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In collaboration with:

Accenture Strategy & Consulting

AVPN Input Paper for the G20 Sustainable Finance Working Group

***SFWG Topic 2** – Scaling up sustainable finance instruments, with a focus on improving accessibility and affordability*

May 2022

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The full list of AVPN member contributors, and the AVPN lead contact information can be found in the Appendix.

Context on the AVPN Input Paper

The findings herein are drawn from consultations with 35+ member organizations, whose scope focuses on the following types of challenges, participants, and financial tools.

CHALLENGES

Seeking to understand the **non-regulatory barriers** that faced by AVPN members trying to develop and scale sustainable finance instruments across **Emerging Markets and Developing Economies (EMDEs)** in Asia, including in Blended Finance.

PARTICIPANTS

Involving the under-represented **voices of Asia-based** family offices, impact funds, foundations, MDBs & DFIs, and local financial services providers in the pursuit of **South-North collaboration** on sustainable finance.

FINANCIAL TOOLS

Interested in financial tools such as the use of **subordinated capital**, **guarantees**, **insurance**, and **securitization**, with a focus on financing **innovative MSMEs** that are showing the potential to support sustainable social and environmental transitions that protect Asian livelihoods.

About AVPN

As Asia's number one social investment network with 600+ members, AVPN is an ecosystem builder that works to increase the flow of capital towards impact in Asia, ensuring that resources are most effectively deployed.

At AVPN, social investment is approached as a continuum of capital, in which funders may combine grants, debts and equity across multiple investments within their own portfolio, to achieve deeper impact.

SFWG Topic 2:

Scaling up sustainable finance instruments, with a focus on accessibility and affordability

Our perspective: Many of the potential solutions to scale do exist, the challenge is how to build collaboration and partnerships where actors from EMDE's are able to tailor solutions to specific socio-cultural contexts. This input paper for the G20 process will be an important way to bring visibility and provide a channel for sustainable finance –oriented actors in Asia to voice their perspectives.

Non-regulatory barriers to sustainable finance (1/2)

The barriers most often cited by participants tend to stem from one thing—sustainable finance literacy.

A lack of awareness and knowledge around sustainable finance models: One of the most cited challenges is a lack of awareness and sustainable finance literacy amongst the private sector investors, MSMEs, and local recipient organizations. Most proposals in blended finance come from multi-lateral DFIs who have the capacity and know-how to structure deal terms; however, are not as well-versed in the issues and opportunities for blended finance on-the-ground. This knowledge gap needs to be bridged outside of immediate financing opportunities and—rapidly—during potential sustainable finance deals, as the time it takes to educate stakeholders and general aversions to increased complication can dissuade public-private cooperation. Moreover, the lack of awareness amongst entrepreneurs causes sustainable finance instruments to be omitted from a founder's consideration set, in the shadow of efforts towards traditional financing channels.

Misaligned risk expectations in sustainable finance: Investors are most often concerned with risks versus returns, and a prevailing narrative has cemented the view that market-rate returns are to be expected in social innovation. While this can be true, prioritizing their own returns, can cause investors to work against their own impact objectives and the beneficiaries they seek to support. Until these expectations are diffused, and impact becomes a foremost KPI, sustainable finance opportunities and investment in innovative social ventures (with their inherent risks to fail), may be overlooked by significant pools of capital.

Difficulty determining the additionality of concessionary funds: There is a great deal of appetite from philanthropists and other concessionary investors to create catalytic funding; however, it is often unclear where the opportunities lie for additionality, as opposed to merely subsidization—investors want to know their role is conducive to catalyzing impact that would otherwise not occur.

Difficulty in ascertaining the investor's role: Large, traditional sustainable finance investors, like DFIs, are hesitant to crowd-out private investors and are finding it difficult to know their role in the realm of blended finance.

Heterogeneity in investment opportunities: Different countries have distinct peculiarities in their cultural and market dimensions, such as counterparty expectations or risk-to-return profiles. However, such heterogeneity is often not properly considered in public or private investment criteria frameworks. This heterogeneity is most often and most acutely encountered in the last mile – sometimes even the definition of a successful outcome needs extensive redesign because of different cultural needs and expectations. Heterogeneity can be encountered within societies and cultures as well; minority groups with language barriers may not speak up for linguistic or cultural reasons.

Investor concerns about business environment in emerging markets: While emerging markets offer attractive investment opportunities, they come with a high degree of systemic risks such as ease of doing business, geopolitical stability, foreign exchange convertibility to hard currency, the ability to remit capital and gains post-exit, transparency and accountability of capital recipients, and lastly, risks arising from different legal and accounting systems. For this reason, mainstream investors are often cautious about deploying capital in frontier markets.

