

Impact Investing *from* Australia

Tackling the SDGs in the Asia Pacific



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Contents

Executive Summary.....	4
Setting the Context: APAC International Development	9
Impact Investing and Sustainable Development	11
The role of Impact Investing <i>from</i> Australia	13
The development of flourishing Social enterprises (SEs)	14
Key Barriers & potential Opportunities for SE development	14
Case Study 1 – Enabling Capacity Building	15
Case Study 2 – Evolving business models for NGOs	18
Case Study 3 – Providing access to capital for SEs.....	21
Catalysing investment in critical SDG infrastructure	22
Key Barriers & Potential Opportunities for catalysing Infrastructure investment	23
The Role of Multi-Lateral Development Banks (MDBs) and Development Finance Institutions (DFIs) in catalysing critical infrastructure investment.....	26
Case Study 4 – A MDB enabling intermediation and investible products.....	27
Case Study 5 – A multi-faceted MDB approach to social infrastructure	30
Deep Dive on the Pacific	31
Unique Characteristics of the Pacific Island Countries (PICs)	31
Australian Government policy in the Pacific.....	32
Extending the remit of the AIFFP.....	34
Conclusion.....	40
Appendices.....	41
Appendix 1 – Abbreviations and Acronyms.....	41
Appendix 2 – The Impact Imperative in Sustainable Development	43
Appendix 3 – Additional information on Blended Finance.....	45
Appendix 4 - Australia’s Support of MDBs.....	48
References	50

Executive Summary

Impact Investing has an important role to play in driving inclusive growth and contributing to the achievement of the SDGs in the Asia-Pacific (APAC). It can mobilise private resources to complement donor, public and philanthropic funds to meet the additional requirements under the SDGs, accelerate the pace of change and reverse negative trends in several areas. Impact investment can support innovative delivery of products and services that meet peoples' needs and enable sustainable infrastructure (e.g. cleaner, more climate resilient energy, roads, water, buildings), sustainable land use and social infrastructure (e.g. for health and education) in APAC's developing countries. Impact investing *from* Australia is a critical aspect with investors, capacity builders and leaders in enabling policy all playing a role in achieving sustainable development and better outcomes for people and the planet in the APAC region.

In late 2018, the Australian Advisory Board on Impact Investing (AAB) released a report, *Scaling Impact*. Part 3 of this report was dedicated to 3 key issue areas, one of which focused on Impact Investing *from* Australia specifically towards addressing the Sustainable Development Goals (SDGs) in APAC. Impact Investing Australia (IIA) as the implementation arm of the AAB developed significant materials on this issue which have been used in the formulation of this standalone report.

This report firstly considers APAC's current standing in relation to the SDGs. What is clear is that the pace of change needs to be accelerated with only SDG 4 – Quality Education likely to be achieved by 2030 at the current rate of progress¹.

The impact economy and impact investing are then discussed within the context of APAC and the SDGs. Investors need to consider how they frame their investment decisions *from* Australia using frameworks such as the Impact Management Project which incorporate impact (potentially SDG focused), as well as risk and return. The Australian government is already directing policy towards enabling some aspects of impact investing in the region but the breadth and depth of this could be expanded. There are two areas identified as key to the growth of impact investing to support the achievement of the SDGs for the region. The first is the development of a flourishing social enterprise (SE) sector with the table below outlining the key barriers and opportunities in achieving this.



Table 1: The Barriers and Opportunities in APAC SE Development

Barriers	Opportunities	Current Examples
Skills and capability	Build Entrepreneur and SE Capacity	Aspen Network of Development Entrepreneurs (ANDE); Department of Foreign Affairs and Trade (DFAT) – Pacific Rise (Case Study 1) and Scaling Frontier Innovation
SE Financing gap	Establishment of SE Angel Investor Networks	Asian Venture Philanthropy Network (AVPN)
	Investment in Micro SMEs	Local investor networks are developing
	Support trade financing gaps	Asian Development Bank (ADB) with support from DFAT
Inconsistent legal structures and government regulation	Improve the regulatory and business environment	Some support from OECD, Multi-lateral development banks (MDBs); British Council, UNESCAP etc around enabling policy development
	Promote positive perception of SEs	Thailand, Malaysia and Singapore all have initiatives in place.
Preference for non-profit over for-profit models	Business model innovation – not for profit to for profit.	Alina Vision – Case Study 2
Economic and cultural diversity of countries across the region	Aid for Trade targeting key issues/sectors	DFAT Aid for Trade target of 20% (2020) already exceeded
	Investment in Agriculture	Investment in the supply chain e.g. Nestle’s Shared value program which globally has trained 431,000 farmers through capacity building programs
Limited eco-system intermediation	Policy and other initiatives to build market infrastructure and enable access to capital for SEs	MDB and DFATs Emerging Market Impact Investment Fund (EMIIF) looking at supporting intermediation. Developing funds such as Patamar – Case Study 3
Investor Risk appetite remains low	Corporate Sector sponsorship of SEs	Inclusive business initiatives, e.g. Carnival Cruises in partnership with DFAT and The Difference Incubator to develop the Yumi Tourism project in the Pacific ⁱⁱ
	Development of diversified product offerings with local market experts	The Tropical Landscape financing facility (TLFF) in Indonesia - a partnership which brings expertise and risk mitigation for private investors while helping farmer livelihoods

The other area of key importance for the achievement of the SDGs is catalysing investment in critical infrastructure. The ADB estimates that the infrastructure gap for the APAC region from 2016-2030 is in excess of US\$26tn. The table below outlines key barriers and opportunities in infrastructure investment.

