-stage design support. Applicants to the Window have expressed the need for early-stage support especially at the project preparation stage. NGOs, the most prevalent proponent of natural capital solutions, often do not have the financial resources to invest in such early-stage work. According to a World Resources Institute [working paper](#) titled “Public International Funding for Nature-based Solutions for Adaptation: A Landscape Assessment”, public capital plays a decisive role in determining whether an NbS project is implemented, and its benefits realized.

CONSIDER THE OUTSIZED LEVERAGE POSSIBLE WITH EARLY-STAGE INTERVENTION: The Window has committed or disbursed a total of \$1.2 million into a portfolio of seven concepts³ whose cumulative capitalization target is around \$180 million. In other words, on average, each concept that proves successful in raising permanent capital will leverage the original grant provided to it at a rate of about 150x. This observation does not, of course, capture the overhead of running the grant program or the expenses that grantees bear from their own resources. Moreover, not every grantee will succeed, so there are inevitably portfolio-level “dead deal costs” from a funder’s perspective. Even accounting for these

points, the cost profile of supporting concepts at their crucible stage is modest. And this means that funders who are willing to intervene at this stage may help to propel significant structures into the market with relatively small outlays. Convergence’s Design Funding Program has [demonstrated this pattern](#), with \$9.5 million of grants awarded across all windows for concepts that, in aggregate, have raised \$1.5 billion so far.

BE OPEN TO EXPERIMENTATION: When the Asia Natural Capital Design Funding Window was launched, it was the first ever Design Funding window targeting the nexus of blended finance and natural capital. At the time of the launch, neither RS Group nor Convergence was sure about the potential application pipeline, the value for money of the grant support, and the potential impact of the Window. The Window gave RS Group an opportunity to understand the challenges facing the sector, analyze the opportunities, and helped shape their strategy beyond the Window. Funders who are interested in supporting natural capital solutions need to be open to experimentation, as many of the solutions are unique and do not have a long track record compared to other sectors.

BE PATIENT: As we have already noted, design of natural capital solutions is usually a lengthy process and funders need to be patient. Grant agreements under the Window were usually signed for a one-year term, based on the suggestion of the grantee, however in many cases, it took much longer for the grantee to complete all the activities. Funders need to be aware of such dynamics and be patient, whether in the form of providing a longer-term contract or having flexible contract agreements. As well, funders assessing the impact of their support should consider that a substantial proportion of that impact will materialize well after the period of their involvement and continue over a long or even indefinite horizon.

3 Excluding the discontinued Ocean Outcomes grant.

CHAPTER 6

CONCLUSION

The Window has been able to develop a robust and diverse pipeline of solutions protecting some of the most important natural assets in the region. As this report has already explored, there are a number of key lessons and trends for funders, investors, and practitioners alike, to keep in mind around the types of solutions being explored in the NbS space, the needs and gaps in the sector, as well as some of the early successes that have been demonstrated.

The funders of the Window, RS Group, played an active role in managing the window, participating in application shortlisting, and, despite the conclusion of the Window, will continue to engage and support both Convergence and grantees as and when needed. Leveraging the learnings from the Window, RS Group recognized the need for follow-on support for the ventures beyond a feasibility or proof-of-concept stage. Recognizing that one of the key supports needed is meaningful intermediary support for ventures at an early growth stage to when they are ready for institutional capital,

RS Group has set up Terratai, a venture builder, to provide financial and hands-on business and operational support support. Terratai will be launched in the first half of 2023 with a focus on Indonesia for the first three years. Initiatives such as Terratai or the recently announced [Blue Pacific Finance Hub](#) can fill very specific financing gaps.

Financing towards NbS has a long road ahead if it is to be quadrupled by 2050 to meet the investment need. The Asia Natural Capital Design Funding Window allowed both RS Group and Convergence to test out the blended finance space within NbS in Asia. The pioneering nature of the Window allowed for experimentation in a nascent sector of blended finance and some of the portfolio grants are showing early fundraising success. There remain significant opportunities for blended finance enabling more solutions to succeed and catalyze capital, and it will require a concentrated effort from all stakeholders to meet the financing gap.