Gender discrimination in business: Woman-led businesses often struggle to raise capital and few go-on to raise subsequent rounds of capital to grow and scale. There is no deliberate effort to specifically support such businesses and many capital allocators prefer to speak to men and do business with men, even if women manage day-to-day operations of the business.

> "The biggest issue is the knowledge gap—when entrepreneurs or private investors see blended finance as too complicated, they lose interest"
>
> *—AVPN Member Participant*

Non-regulatory barriers to sustainable finance (2/2)

Participants also highlighted multiple barriers related to a gap in convening the ecosystem to craft streamlined solutions.

There is little room for adaptation and burdensome inconsistencies from investor frameworks: Blended finance approaches and donor processes are overly inflexible, limiting the applicability of available funding mechanisms to highly specific criteria. This rigidity diminishes the accessibility and applicability of existing sustainable finance instruments across different geographies. Moreover, the differences in investor or donor requirements cause severe administrative burden for potential recipient organizations.

High transaction costs for investors: Investment processes can often be time-consuming given the inherent requirement for rigor and due diligence to maintain the fidelity of the investment. This process can get even longer in the case of investments with a triple bottom line focus owing to delays caused by non-standard metrics and data collection difficulties in emerging economies. These factors can significantly increase the transaction costs involved and measurably hit the return profile for concessionary funding, consequently dampening investor interest.

High transaction costs or opportunity costs for target beneficiaries: A common practice of investment processes is that capital holders set the pace of their process, including approvals, due diligence, and third-party assessments, until they are reasonably assured of the viability of the investment. This can put target beneficiaries in a disadvantageous position. In some cases, target beneficiaries simply do not have sufficient bandwidth to devote resources for lengthy and arduous processes. In other instances, the market opportunity may be short-timed and target beneficiaries cannot afford to wait for the entire length of the investment process. Both scenarios result in a cost for the target beneficiary.

Lack of data and streamlined protocols for impact measurement: Given the nascency of emerging sustainable finance instruments, investors are often discouraged by the insufficient track record of successes. This need could be fulfilled if it wasn't for the lack of standardization and understanding of impact measurement protocols, the potential costs of in-depth measurement and evaluation, and the limited capacity or know-how of organizations tasked with handling the data. Frameworks available through the Impact Management Platform (IMP) are excellent, but the scope of content can be perplexing and insurmountable for impact-oriented businesses and implementors. Moreover, transparency is needed from the organizations, with sufficient experience in sustainable finance models, on how to collect, measure, and report on impact in real-time.

There is a missing middle in sustainable finance: Due to the ticket sizes of social and environmental investment opportunities in LICs, it is difficult to match the existing range of sustainable finance instruments; many bankable investments in blended finance are too small for the more established development financiers and too large for the local investors. This challenge is exacerbated in light of the knowledge differential between investors; smaller players are better positioned to understand and support recipient needs, whereas larger players are more equipped with both the know-how and economies of scale to process a blended finance deal.

Insufficient design funding to develop the sustainable finance ecosystem: While the issues of regional heterogeneity, rigid investor frameworks, or the "missing middle" are known, little is done amongst relevant institutions to innovate and construct alternative models for sustainable finance. And where pioneering new models have been successfully deployed, minimal ecosystem coordination leads to opacity and knowledge fragmentation.

> "[Each investment] organizations of any type have their "own" reporting forms... [this] causes a severe administrative burden for the recipient organizations"
>
> *—AVPN Member Participant*

Sustainable Finance Case Studies (1/2)

STRUCTURED PRODUCTS

As part of the effort to improve fluency and identify industry exemplars, AVPN has compiled six case studies that offer inspiration for accessible and affordable sustainable finance