Table 2: Barriers and Opportunities to catalyse critical APAC infrastructure investment

Barriers	Opportunities	Current Examples
Limited government development spending	Greater focus on Blended financing models and designing for impact	Growing area of focus of the MDBs and Development Finance Institutions (DFIs). Case Study 5 – Turkish Hospital facilities
Short term bias of institutional investors	Improved understanding of liquidity requirements	Christian Super is an example of an asset manager that has carved off a % of their portfolio for impact and looked at mechanisms to address liquidity in investments
Difficulties in assessing risk	Co-investment with local or regional experts	International Finance Corporation (IFC) Managed Co-lending Portfolio Program for Infrastructure (MCPPI) brings the expertise of the IFC in developing markets to a credit enhanced syndicated debt product.
Challenges in assessing impact	Leverage the emerging suite of tools	Emerging tools include the Impact Management project and the IFC Operating Principles for Managing Impact
	Awareness raising and capacity building	The AAB, the Responsible Investment Association of Australasia (RIAA) and the UNPRI are just a few of the organisations working to raise capacity and awareness of Australian investors around impact investing in the region
Regulation and regulatory uncertainty	Improve policies and ease of doing business	OECD, UNESCAP and the MDBs along with other regional governments are assisting where possible with policy development to promote infrastructure-based investment
Lack of Intermediary and fund manager capacity	Further Support for intermediaries	IFC Catalyst fund – Case study 4 and Global Energy Efficiency and Renewable Energy Fund (GEEREF) support intermediation for infrastructure investment
Bias toward infrastructure development in major urban areas	Focus on investment structures suitable for projects outside major urban areas	MDB are looking at ways of working with local governments outside major urban areas, e.g. through municipal bonds and Project Preparation facilities (PPFs)



The report recognises that given their strong track records, access to reasonably low-cost finance through international capital markets and associated expertise in International development financing, the MDBs have an important role to play in addressing many of the challenges described above and mobilising the private sector toward SDG aligned APAC infrastructure investment.

The financing tools the MDBs are using to unlock significant amounts of private capital are growing but there is also broader recognition that substantive change needs to go beyond the finance and capital to the support of the building blocks of policy and capability.

The final part of the report deep dives into the Pacific region recognising that this is a particular area of Australian government focus both in terms of the International Development Program and the recent announcement of the Australian Infrastructure Financing facility for the Pacific (AIFFP).

While many of the barriers and opportunities for broader APAC apply to the Pacific Island Countries (PICs). The PICs have their own individual characteristics including geographic and cultural diversity; high susceptibility to natural disasters; small populations with varying growth rates; young and mainly rural populations and varied forms of democratic systems. These characteristics lead to 4 key opportunities for SDG advancement in: sustainable agriculture and fisheries; tourism; labour mobility and ICTⁱⁱⁱ all of which have been key areas of focus for existing Australian government policy.

Further examination of the AIFFP is undertaken, particularly in relation to the financing tools proposed and the geographic remit of the facility. The proposed model for the “new” US DFI is considered for learnings. An analysis suggests that deployment of the type of proposed capital of the AIFFP within the Pacific may take significant time and with 2030 looming, an expansion of both its tools and remit may be appropriate.



Australia has an important role to play in APAC in contributing to the achievement of the SDGs both as investors, capacity builders and leaders in enabling policy.

Investors can build their awareness and capacity, reframe their investment approach to incorporate SDG impact and potentially reassess tolerance and/or mitigation approach for risk and liquidity management.

Australian corporates can adopt a shared value approach that considers the SDGs in a regional context. Sustainability of supply chain including potential investment in capacity building, technology and ensuring integrity of labour practices are all important factors.

The Australian Government can continue to promote and develop policies for the region that build SE capacity, support and develop intermediation, and assist in supportive in country policy development that improves ease of doing business and promotes SE development and infrastructure investment. This includes ongoing support for the organisations critical in this area such as the MDBs. It can also work with these organisations and others active in the field locally to build investor awareness around impact investing and opportunities for investment *from* Australia into the region.

In establishing the AIFFP, the Government needs to equip that organisation with a mission and mandate that will see the effective and timely deployment of different types of capital. The AIFFP also needs to have the capability to utilise other tools used in blended finance to attract private investment in a way that is beneficial and sustainable for targeted countries. The AIFFP may also provide a vehicle through which broader collaborations can be evolved with emerging DFIs such as FinDev Canada and the new USIDFC.

The regional issues encapsulated in the SDGs require Australia to take further action NOW if we are to avoid the detrimental and irreversible effects of a failure to act for current and future generations. Impact investing is providing an important mechanism to collaborate, participate and actively engage around solutions to these issues but Australian stakeholders need to engage more broadly if it is to have any chance of helping to achieve the SDGs in our region.



Setting the Context: APAC International Development

“The Asia-Pacific region has for several decades witnessed extraordinary development. This includes the reduction in the number of people living in extreme poverty, and significant improvements in food security, access to health care, education, water and sanitation, and energy along with other basic services fundamental for overall socio-economic development.

Unfortunately, these noticeable improvements in basic services often benefitted the already privileged rather than the poor, marginalized and vulnerable.” ...UNESCAP, 2018

Percentage wise, things appear to be improving with regard to many of the SDG areas in the Asia Pacific (APAC) but with populations growing this can mask the magnitude of the absolute issue. While this report does not specifically include data around the environmentally focused SDGs; issues like climate change are pervasive across regional development. The facts and statistics below provide a very high-level picture of the regional issues.



In 10 years, the **poverty rate**¹ for the region **fell** from 29.7% of the total population to 10.3%^{iv} ² **BUT** in absolute terms there are still **400m poor**^v.

This is **highest** among the **young**, and in **rural** areas.



Regional prevalence of **undernourishment**³ **fell** from 23% (1991) to **12%** (2015).^{vi} **BUT** there has been a **slowdown** or **reversal** in the rate of reduction for many countries.^{vii}

Stunting due to malnutrition affected **>96m** children in the region (2014).^{viii}



Per capita spending on **health** by governments was as low as **\$4** (ppp)/person/year in low-income economies in the region⁴ (2011).

7m deaths annually, are mostly attributable to both outdoor and indoor air pollution^{ix}.



18.2m children were **not enrolled** in primary school in the past few years^x. **Quality of education** is also a major concern. Results of international assessments indicate that **learning outcomes** in many developing countries in the region have **stagnated** and **proficiency outcomes** vary significantly **in favour of boys**^{xi}.



Female-to-male labour force participation ratios fell from 0.67 (1990) to 0.61 (2015)^{xii}. In **almost all countries men earned more than women**.^{xiii}

The incidence of **child marriage** as well as early and forced marriage **persists**. In some countries, **20-25%** of women had **married before** they were **18**^{xiv}.

Discriminatory inheritance legislation also remains an obstacle for women.

¹ % people living on less than \$1.90 per day in 2011 PPP

² 2000-2003 to 2010-2013

³ % of the population below the minimum level of dietary energy consumption

⁴ The WHO recommends a minimum of \$44 to provide basic life-saving health care.



80-90% of the wastewater generated in the region's developing countries was **discharged** directly into water bodies **without any treatment** as of 2015^{xv}.

1 in 10 rural residents has no access to safe drinking water^{xvi}.

1.5 bn people in the region did not have access to improved sanitation (2012).^{xvii} **~50%** of the **rural population** in the region had **no access** to it (2015)

7 of the world's **15 biggest abstractors of groundwater** are in APAC. In many countries it is **already at unsustainable levels**^{xviii}.