Unsplash: Pixmike

ANNEX 1

GRANT PORTFOLIO

BLENDING BLUE FINANCE FACILITY

Grant Period: Cycle 1, 2020

Proponent: Blue Finance

Geography: Asia and Pacific

Status: Completed

OVERVIEW: The Blended Blue Finance Facility (BBFF) envisages to support effective management of Marine Protected Areas (MPAs) in Southeast Asia. The BBFF will strengthen marine resource management, improve food security, promote sustainable development, and enhance climate change resilience in the region. Building upon a pilot in the Dominican Republic, the approach relies on a long-term management lease for MPAs coupled with tangible revenue models, leveraged by blended finance and empowering local communities.

The BBFF will have an investment facility providing up-front capital for special purpose entities' (SPE) managing MPAs, structured as debt from commercial and concessional sources. The SPE will generate revenues from the MPAs primarily through tourism revenues from visitor fees, which will be used to pay back the investors. The BBFF will also include a grant-funded technical assistance facility

managed by Blue Finance to provide pre-investment support for project development and post-investment technical support to MPAs and local project developers.

ABOUT THE PRACTITIONER: Blue Finance (BF) designs and implements blended finance solutions for MPAs in the Caribbean and Southeast Asia. BF is a social enterprise created in 2016 and acting under the institutional umbrella of the United Nations. It is incorporated in Barbados, with operating hubs in Barbados and the Philippines, BF consists of an experienced team with a long track record and expertise in MPA management, community development, marine ecology, and conservation finance.

CURRENT STATUS: With grant funding from Convergence, Blue Finance has finalized the financial model, developed the facility-level pitch deck, and incorporated additional SPEs. Blue Finance has also posted their deal on Convergence's deals platform and is actively fundraising. Blue Finance has generated a soft commitment of \$2 million of senior debt at the facility level from Mirova's Sustainable Ocean Fund, and \$350,000 (CAPEX and working capital) from the Global Fund for Coral Reefs at the project level, for its [Coral Reef MPAs](#) in the Philippines..

SUSTAINABLE SEAFOOD FUND

Grant Period: Cycle 1, 2020

Proponent: Ocean Outcomes

Geography: Asia and Pacific

Status: Discontinued

OVERVIEW: The project will be for the design of a USD 50M sustainable seafood fund focused on Asia led by Ocean Outcomes (O2). The proposed fund seeks to blend grants, first loss, and concessional debt with more commercial capital from impact investors and the seafood supply chain as a first step to developing a larger impact fund. Seafood industry participation in the fund is central to this model.

The proposed vehicle will raise debt from concessional and commercial parties to provide upfront capital to service providers to implement fishery improvement projects (FIPs). Service providers are subject to monitoring and evaluation as a precondition to continuous funding. The vehicle will service the debt, as well as covering its operational costs and the cost of monitoring service providers, by collecting volume-based fees paid by seafood distributors under long term agreements. These seafood distributors are long-term buyers of seafood in these geographic areas and have an interest in sustainable management of the resource. There will be a pilot USD 5M facility in the first 2 years, with a target to scale-up and then transition to an external fund manager.

ABOUT THE PRACTITIONER: O2 works with commercial fisheries, seafood industry, local communities, and NGOs, to develop and implement creative solutions towards more sustainable seafood. O2 and its partner organizations in Japan, China and South Korea have over 50 years of fisheries experience, collectively. Enterprises they work with range from local cooperatives to multi-national companies, as well as buyers in major Asian markets.

CURRENT STATUS: The grant has been terminated. In mid-November 2020, the Ocean Outcomes team communicated to Convergence that the Ocean Outcomes Board of Directors decided to discontinue support for the development of the Sustainable Seafood Fund. This was decided as a part of a broader strategic reassessment triggered by the departure of the long-time CEO.