**Note: case study titles have embedded hyperlinks to more information online*

Women Livelihood Bond	Solar Project	Rural Sanitation
SDG Goals: Gender Equality	*SDG Goals: Affordable and Clean Energy*	*SDG Goals: Clean Water and Sanitization*
USD $150M innovative debt security	***USD$59M green sukuk** (Islamic bond)*	***USD$10M development impact bond***
Structured and managed by Impact Investment Exchange and supported by global partners from the public, private and philanthropic sectors, the fund supports women-led enterprises in India, Indonesia, Cambodia, and the Philippines that are directly supporting the livelihood of women.	When conventional financing was not meeting the needs of Shari'ah-compliant investors, the issuer (Tadau Energy) embarked on a first-mover journey and issued a green sukuk to direct untapped Islamic capital flows towards green assets.	Designed and issued by Social Finance in collaboration with the Stone Family Foundation, iDE, and USAID, this is the world's first development impact bond for WASH. The fund aims to bring safe sanitation to the most vulnerable in Cambodia and works on both the supply side and the demand side.
Social or environmental challenges addressed by the product:		
• Provide sustainable livelihood opportunities for women, improving their resilience to economic and environmental downturns • Improve women's access to affordable credit, micro savings and insurance	• Accelerating the Federal Cabinet's effort to reduce reliance on diesel generation • Bridging the gap between conventional and Islamic finance, and climate investing	• Eradicating open defecation in the rural communities in Cambodia and accelerating the Royal Government of Cambodia's efforts to reach universal sanitation
How the deal achieved accessibility and affordability:		
• Created a channel to attract greater amounts of capital than these entities could access on their own • Reduced risk for investors by combining lower-risk loans to well-established microfinance institutions with higher-risk loans to social enterprises	• Bond market regulatory framework less rigid • Benefited from the collaboration between Securities Commission Malaysia, Bank Negara Malaysia and the World Bank on the ecosystem development and growth facilitation • Tax deduction on issuance costs	• High levels of trust and strong working relationship built upon previous engagement • Robust and detailed data by leveraging on official government ODF claim process and verifying the results • Real-time updates giving insights, enabling rapid adaptation and course correction
Outcomes of the investment:		
• WLB 1 created a sustainable livelihood for 385K+ women across SEA • To date, the WLB Series empowered 1M+ women across APAC	• Contributed to the development green sukuk framework • Oversubscribed by up to 4x, and the overall offering was more than 2x oversubscribed	• 500 Open Defecation Free villages (88K people), 31% of target (as of 03/2021) • $3.125 MM outcome payments from USAID (as of 03/2021)

Sustainable Finance Case Studies (2/2)

INVESTMENT FUNDS

As part of the effort to improve fluency and identify industry exemplars, AVPN has compiled six case studies that offer inspiration for accessible and affordable sustainable finance

**Note: case study titles have embedded hyperlinks to more information online*

Music Securities Crowdfunding

Multiple SDG Goals

Internet-based investor platform

Music Securities was started as a financial institution that works to ensure economic independence for musicians and evolved to have a broader social and environmental focus. It connects individuals to businesses and makes it easier for entrepreneurs to raise money through social media contacts, friends, and other individual investors registered to the platform.

Sustainable Community Fisheries

SDG Goals: Life below water, sustainable cities

USD$22M in blended finance fund

Meloy Fund is an impact investment fund created to address the accessibility gap for microfinance and private equity of growth-stage enterprises, by filling the role between philanthropy and banking. The fund has attracted funding from a variety of stakeholders, including Conservation International, GEF, the Jeremy, and Hannelore Grantham Environmental Trust, JP Morgan Chase, the Woodcock Foundation, USAID, FMO.

Pescador Holdings

SDG Goals: Life below water

$75M investment holding company

Latin American Encourage Capital and Zoma Capital created this fund to make five to seven $5-20M investments in sustainable seafood companies. The fund had a target size of US$75M and gross IRR of 15–20%. This type of model typically returns near-term value to investors through dividends and liquidity to sell their shares on secondary markets.

**Not Asian-based; inspiration that demonstrates the use of Open-end funds and HoldCo's for sustainable finance investors*

Social or environmental challenges addressed by the product:

Music Securities Crowdfunding

- Provides funding to many unlisted companies that address various SDG goals

Sustainable Community Fisheries

- Making positive contribution to the environment and social well-being of the underserved coastal fisheries' communities in Indonesia and Philippines

Pescador Holdings

- Provides funding to impact companies who are unappealing to investors due to insufficient financial value
- Recover the economic value of the market lost due to mismanagement of fishing as well as restore the ocean ecosystems

How the deal achieved accessibility and affordability:

Music Securities Crowdfunding

- Increased access to funding from retail investors for impact companies, notably those located in rural areas
- Connects businesses to investors who are not only looking for financial returns

Sustainable Community Fisheries

- Projects are sourced and executed in close cooperation with Rare (Meloy Fund parent company) environmental and social experts
- An investee (Meliomar) has deep experience of fishery improvement in community fisheries of the Philippines, including a local team of experts

Pescador Holdings

- As opposed to the traditional venture capital approach of 10-year close end fund, this structure allow the impact ventures to deliver social and environmental benefits in a longer time horizon