Electrification rate indicators show a **decrease** in the **gap** between **urban** and **rural** populations **BUT**, **~ 417m** people were still **without access to electricity** (2014)^{xix}.

Renewable energy use has **increased** in **absolute terms** and costs have fallen, but its **% share** has **fallen**, from 16.7% (1990) to **12.6%** (2014)^{xx}.



SMEs accounted for **98%** of all enterprises (2007 to 2012), and employed **two-thirds** of each **national labour force**, on average^{xxi}.

Employment growth was merely **1.1%**, or 21.3 m jobs (2015). **Young people** are **3.8x** more likely to be **unemployed** than older adults.^{xxii}

The **vulnerable employment rate**⁵ was **54%**, or **1 bn workers**, in 2015.^{xxiii}



In 2017, the **combined net worth of APACs Billionaires** at **>US\$2.5 trn** was **> 7x** the **combined economic output** of the region's **least developed countries**.^{xxiv}

In **4** of the **top 5** most populous countries in the region, the market income **Gini coefficient** **rose** significantly.



APAC is home to **53.5%** of the **global urban population**.^{xxv} 48.7% of the region's **4.3bn** population lived in urban areas (2016)^{xxvi}.

Cities account for as much as an estimated **80%** of the **region's economic output**.^{xxvii}

Urban areas in the region generate about **1.2m tonnes** of **municipal solid waste a day**. **By 2025**, this amount will **more than double**, to 2.7 m tonnes daily.^{xxviii}

A World Health Organization 2014 report on the **100 most polluted cities**, saw **nearly 70 in Asia**.^{xxix}

~440m (2014), or **~26.9%** of the total urban population, **lived in slums** or informal settlements.^{xxx}

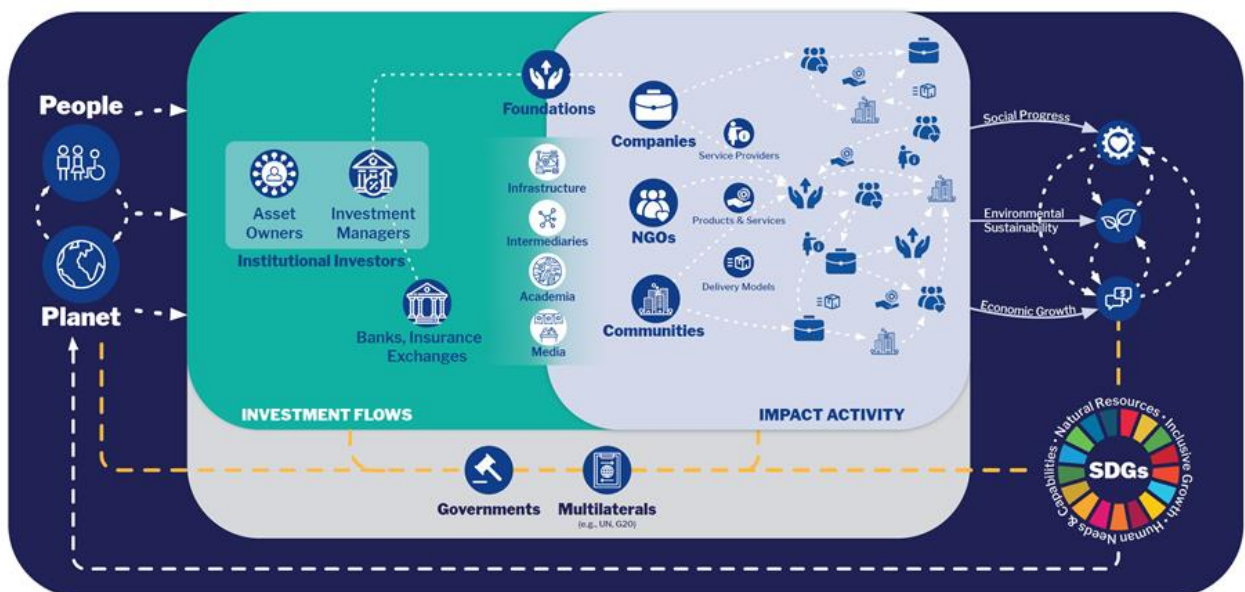
⁵ Vulnerable employment is defined as the sum of the employment status groups of own-account workers and contributing family workers. Workers in vulnerable employment are less likely to have formal work arrangements and are thus more likely to lack elements associated with decent employment, such as adequate social security and recourse to effective social dialogue mechanisms. Vulnerable employment is often characterized by inadequate earnings, low productivity and difficult conditions of work that undermine workers' fundamental rights. ILO, Global Employment Trends (Geneva, 2010).

Impact Investing and Sustainable Development



These facts and figures are bracing and underscore the point that there are many large and complex issues facing our region and encapsulated in the SDGs. Addressing these issues goes well beyond the need for capital. It requires a broad reframing of thinking towards the notion of an impact economy. An economy in which all decisions by individuals, organisations and governments are made with consideration and responsibility taken for the resultant positive, neutral or negative social or environment impact.

Figure 1: The workings of an Impact Economy



Source: Source: GSG Working Group Papers 2018, The Impact Principle: Widening participation and deepening practice for impact investment at scale, 2018, Global Steering Group for Impact Investment

A recent OECD report also calls for an impact imperative and sets out 4 pillars and recommendations to help ensure financing for sustainable development achieves the desired impact and results. These include: the financing imperative (shifting from billions into trillions); the innovation imperative (piloting new approaches); the data imperative (transparency and standards) and the policy imperative (policy tools and evaluation)^{xxxii}. Appendix 2 provides more details.

Moving toward an impact economy will enable and create further opportunities for impact investing. The Impact Management Project outlines how enterprises and their investors can consider their impact through an ABC framework:

A – Act to Avoid harm by preventing or reducing the effects of negative impact. This could include targeting CO₂ emission reduction or preventing child labour in supply chains. Typical investment approach is environmental, social or governance (ESG) screening.

B – Benefit Stakeholders by targeting positive outcomes for example selling or investing in products that support good health or educational outcomes. Typical investment approach is ESG integration which considers positive impact selection.

C – Contribute to solutions to pressing social or environmental problems. For example, providing health or educational services or facilities to communities where access or quality is limited. Investment approaches are more varied and range from private equity funds supporting underserved communities to critical social and sustainable economic infrastructure.