KUBU RAYA LANDSCAPE FUND

Grant Period: Cycle 2, 2021

Proponent: PT Kandelia Alam

Geography: Indonesia

Status: Completed

OVERVIEW: The Kubu Raya Landscape Fund (KRLF) is expected to have a project-level SPV to aggregate three adjacent forest concessions in Kubu Raya District, West Kalimantan, Indonesia to reach an investable scale and drive natural capital impact at a landscape level. The KRLF will have two main revenue sources:

- i Sale of carbon credits issued due to avoided deforestation, conservation, and restoration of the landscape, and
- ii non-carbon revenues, e.g., non-timber forest products (NTFPs), sustainable timber, and ecotourism-related revenues.

The initial target scale of the KRLF is ~USD10 million, of which ~USD5-6 million are expected to come from carbon finance. In the longer term, KRLF is expected to

set up a holding company that would invest in multiple project-level SPVs, such as the one being designed through the feasibility study, each aggregating multiple forest concessions.

ABOUT THE PRACTITIONER: PT. Kandelia Alam (KLIA) is an Indonesian private entity founded in 2000 and is a concession holder in Kubu Raya district. KLIA has experience managing grants and audits for technical assistance, for example from IDH, WWF, and USAID Green Invest Asia. KLIA will be supported by IDH, The Sustainable Trade Initiative, a donor-funded organization working with businesses, financiers, and governments, which has significant experience supporting the development of financial mechanisms, e.g., &Green Fund and Farmfit Fund.

CURRENT STATUS: KLIA, in partnership with IDH, has completed the carbon feasibility study for both KLIA and PT EKL (neighboring concession), and conducted investor outreach on a SPV aggregating both KLIA & PT EKL. The project-level SPV was not possible due to limited investor interest as one of the forestry concessions did not have enough carbon potential.

BUKIT BARISAN SELATAN (BBS) LANDSCAPE FUND

Grant Period: Cycle 3, 2021

Proponent: Wildlife Conservation Society

Geography: Indonesia

Status: On-going

OVERVIEW: The Bukit Barisan Selatan (BBS) Landscape Fund is a mechanism to increase smallholder coffee farmers' access to finance by

incentivizing lending from financial institutions. The targeted farmers are adjacent to the BBS National Park, which is suffering deforestation caused by the expansion of farms. This deforestation threatens critical habitat for species like the Sumatran tiger. By providing them with access to credit and training, farmers will be able to transition to sustainable farming practices and will be incentivized to follow a zero-deforestation framework, leading to reduced deforestation at the forest frontier.

This financing mechanism will build on the conservation trust fund (CTF) model and will have two components:

- i provision of credit enhancement to local financial institutions to mobilize domestic lending for the target group of smallholder farmers, and
- ii provision of technical assistance and capacity building to farmers.

ABOUT THE PRACTITIONER: Wildlife Conservation Society (WCS), established to save wildlife and wild places worldwide, currently works in over 60 countries and has helped to establish protected areas. The

organization has been working in Indonesia since 1965 and has had a full-time presence in the country since 1995. WCS is supported by Conservation Capital (CC), which will be leading the financial structuring work of the financing mechanism, supplementing WCS's expertise of conservation activities, community engagement, and driving relationships with value chain partners.

CURRENT STATUS: WCS is currently undertaking an assessment of the local financial institutions to test interest and contribute to design of the fund, including appropriate credit enhancement mechanism(s).

RESTORATION INSURANCE SERVICE COMPANY (RISCO)

Grant Period: Cycle 4, 2021

Proponent: Conservation International

Geography: East Asia

Status: On-going

OVERVIEW: Restoration Insurance Service Company (RISCO) will be a social enterprise that will place economic value on mangrove forests through a novel combination of insurance company fees and blue carbon credit sales, which will be used to pay for mangrove conservation and restoration. RISCO will collaborate across sectors to restore lost mangroves, conserve remaining forests, recognizing the economic importance of this natural asset.

RISCO will raise debt and equity from both concessional and commercial investors to fund mangrove conservation and restoration activities across Southeast Asia. RISCO will generate revenues through agreements with insurance companies with exposure to coastal assets, who will provide fees in exchange for the risk

reduction benefits of mangroves. RISCO will also generate revenues from the sale of blue carbon credits on voluntary carbon markets.