Outcomes of the investment:

Music Securities Crowdfunding

- Over 850 funds created for 570+ companies
- Example: Maruyama Coffee was one of the businesses funded; it pays in advance for premium coffee beans to farms thus do not need to borrow from financial institutions

Sustainable Community Fisheries

- Impact per dollar is exceeding targets
- Investee (Meliomar) increased its sales by 75% over the previous year and has greatly improved its overall financial health, in part due to the Meloy Fund's investment and support

Pescador Holdings

- The holding company's investment in Geomar, a sustainable seafood business, increased the company's regional employment as well as the volume and quality of sustainable seafood

Recommendations* for governments and multi-lateral institutions

What can policymakers, multi-lateral development banks, and development finance institutions do to scale sustainable finance?

01

Bridge the knowledge gap between private sector and multilaterals or DFIs: Information asymmetry is a natural aspect of any market and can be particularly acute in new and fragmented markets. In the blended finance space, private sector stakeholders are lagging behind DFIs and multilaterals in the requisite know-how, such as getting projects investment-ready with technical assistance financing, getting up to market standards, and gradually moving from concessionary financing to more commercial avenues. Such a knowledge transfer may be best facilitated by government institutions acting as intermediaries to bring stakeholders together on the same platform.

02

Standardize project reporting to reduce procedural burden on fund recipients: Different investors have different requirements for progress tracking and reporting for their invested ventures. Variation in such practices can be a burden for target beneficiaries, such as MSMEs, who have limited resources for complying with investor requirements; this can even discourage target beneficiaries or recipients from engaging in such funding options. Standardization of such requirements and protocols can alleviate this burden and improve the willingness among market players to participate in such financing solutions. Furthermore, promotion and simplification of the substantial guidance found in existing exemplary frameworks (e.g., IMP) may support more widespread adoption.

03

Promote impact measurement transparency: Lack of data and transparency on impacts generated is one of the foremost barriers faced by investors. Beneficiaries as well are often not equipped to properly measure, monitor, and evaluate impacts. Governments can help by working with investors to develop standardized metrics for measurement of impact and strengthening disclosure rules for companies in parallel to encourage faster uptake of impact measurement and reporting. At the same time, DFIs and multilaterals can leverage their experience in the space to upskill other investor classes toward better impact measurement. Emerging technologies such as blockchain and satellite imaging can also help investors to better measure the impact of their investments, thus attracting more investors due to the increased transparency. However, the use of these technologies can incur additional costs for the investors or the beneficiaries; governments can support the growth of sustainable financing by alleviating this problem through targeted subsidy programs.

04

Alleviate transaction cost burden for blended finance investors: All investment processes incur transaction costs. Such costs are even higher in case of new investment designs and ventures, where non-standardized contracts and tenets lead to higher legal costs. Subsidization of such legal costs by the government can be an incentive to investors.

05

Expand the scope and increase the quantity of government-backed outcomes: Social impact bonds are fundamental part of the equation to scale sustainable blended finance. Typically, the provision of government-funded bonds has been narrowly focused, and the private-sector perceives there to be reluctance to invest in development bonds and the like. Governments that are more amenable to outcomes funding across a wider scope of social and environmental issues will help to attract and scale private funding in the sustainable finance ecosystem.

06

Improve the policy framework for implementation of blended finance: Overall, a significant advancement in the maturity and uniformity of policy is required for the growth and development of blended finance globally. Currently, the policy environment for blended finance is highly limited. for instance, one of the main obstacles for blended finance is uncertainty on the viability of investments and the impacts generated. A welcome measure from regulators would be to ease blended finance transactions by providing tax incentives and introducing rules for increased transparency. The policy landscape for blended finance is also highly fragmented; a regional approach for uniform guidelines can significantly ease the overall deployment of blended finance. Guidelines are also needed for broadening the field of play for blended finance, from current concentration in the social sector, to include the environment and governance sectors in order to attract more investments.

Note: Recommendations were collected from consultation with AVPN member participants and compiled based on the frequency of mentions

Recommendations* for investors with a sustainable impact lens

What can foundations, impact funds, philanthropists, family offices, and local organizations do to scale sustainable finance?