While A & B above are incredibly important in driving impact investing behaviours into mainstream capital markets, this report will largely focus on C – Contribute to Solutions. This type of impact investing approach is critical in the context of creating the social innovation and infrastructure required to achieve the SDGs in APAC.

It is also important for governments to consider the role of Official Development Assistance (ODA) in support for impact investing in a sustainable development context. Through Development Finance Institutions (DFIs), Multi-lateral Banks (MDBs) and other related policy initiatives, ODA can be used to enable and/or complement impact investments and attract private capital through blended financing structures. The United Nations Capital Development Fund (UNCDF) notes in its recent report that blended finance has generated increased interest for its potential to put ODA to catalytic effect and leverage additional private investments into the least developed countries.^{xxxiii}



The role of Impact Investing *from* Australia

“Despite progress towards some SDGs, the Asia-Pacific region needs to accelerate the pace of change and reverse negative trends in several areas. At regional level, satisfactory progress has been made towards eradicating poverty (Goal 1) and promoting good health and wellbeing (Goal 3). But at the current rate of progress, only Goal 4 focused on achieving quality education and lifelong learning opportunities will be met. While this is a success to celebrate, we must ensure there are others by 2030.”

Dr. Shamshad Akhtar, Under-Secretary-General of the United Nations and Executive Secretary, United Nations Economic and Social Commission for Asia and the Pacific, 2018

Australia as a developed nation in the APAC region, has a key role to play in assisting less developed nations to meet SDG targets. The 12 years to 2030 is a short time frame in which to tackle the breadth and depth of the task required to meet the SDGs in the region. The capital element alone is enormous at an estimated \$2.5 trn per annum gap across global developing markets. Impact investment *from* Australia and related policy into the region needs to consider 2 aspects in respect of this capital need. The capital must meet the additional requirements under the SDGs and; sure up existing and in some cases declining capital bases of aid, philanthropic grants or investments to maximise and sustain existing impact. The approach requires the support of social innovation and fundamental market building infrastructure. It needs the further development of a flourishing social enterprise (SE) sector and greater investment in critical social and sustainable economic infrastructure. Impact investing and the private capital it unlocks has an important role. The actions below, together with other opportunities outlined in the next section can and should be driven at least partially *from* Australia. They are critical in facilitating the APAC impact eco-system to contribute more fully to the solutions required for achievement of the SDGs in the region.

Figure 2: Key opportunities to mobilise impact investing in support of the SDGs



The development of flourishing Social enterprises (SEs)

Right across the Association of Southeast Asian Nations (ASEAN) region, social entrepreneurship is being recognised as an approach to reduce widening income inequality, address environmental degradation and empower women and girls. The biggest factor is the emergence of social entrepreneurs themselves, many of them young, who have stepped up to develop financially self-sustaining solutions to address social and environmental challenges in their communities....Although the idea that business can and should play a positive role in the community has deep roots in all ASEAN countries, the contemporary social enterprise business model is less well established.

Asian Social Enterprise Structuring Guide ^{xxxiii}

Impact investment to support the development of the regions SEs is emerging. For-profit SEs (in the G20 nomenclature a form of inclusive business) particularly those that target place with appropriate funding and support can empower people and communities through the creation of jobs and SDG related services.

As with any relatively young market there are a number of challenges. These are outlined below along with some great first steps in SE enablement from DFAT and others. Notwithstanding progress to date, to see a flourishing regional SE market develop that contributes to the SDGs, broader engagement and resources need to be directed towards this important sector.

Key Barriers & potential Opportunities for SE development

Barrier - Skills and capability: Over the past few years, new intermediaries have begun to provide enterprises with much-needed mentorship and support however, only a few have an impact focus. Demand for such support far outweighs its availability, which can vary significantly by and within countries. ^{xxxiv}

Opportunity - Build Entrepreneur Capacity. Social Entrepreneurs stand a much greater chance of success in delivering impact if they are effectively enabled with the requisite skills. There are several organisations that are working in APAC to help build Social Entrepreneur capacity. These include among many others: The Aspen Network of Development Entrepreneurs (ANDE), Impact Innovation Exchange (IIX), and DFAT with Pacific Rise (See Case Study 1) and through the innovationXchange (iXc). iXc has launched the *Scaling Frontier Innovation* (SFI) program to assist regional SEs to build capacity and scale their developmental impact. This 4-stage program involves support for: (1) the SEs (*Frontier Innovators*); (2) young APAC incubator and accelerators (*Frontier Incubators*). Two further components (to be launched): (3) provide SEs with connections to suppliers of capital (*Frontier Brokers*) and (4) facilitate capital flows (*Frontier Capital*).

Corporates could also engage under a shared value or inclusive business mandate to “co-develop” SEs with local entrepreneurs and/or provide capacity building support and mentoring.

Case Study 1 – Enabling Capacity Building

Pacific Readiness for Investment in Social Enterprise (Pacific RISE)	
	
<div style="text-align: right; border: 1px solid black; border-radius: 50%; padding: 10px; background-color: #0070C0; color: white;"> Build SE capacity and opportunities to grow impact </div>	
<p>Established in 2016, Pacific RISE is a pilot innovation of the Australian Government, implemented by DFAT to pioneer and facilitate a catalytic social impact investment market in the Pacific.</p> <p>Pacific RISE funds private sector partnerships that include investors, intermediaries, women’s organisations and Pacific businesses. These connections link finance and ideas to achieve social and economic outcomes, particularly for females.</p> <p>The practice of gender lens investing is incorporated into the program to encourage investment in: female entrepreneurs; products and services that benefit women and; approaches that empower women.</p> <p>Initially, Pacific RISE are working with stakeholders to learn and understand more about the Pacific, its social impact needs and identify real investment opportunities. There have been two strands in the approach of intermediaries: Working with existing businesses and structures to create scale and; building new initiatives at scale around a specific social issue.</p> <p>In addition, Pacific RISE are:</p> <ul style="list-style-type: none"> • Identifying, assessing and improving the impact investing network using gender lens investing principles. • Funding business scoping opportunities to help build relationships with investors and intermediary networks and build investors understanding of Pacific businesses, risks and opportunities. • Undertake investment readiness and support the businesses to attract and manage investment. 	<div style="background-color: #F4A460; padding: 5px;">Impact</div> <ul style="list-style-type: none"> • Increasing access to income-earning opportunities and improving services for Pacific communities through impact investment. • Building the capacity for intermediaries and investors to develop gender lens investing practices. • Increasing long-term investment in Pacific businesses by investors. • Catalysing regional impact investing. <div style="background-color: #92D050; padding: 5px;">Investment</div> <p>The goal is to introduce at least \$5m of new private investment capital into the Pacific over 3-5 years and promote greater investment into SEs that deliver women’s economic empowerment.</p> <p>Size of investments to date have ranged from \$100k-\$1m and are primarily debt and some equity. There is \$3-4m investment in the pipeline for 2019.</p> <div style="background-color: #0070C0; color: white; padding: 5px;">Investors</div> <p>The Investment Readiness Facility of Pacific RISE is funded by DFAT and managed by Coffey. Pacific RISE works with a range of Pacific and global investors to fund investments in the Pacific.</p>
<p>Source: http://www.pacificrise.org/</p>	