ABOUT THE PRACTITIONER: Established in 1987, Conservation International is an international non-profit organization working to protect nature for people. Conservation International has significant experience working with local communities on conservation projects, including mangrove conservation and restoration and carbon credit projects. Together with the International Union for Conservation of Nature (IUCN) and the Intergovernmental Oceanographic Commission (IOC), Conservation International is leading the International Blue Carbon Initiative, which has supported capacity building for governments in Costa Rica, Ecuador, Indonesia, and the Philippines to implement blue carbon policies and projects.

CURRENT STATUS: CI has conducted field visit in Puerto Princesa (pilot location) in Philippines and is engaging with local insurers to test interest in the model.

ASIA AQUACULTURE FACILITY (AAF)

Grant Period: Cycle 5, 2021

Proponent: ADM Capital Foundation, IDH- the sustainable trade initiative, & Alune Aqua

Geography: Indonesia

Status: On-going

OVERVIEW: The Asia Aquaculture Facility (AAF), a US \$10-20M, 10-year, financing vehicle will use revenue-based financing to finance sustainable aquaculture intensification and support mangrove conservation and reforestation. The facility will have two core components:

- i AAF debt fund and
- ii a linked Technical Assistance (TA) facility.

The fund will deploy capital via the settlement of invoices from supply chain intermediaries (input supplier companies) to farmers, repayable by those farmers through revenue-sharing contracts. Collection of repayments will be managed in conjunction with regional seafood processors, who would have existing direct relationships with the farms. IDH, Conservation International (CI) and Alune Aqua will provide TA and focus on

- i improving farm performance,
- ii investing in mangrove conservation & reforestation, and
- iii facilitating stakeholder engagement.

ABOUT THE PRACTITIONER: ADM Capital Foundation was established in 2006 by ADM Capital, recognizing the need for innovative and replicable models of funding for impact. Working with a multitude of partners (IUCN, Marine Stewardship Council, UNEP and Conservation International) across Southeast Asia, the foundation aims for a cleaner and more secure water supply, better air quality, and halt to the flow of illegal wildlife products.

IDH, the sustainable trade initiative, works in multiple sectors and landscapes in Africa, Asia, and Latin America with over 600 companies, civil society organizations, financial institutions, producer organizations and governments towards sustainable production and trade. IDH orchestrates the powers of law, of entrepreneurship and investments to work together to create solutions for global sustainability issues at scale.

Alune Aqua is an aquaculture financial technology company based in Indonesia. With a vision to create an aquaculture financial ecosystem for people and planet, Alune has developed category-leading credit risk analytics, investment support teams, industry partnerships and distribution channels for shrimp aquaculture. Alune's ecosystem includes multinational feed companies, over 25 aquaculture technology companies, and a network of farmer confidantes around the world.

CURRENT STATUS: The consortium is currently undertaking farmer engagement to better understand the financing needs of and design suitable loan products for shrimp farmers.

FAIRVENTURES SOCIAL FORESTRY FUND

Grant Period: Cycle 5, 2021

Proponent: Fairventures Social Forestry (FSF)

Geography: Indonesia

Status: On-going

OVERVIEW: The Fairventures Social Forestry Fund ("the Fund"), a €50M, 15-year, structured debt and equity fund is for financing sustainable forest landscape restoration and conservation of existing forests in Indonesia. Revenues will be generated by

- i sustainable agroforestry on restored degraded land through sustainable timber and intercropping with cash crops; and
- ii conservation activities leading to generation of carbon credits.

FSF as fund manager and project developer will be adopting a social forestry model, in which it will be partnering with the local community organizations

for implementation. Community members will be employed in operations and share profits. The Fund's objective is to manage 50,000 ha of forest area, of which 50% is for restoration, 40% for conservation and 10% will be unusable.