01

Encourage knowledge-sharing and collaboration: Information asymmetry is a natural aspect of any market and can be particularly acute in new and fragmented markets. This is also the case in sustainable financing, where DFIs and multilateral organizations are generally more experienced than private sector players. There is a need for the industry to take action on creating a participatory knowledge-sharing process to revise pre-conceived notions of such investments in frontier markets, better understand the on-ground risks, and thereby design more robust and resilient financing products. Such an effort should also be accompanied by more efficient matching between investors and need areas, which can maximize the social value creation. For instance, increased fund inflow from grant providers and philanthropic organizations will significantly de-risk the project pipeline and encourage more investments.

02

Drive awareness and promote existing knowledge amongst the MSMEs: A strategic coordinated approach is needed to spread the existing institutional know-how of impact -oriented investors and make this knowledge more readily accessible and understood by local recipient organizations and social ventures. Forming partnerships, funding programs, collaborating with intermediaries could bring a more systemic, unified front to the ecosystem and support unfamiliar MSMEs in ascertaining better awareness the financing opportunities from sustainable finance or blended finance.

03

Strengthen monitoring, evaluation, & learning processes (ME&L) in all financial instruments: The importance of ME&L in programmatic and financing interventions cannot be understated. Beyond providing the opportunity for real-time tailoring, these measures are essential for designing future financing instruments to be more effective and to have better risk management. The positive cascading effects of incorporating ME&L percolate to virtually all aspects of the financing design from informing innovation in instrument design to impact measurement.

04

Implement stronger impact measurement protocols: Lack of data and transparency on impacts generated is one of the foremost barriers faced by investors. Beneficiaries as well are often not equipped to properly measure, monitor, and evaluate impacts. Investors need to take the initiative toward creating local networks for better access to impact data and developing meaningful metrics for measurement of impact. Emerging technologies such as blockchain, satellite imaging, and data analytics can also be leveraged by investors for measuring impacts from their investments; the potential for using these technologies will need to be considered on a case-to-case basis and can be incorporated into investor checklists at the time of investment opportunity evaluation. Additionally, concessionary investors can help fund these heighted capabilities by designating a portion of their catalytic funding towards the increased costs of measurement for beneficiaries.

05

Standardize project reporting between investors to reduce the procedural burden on fund recipients: Different investors have different requirements for progress tracking and reporting for their invested ventures. Variation in such practices can be a burden for target beneficiaries, such as MSMEs, who have limited resources for complying with investor requirements; this can even discourage target beneficiaries or recipients from pursuing such funding options. Standardization of such requirements and protocols can alleviate this burden and improve the willingness among market players to participate in such financing solutions. However, such efforts toward standardization in reporting procedures must keep cognizance of heterogeneity in local contexts and business environments across different geographies. Partial co-creation of such requirements by seeking and incorporating input from recipients can be an effective approach at developing a workable solution.

06

Employ technologies and network platforms that build the opportunity pipeline: Investors often face difficulty in finding the “right” kinds of investment opportunities in line with their focus areas and values. The digital economy offers new opportunities for streamlining this process through use of mobile applications and liaising with in-country startups to allow early identification of suitable investment opportunities. To extract value from this, investors would need to create local networks in target geographies.

Note: Recommendations were collected from consultation with AVPN member participants and compiled based on the frequency of mentions

APPENDICES

AVPN Input Paper for the G20 Sustainable Finance Working Group

Scaling up sustainable finance instruments, with a focus on improving accessibility and affordability

Appendix A

List of contributors

A summary of AVPN members who participated in this input paper to the G20 SFWG.

- Asian Venture Partnerships Network
- Accenture Development Partnerships
- Mermaid Ventures Pte Ltd
- Ishk Tolaram Foundation
- Global Innovation Fund
- National Skill Development Corporation, India
- UBS Optimus Foundation
- Menzies Foundation
- Gunung Capital
- ESCAP
- Alvarium Investment
- Better Cotton
- Stephenson Harwood
- Asia Foundation
- National Skill Development Corporation
- Crevisse Partners
- Essilor Vision Foundation
- Vital Strategies
- Pictet
- AIIB
- Tanoto Foundation
- CCRManager
- SNV
- ISDB
- Ocean Assets
- OECD
- Chinese Academy of Financial Inclusion
- RS Group
- The Global Steering Group for Impact Investment
- Impact Investing Institute
- Insitor Partners
- CE foundation
- Director, Sustainability at Bank of Singapore
- The Stockholm Environment Institute

35+ Contributing Org's

Individuals from over 35+ member organizations were consulted through focus groups of 29 total attendees, 5 one-on-one-interviews, and input from 13 written responses.

Accenture Strategy & Consulting

This AVPN input report was developed in collaboration with Accenture Development Partnerships (ADP) and contributing AVPN members.

Feedback for this report can be sent to:

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