Barrier: SE Financing gap particularly in seed and early stage funding, including in areas such as Trade Finance. The average deal sizes for private Impact Investors in a number of APAC developing countries are relatively low e.g. Myanmar at only US\$1.7m. Despite this, few SEs in these countries are at a sufficiently advanced stage to absorb this amount of capital. The absence of seed and early-stage funding, remains a challenge.^{xxxv}

Opportunities:

Establishment of SE Angel Investor Networks. Organisations such as the Asian Venture Philanthropy Network (AVPN) are focused on impact investment opportunities in the region. They provide a potential base for the establishment of impact-focused angel networks which if combined with supportive early stage SE policy could better enable an environment for SE development.

Investment in MSMEs. Micro, small, and medium-sized enterprises (MSMEs) across the region face a cumulative funding gap exceeding US\$70 bn.^{xxxvi} Investors have begun exploring opportunities for investment in regional MSMEs that have established track records where they can provide capacity building support as required to help scale impact.

Support Trade Financing gaps. An ADB survey⁶ in 2017 put the estimated trade financing gap in APAC at US\$600m^{xxxvii}. The gap is particularly pronounced for Micro and SMEs which globally comprised 12% of proposed trade finance applications, and 22% of all the declined trade finance proposals. While recognizing firm size bias, women were 2.5x more likely to have 100% of their proposals rejected than men. Of the proposals rejected overall, 36% were considered viable suggesting other non-bank financial institutions as potential funders. MDBs and export credit agencies, together with local, regional and international banks, can play an important, catalytic role in the provision of trade finance. Existing data shows that default rates on trade finance have historically been very low. For example, the ADB, as an intermediary bank, has not had a single default in its trade finance portfolio over the last nine years. The vast majority of MDB trade finance activities (98%) are guarantees to banks to reduce country-level risk.^{xxxviii}

⁶ Global survey of 515 Banks from 100 countries and 1,336 firms from 103 countries.



Through the ADB's Trade Finance Program, Australia is: supporting stronger prudential and governance processes for banks in the region; helping banks to develop new products that can be accessed by their customers to finance their trade transactions; and providing guarantees and co-insurance to support transactions. The outcome is improved access to trade finance in developing countries, especially for small businesses. In 2017–18, Australia's support helped catalyse more than 3,500 trade finance transactions worth \$4.5 bn in developing countries in our region. This involved more than 240 banks and benefited more than 2800 SMEs. With Australia's support, this work is also expanding into the Pacific region for the first time. Following a rigorous due diligence process and training, banks in Fiji, PNG, Samoa and Vanuatu are now being supported to deliver loans and guarantees to prospective traders. The first transaction supported was for \$30,000 in pre-export finance to ship 8 tonnes of cocoa beans from Samoa to Japan.^{xxxix}

Barrier: Inconsistent legal structures and government regulation around high levels of corporate governance, reporting and accountability. Corporate governance standards are cited as a key factor limiting the flow of capital to SEs with many having no board of directors and extensive involvement of the entrepreneurs' family members.^{xi}

Opportunities:

Improve the regulatory and business environment. Four countries—Myanmar, Cambodia, Laos, and East Timor—ranked lower than 130 on the Ease of Doing Business (EoDB) rankings⁷, which are based on a diverse set of parameters, including the procedures, time, and cost needed to set up a new business; protection of investors; and efficiency of legal systems in enforcing contracts.^{xii} Poor rankings increase the perceived risk of investing in these economies. The OECD, Multilateral Development Banks (MDBs), the British Council (BC), and/or UNESCAP along with government agencies such as DFAT could provide further support to APAC countries as required on key policies to significantly improve rankings, help mitigate perception of political risk and open up investment opportunities.

Promote positive perception of SEs. The governments of Thailand, Malaysia, and Singapore have begun to promote the growth of SEs through multiple channels, by introducing SE blueprints or by establishing advocacy bodies for SEs. In addition, several non-governmental organizations (NGOs) in Cambodia and Myanmar have transformed themselves into for-profit models. With time, increasing awareness of SE forms and their contributions to development could encourage a robust pipeline of impact investing opportunities to develop.^{xliii}

Barrier: Preference for non-profit over for-profit models. In many developing South East Asian countries, entrepreneurs working with a social or environmental mission, have preferred to register as nonprofit to make it easier to access grant capital in the form of development assistance.^{xliiii} Reliance on relatively scarce grant capital potentially limits the growth of the SE and its impact.

Opportunity: Business model innovation. A number of Non-government organisations (NGOs) are looking at how they can improve their sustainability by reducing their reliance on grant monies with the creation of for-profit SEs. Alina Vision - Case Study 2 is illustrative. This potentially frees up grant capital to be further leveraged and deployed to areas where no alternative funding source is possible.

⁷ Ease of doing business is ranked 1-190 with 1 being the best and 190 being the worst. Rankings to June 2017 are Myanmar (171); Cambodia (135); Laos (141) and Timor East (178).

Case Study 2 – Evolving business models for NGOs

Alina Vision: Eyecare for everyone



Thong Nguyen/Alina Vision

Innovate NGO models to improve sustainability

Alina Vision (Alina) was co-founded by the Fred Hollows Foundation an INGO, which is also an anchor donor and investor. Alina's purpose is aligned with the mission of the foundation to end avoidable blindness. Alina will oversee and provide financing to a local network of more than 60 affordable eye care hospitals over the next 10 years providing:

- 400,000 additional sight-saving surgeries/year
- 1.1m cataract surgeries (40,000 free) over 10 yrs.
- 2.2m cataract surgeries and glasses in remote and low-income communities over 10 yrs.

The initiative targets a global issue that affects >2 bn people. The first eye care centre is due to open in Vietnam in late 2018, with another 9 centres planned over 3 years including in Indonesia, India and China.