ABOUT THE PRACTITIONER: FSF is a for-profit social venture based in Germany created as a vehicle for investing in sustainable forest landscape restoration. FSF has a 100% owned subsidiary in Indonesia, PT Fairventures Social Forestry, which has a team of local employees across operations, administration and accounting functions. FSF also has a non-profit sister company, Fairventures World (FVW) which has been active in Indonesia since 2014. FVW provides FSF R&D and socialization support for its sustainable forestry activities in Indonesia.

CURRENT STATUS: FSF is currently undertaking investor outreach and further building out the financial model.

ELIGIBILITY & EVALUATION CRITERIA

ELIGIBILITY CRITERIA

To be eligible for consideration for the Asia Natural Capital Design Funding Window, proposals must meet the following criteria:

- The proposal must be for a blended finance vehicle. The vehicle must aim to use catalytic capital from public or philanthropic sources to attract private sector investment to the identified development challenge.
- The vehicle must focus on the natural capital sector.
- The target region for the blended finance vehicle must be in Asia. Preference would be given to proposals targeting Southeast Asia. Practitioners should have on the ground presence or partnerships in Asia.
- Practitioners can only use the awarded grant funding for the design and launch of the blended finance vehicle – not for investment capital or to fund operational activities of an already established vehicle.
- The proposal must adhere to the applicable proposal template, detailing the development challenge, proposed blended finance vehicle, key risks and mitigation strategies, design activities and costs, and the applicant's relevant experience.
 - **Feasibility study proposals must:**
 - i** include an initial vehicle structure and investment thesis, and
 - ii** have initiated engagement with potential funders and relevant stakeholders.
- **Proof of concept proposals must:**
 - i** detail interest and ideally commitment to participate, from funders and relevant stakeholders, and
 - ii** include an initial financial model.
- Convergence aims to select the strongest proposals based on the eligibility and evaluation criteria. Convergence does not prioritize repayable grants and selection of proposals will not be based on whether a grant is repayable or not. If a grant is structured as repayable, the terms of repayment will be determined on a case-by-case basis with the grantee. Repayment is often contingent upon the launch of the proposed blended finance solution.
- Proposals are only accepted from organizations or consortiums of organizations. The lead organization must be able to provide
 - i** proof of incorporation, and
 - ii** financial statements for the previous fiscal year.
- Practitioners awarded funding are expected to regularly report key challenges, learnings, and results. This will be synthesized into a case study or learning brief and published to support market-wide learning.

EVALUATION CRITERIA

Proposals were evaluated on the following criteria:

SCALABILITY AND/OR REPLICABILITY: How much private capital does the vehicle aim to catalyze? If the vehicle is successful, can other practitioners use a similar approach? Will the vehicle contribute to creating a pipeline of investable deals/projects in natural capital in Asia?

DEMONSTRATION EFFECT: Is the vehicle testing a new design? Is the vehicle replicating an existing approach in a new market? Is the vehicle attracting partners that have not participated in the blended finance space before?

IMPACT: Does the vehicle propose to drive a significant amount of natural capital impact? Will the vehicle have a measurable impact on an ecosystem? How will environmental impact and risk be measured and will it have a scientific basis? Are there other social, economic, or environmental impacts of the vehicle?

ADDITIONALITY: Does the vehicle aim to deploy financial instruments that are under-supplied and will therefore catalyze financing with a high degree of

additionality? Does the vehicle have strong potential to address a market failure in the short term, and catalyze broader market financing in the long term?

STAKEHOLDER SUPPORT: Does the vehicle have the support of key stakeholders in the target region / country (e.g., government)?

LIKELIHOOD TO ACHIEVE FINANCIAL CLOSE: Is the vehicle likely to attract investors and close within the short or medium term?