The Alina holding company will be the investment vehicle for the network of subsidiary hospitals. It will initially be capitalized with grants and equity until management fees from the subsidiary hospitals are sufficient to bring it to profitability. It will deploy capital (grants, equity, debt) to the hospitals to support different stages of growth. To set-up a new hospital, grants will be used for initial market adaptation and start-up expenses. As the hospital begins operations, equity will support early operations and capital expenditures to reach cashflow positive. Once a track record of profitability is established, long-term debt financing will be arranged to scale-up the hospital's operations. By blending capital over time, this replicable strategy leverages public and philanthropic funds to de-risk start-up hospitals in order to attract socially-minded investors, and eventually private capital, while maintaining Alina's social mission.

Impact

Alina Vision aims to significantly increase the growth rate of affordable eye-care globally by expanding services in underserved communities, identifying challenges inhibiting industry growth and developing sustainable solutions in partnerships with healthcare providers and funders. Targeting the issues and different circumstances of place and the accumulated expertise of low cost and high-quality eye-care, the model is designed for replication and scale. Tiered pricing models provide cross-subsidisation and make services sustainable and more accessible to low income communities.

Investment and Investors

A small proof of concept grant was awarded to Alina by Convergence in Q1 2017.

In late 2017, initial equity and grant funding of US\$12 m, facilitated through Convergence, was secured from The Fred Hollows Foundation and major Japanese pharmaceuticals company, ROHTO (first private commercial investor).

Alina will target ~US\$300m over 10 years from a range of investors consistent with its hospital roll out financing plan.

Sources : www.alinavision.com <http://www.eyelliance.org/>
<https://www.convergence.finance/>,



Barrier: Diversity of countries across the region including socio-economic and cultural barriers, (particularly around gender) which can make cross border deals, capacity building and tools for development more challenging. Investors need to understand the nuances of a variety of countries which requires both time and skills development. Where this is not available risk may be mispriced.

Opportunities:

Aid for Trade. As of 2015, almost \$300 bn has been disbursed for Aid for Trade support, mainly in Asia (41.5%). More than three quarters of total disbursements have gone to four sectors: Transport and storage (28.6%), Energy generation and supply (21.6%), Agriculture (18.3%), and Banking and financial services (11.1%).^{xliv} Aid for Trade support could focus more on gender equality, by designing projects and programs in which women have a higher presence, including in the informal sector. The Australian Government set a target in 2014 to increase Australia’s aid for trade investments to 20% of the aid budget by 2020. The target had already been exceeded (23.3%) by the 2016-17 budget. Empirical evidence suggests improvements in trade do have flow on benefits to employment and economic growth particularly around related technology advancement, however it is recognized that other policy measures that target macro-economic stability, rule of law, developed financial systems and inequality are required to achieve sustainable development outcomes.^{xlv}

Investment in agriculture. More developed countries in APAC, such as Singapore and Brunei, rely heavily on food imports. Technology and/or more sustainable farming practices could help developing countries which have seen minimal investment in this area improve agricultural production for sales into these regional markets. In poorer countries, investments that allow farmers to move up the agricultural value chain, like near-farm processing and packaging, also offer significant scope to improve farm returns and address issues of low wages and underemployment in some areas. Nestle’s Shared value program (globally focused) is an example of the benefits that can be delivered with 431,000 farmers trained through capacity building programs.^{xlvi}



Barrier: Limited eco-system intermediation. Many regional investors require capacity-building support, which is rarely available. Intermediaries tend to be urban centric and many lack scale and/or financial stability. Fund manager capacity and product development remains limited. Although some good examples are emerging such as Case Study 3 – Patamar Capital.

Opportunity: Policy and other initiatives to build market infrastructure. Governments, DFIs and donors could help seed service providers and/or fund managers to fill this capacity gap. Australia does not have a DFI, however DFAT has been active in trying to encourage interaction between Australian institutional investors and MDBs. In addition, DFAT has played a key role in supporting regional capacity building and policy development with other initiatives including the Emerging Markets Impact Investment Fund (EMIIF) to support intermediation.

Barrier: Investor risk appetite remains low. While varying between countries, larger SE deals in South East Asia (>US\$5m) more commonly use debt. This reflects limited exit opportunities for larger equity deals; limits on regulatory protection for equity holders and the more predictable cashflows of debt repayments. Larger sized debt deals tended to be done by local investors as do smaller equity deals in less developed countries. This appears to reflect the need for local knowledge and understanding to source deals and effectively price risk. Foreign investors who do enter these markets generally partner with eco-system enablers, including incubators and accelerators.

Opportunities:

Corporate sector sponsorship of SEs. Engagement of the corporate sector under an inclusive business mandate to help develop SEs in key sectors and “de-risk” investment. An example is the Yumi Tourism project, a partnership between Carnival Cruises, DFAT and The Difference Incubator to develop tourism capacity in the Pacific.

Development of diversified product offerings to mitigate risk. Engagement of local or regional investors who have better local market understanding for co-investment may improve investment credibility for foreign investors as well as provide a means of leveraging local knowledge to help educate foreign investors. The Tropical Landscape Financing Facility (TLFF) in Indonesia is an example which combines the expertise of UN Environment, BNP Paribas, ADM Capital and the World Agroforestry Centre to provide affordable, long-term loans to enhance smallholder farmer livelihoods, rehabilitate degraded land, and provide cleaner electricity.

Case Study 3 – Providing access to capital for SEs

Patamar Capital (formerly Unitus Impact Partners)

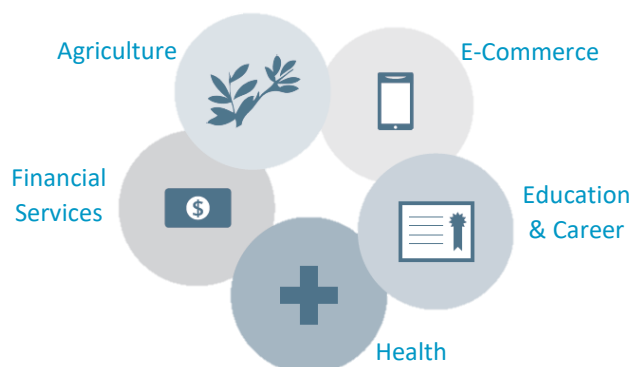


Provide access to capital for early stage SEs

Patamar Capital invests in scalable businesses aimed at improving the livelihoods of the working poor. It primarily targets opportunities in Indonesia, India, Vietnam and the Philippines which have strong growth prospects and significant market inefficiencies. Using a gender lens approach it focuses on businesses which:

- Build Distribution Platforms to Better Serve Low-income Communities;
- Develop Life Enhancing Products and Services for Low-Income Communities
- Reconfigure Supply Chains to Better Serve Low-income Producers

Impact Sectors of focus:



Selected in May 2017 by DFAT led *Investing in Women* program to manage a US\$3m gender-lens impact investing initiative. Six to eight investments are targeted in women-led companies with a further 24 receiving acceleration services through the Indonesia Impact Accelerator. Promising traction has already been gained with this program and a number of exciting women-led investment opportunities have been identified.

Impact

Patamar creates impact through its portfolio of SE investments. E.g. The exit of Mapan, a technology based financial inclusion and literacy platform yielded a ~2.5x return and an IRR of ~45% for investors. It had also positively impacted 70,000 low income entrepreneurs and 700,000 customers. 85% of users are women.

Investment

Concept Portfolio launched in 2010 with a total fund size of \$4.5m invested in 5 companies and a multiplier effect of 3.2x. This proof of concept to enabled further funds to be raised:

Patamar I (Livelihood Impact Fund) launched 2014 with a total fund size of \$45m invested in 14 companies and a multiplier effect of 1.2x

Patamar II launched 2017 with a total fund size of \$150m, portfolio composition of 20-25 companies (equity and convertible debt).

Investors

Investor profile: Institutional investors, endowments, development banks, and family offices.

Source: Patamar Capital Annual Report 2017 and Patamar II presentation materials

Catalysing investment in critical SDG infrastructure

While investment picked up in 2017, long-term investment in sustainable development, especially in some developing countries (such as least developed countries (LDCs), landlocked developing countries (LLDCs) and small island developing States (SIDS), remains insufficient; and despite a global consensus on the need to increase investment in infrastructure in particular, private participation in infrastructure has fallen each year since the Addis Agenda was adopted in 2015....

Closing the global infrastructure gap has become a major priority for the international community. Several new initiatives have been launched, including the Global Infrastructure Forum called for in the Addis Agenda, other infrastructure platforms and facilities, and new development banks and finance institutions. Yet, major challenges remain to scale up SDG investments in infrastructure and beyond.

Report of the Inter-agency Taskforce on Financing for Development ^{xlvii}

As the table below shows, the ADB estimates significant infrastructure requirements for the APAC region between 2016-2030 at a climate change adjusted US\$26.2trn.

Table 3: Estimated infrastructure needs by region⁸, 2016-2030 (\$bn in 2015 prices)

Region/ Subregion	Projected annual GDP Growth (%)	2030 UN population projection (bn)	2030 projected GDP/capita (2015 \$)	Base Line Estimates			Climate-adjusted estimates ⁹		
				Investment Needs	Annual Average	Investment as a % of GDP	Investment Needs	Annual Average	Investment as a % of GDP
Central Asia	3.1	0.096	6,202	492	33	6.8	565	38	7.8
East Asia	5.1	1.503	18,602	13,781	919	4.5	16,062	1,071	5.2
South Asia ¹⁰	6.5	2.059	3,446	5,477	365	7.6	6,347	423	8.8
Southeast Asia	5.1	0.723	7,040	2,759	184	5.0	3,147	210	5.7
The Pacific	3.1	0.014	2,889	42	2.8	8.2	46	3.1	9.1
Total	5.3	4,396	9,277	22,551	1,503	5.1	26,166	1,744	5.9

Source: Asian Development Bank, *Meeting Asia's Infrastructure needs*, 2017

Notwithstanding the magnitude of the infrastructure spend estimated, the ADB report focuses only on economic infrastructure broken down by power (56.3%); Transport including rail and road (31.9%); Telecommunications (8.7%); and Water and Sanitation (3.1%).^{xlviii} Social infrastructure such as that related to healthcare, education and public housing is not covered. Issues such as poverty eradication, climate and economic growth are considered however additional infrastructure funding will be required to meet the targets of a number of other SDGs notably those related to health and education.

In the case of infrastructure, finding the capital on the right terms is clearly a big issue, with the ADB reporting over 90% of Asian infrastructure spend (as defined) as financed by the public sector¹¹. Given the constraints on government budgets, enabling and facilitating the mobilisation of significant amounts of private capital toward financing APAC infrastructure is a critical aspect of the delivery of the SDGs.

⁸ Based on the ADBs 45 Developing Member Countries

⁹ Climate change adjusted figures include climate mitigation and climate proofing costs, but do not include other adaptation costs, especially those associated with sea level rise.

¹⁰ Pakistan and Afghanistan are included in South Asia.

¹¹ Public finance covers tax and nontax revenues, borrowing via bonds and loans, official development assistance from donor countries, and support from multilateral development banks (MDBs).



Key Barriers & Potential Opportunities for catalysing Infrastructure investment

Barrier: Limits on government development spending. Notwithstanding a broad level of commitment to the SDGs, sluggish global economic growth and budgetary pressures in many developed countries in the region places a limit on the prospects for a substantial increase in official resource flows for development – albeit with some notable exceptions such as China.

Opportunity: Greater focus on blended finance models and designing for impact. Where possible available development spending should be used in blended financing models to “crowd in” private capital. This creates a multiplier effect on Official Development Assistance (ODA) funding. (Discussed in more detail in the role of MDBs). It is also critically important to embed “impact” measurement and management in the initial design of these structures and related policies.

Barrier: Short term bias of Institutional Investors. In the case of pension funds, the Inter-agency Task Force on Financing for Development reported that for the seven largest pension markets in the world, 76% of their total portfolio is invested in liquid assets, and less than 3% in infrastructure projects.^{xlix} This is not just limited to pension funds but also extends to Central Banks and Sovereign Wealth funds that also seek low yield liquid investments.

Opportunity: Improved understanding of liquidity requirements. The opportunity is for each international investor to truly understand their liquidity requirements and the extent to which short-term orientations could be pushed towards a higher percentage of investment with longer-time horizons. In addition, structures that include a mechanism for early exit could assist with concerns in respect of liquidity issues. Christian Super is an example of an asset owner that has carved off a percentage of their portfolio for impact investing and looked at mechanisms to address liquidity in investments.

Barrier: Difficulties in assessing risk. The typically long duration of infrastructure projects also increases perceived risks and future uncertainty. Institutional investors may lack in-house expertise to assess the risks of long-term projects, or the capacity to supervise themⁱ. A further issue is that the larger institutional investors are concentrated in the developed countries. They often display a home bias that deters them from investing in other countries, particularly developing countries, which are perceived as a higher risk asset classⁱⁱ. Financing strategies also need to consider how to avoid locking in high financial costs that reflect current (but potentially reducing) domestic risks for the entire duration of infrastructure projects (often 20 years or more).