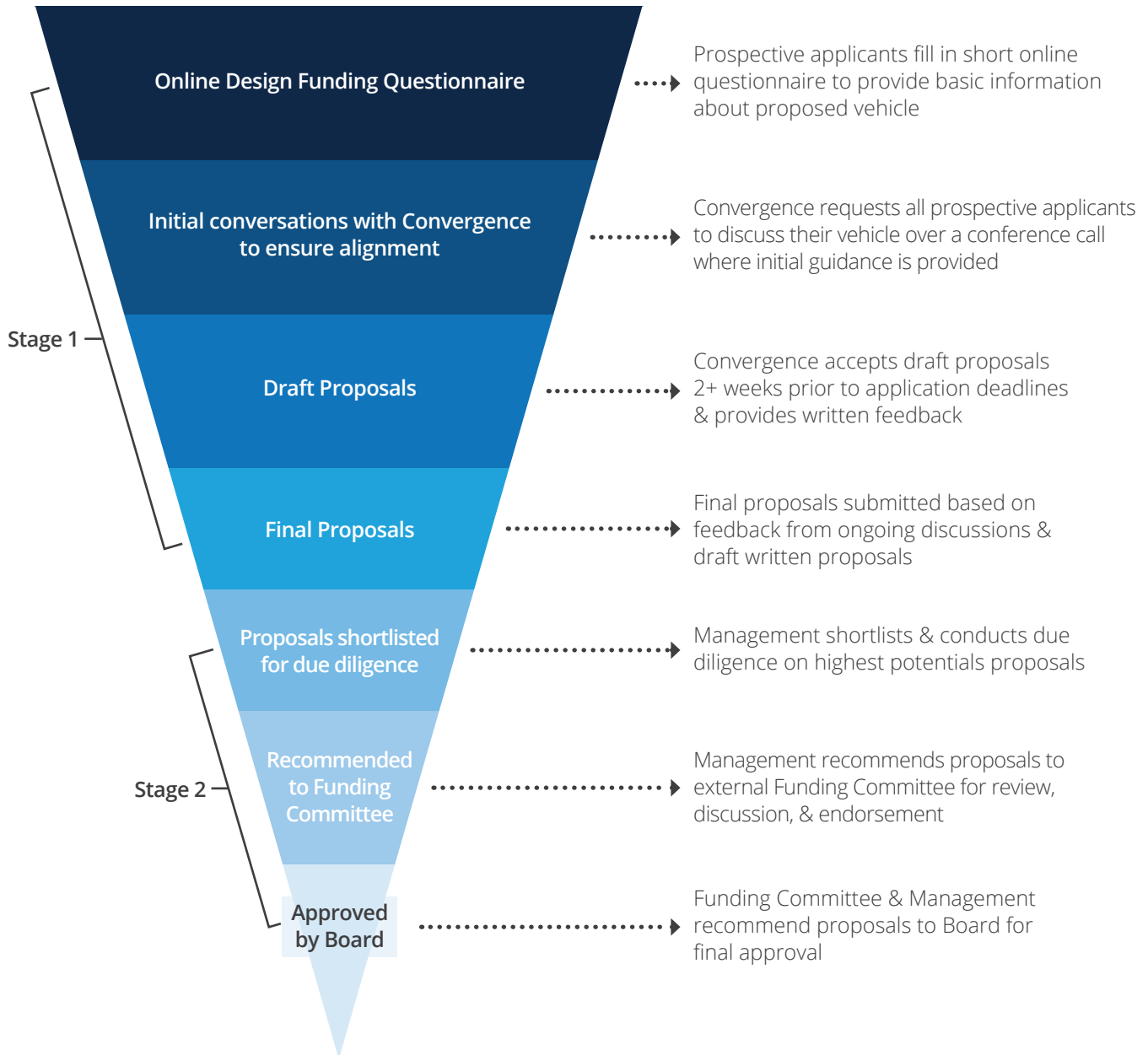
CONTRIBUTIONS TO PORTFOLIO AND DEVELOPMENT

RISK-RETURN: Does the vehicle represent a strong development risk-return (i.e., high risk vehicles should have the potential to achieve significant natural capital impact)?

FIELD BUILDING: Does the vehicle contribute to field building? Does it contribute to building local capacity and strengthening breadth and depth of local markets and communities? Does the applicant have a strong local presence in Asia?

ANNEX 3

GRANT APPLICATION REVIEW PROCESS





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.