Opportunity: Co-investment with local or regional experts. As for SEs, local investors often have higher levels of expertise in risk assessment of infrastructure investments in their own countries. Foreign investors can potentially leverage this understanding in their own risk assessment. MDBs and DFIs as regional players also bring expertise, which can potentially mitigate perceived risk of co-investors. The IFC identified this issue around risk assessment and appetite in emerging markets and developed an innovative syndicated loan product the IFC Managed co-investment portfolio program for infrastructure. The program offers investors senior debt with a first loss guaranteed by the Swedish International Development Co-operation Agency (SIDA) to mitigate risk.ⁱⁱⁱ



Barrier: Challenges in assessing impact. Social infrastructure investments generate social benefits, which go way beyond any private benefit generated for an investor. Traditional investment analysis does not assess this impact in the context of investment decision making.

Opportunities:

Leverage the emerging suite of tools. A suite of tools is emerging, including the framework of the Impact Management Project (IMP) and the recently announced International Finance Corporation (IFC) Operating Principles for Managing Impact. These are mechanisms by which investors and other stakeholders can converge to better assess the impact of investments.

Raise awareness and capacity. Impact measurement is new for many investors and there is a need to raise awareness and build expertise. A number of organisations including the AAB, RIAA through the Impact Investment Forum (IIF) and the UNPRI are all operating within Australia to do this. The Centre for Social Impact, a university alliance is working on initiatives to assist with specific impact measurement such as *Accelerate Impact*. Consultancies are emerging such as Brightlight Impact Advisory, which can assist with impact management and measurement.

Barrier: Regulation and regulatory uncertainty. Investments in developing country infrastructure can face obstacles associated with regulatory frameworks that increase costs or complexity, or that implicitly favour short-term returns. These issues may be further exacerbated by cross border deals. Institutional investors may also face in country fiduciary rules which make it more difficult to invest in projects that are below investment grade, which is the case for most developing country projects^{liii}.

Opportunity: Improve policies and ease of doing business. Already many organisations including the British Council, UNESCAP, the IFC, the ADB and the OECD are advising developing APAC country governments on policies that promote impact investment and reduce regulatory uncertainty. On-going work in this respect is critical both in terms of infrastructure project origination and investor perception and/or assessment of risk.

Barrier: Lack of Intermediary and fund manager capacity. Many regional investors require capacity-building support, and while there are some excellent intermediaries operating in the region, they are thinly spread relative to demand. Few organizations have the expertise to build the capacities of supply-side stakeholders.

Opportunity: Further support Intermediaries. Donors, governments, and DFIs could help seed and grow intermediaries. This could be for example through fund of fund investment in products or the funding of technical support. The IFC Catalyst fund – Case study 4 and the Global Energy Efficiency and Renewable Energy Fund (GEEREF) are examples of support of intermediation for infrastructure investment.

Challenge: Bias toward infrastructure development in major urban areas. This issue is more of a challenge than a barrier and relates to the perceived high risk of infrastructure investment outside major urban areas (with subnational governments).

Opportunity: Focus on investment structures suitable for projects outside major urban areas. This approach is likely to need MDB support. A number of development partners, including the IFC, and the multi-donor Cities Development Initiative for Asia and UNCDF, for example have supported or proposed various kinds of Project Preparation Facilities (PPFs) to promote local infrastructure investment.^{liv}



The Role of Multi-Lateral Development Banks (MDBs) and Development Finance Institutions (DFIs) in catalysing critical infrastructure investment.

MDBs can play a critical role not only in providing financing for infrastructure directly, but also as market makers, by creating and providing financing instruments that better share risks between creditors and borrowers.... They can also help mitigate informational deficiencies facing the private sector by providing screening, evaluating and monitoring functions and, where needed, their own capital resources, thus partnering with private investors in co-financing. MDBs, in addition, can help address the need for low-income countries to have access to loans for financing infrastructure projects at subsidized rates...the main binding constraint of existing MDBs for scaling up lending to support the 2030 Agenda for Sustainable Development is their lending capacity due to their limited capital base and their conservative lending practices.

Ricardo Gottschalk and Daniel Poon, UNCTAD Background Paper ^{lv}

Given their strong track records, access to reasonably low-cost finance through international capital markets and associated expertise in International development financing, the MDBs have an important role to play in addressing many of the challenges described above and mobilising the private sector toward SDG aligned APAC infrastructure investment. The MDBs have developed a number of platforms that support the development of replicable and scalable infrastructure projects, these include SOURCE and the Global Infrastructure Facility (GIF). ¹²

In 2017, an estimated US\$163.5bn of long-term Private capital was mobilized by MDBs and DFIs of which around US\$16.5bn was directed to projects in APAC. 97% of this global private capital was mobilised by MDBs with the balance by DFIs.^{lvi} Of the global long-term capital mobilised 45% or ~US\$73bn was directed to infrastructure and only 8% of this to social infrastructure such as schools and hospitals.^{lvii} This further underpins the point that there is a long way to go in addressing the SDG financing gap.



MDBs have looked at a number of mechanisms to effectively grow their equity including the establishment of trust funds earmarked for specific projects and purposes. The IFC Catalyst Fund - Case Study 4 below is one such example in which an IFC trust fund was used to facilitate investment.

¹² SOURCE is a joint initiative of multilateral development banks to develop sustainable, bankable and investment ready infrastructure projects (<https://public.sif-source.org/>). The Global Infrastructure Facility (GIF) supports Governments in bringing well-structured and bankable infrastructure projects to market (<http://www.globalinfrastructure.org/>).

Case Study 4 – A MDB enabling intermediation and investible products.

The IFC Asset Management Company (IFC AMC) Catalyst Fund	
	
<p>Formed in 2009, the IFC AMC has raised US\$9.8bn over 13 funds to invest in IFC transactions in developing markets. One of these funds is The IFC Catalyst Fund a fund of funds established in 2012.</p> <p>The Catalyst fund invests in private equity funds and co-investments focused on providing capital for companies that enable resource efficiency and develop low carbon products across global emerging markets. It seeks to mobilise 3rd party commercial capital and demonstrate the financial attractiveness of climate investing.</p> <p>The model is designed to build capacity in private equity and venture capital funds with expertise to back innovative projects, support early stage companies, and help such companies develop technical and operating capacity in climate related activities and investment.</p> <p>Broadly, the Catalyst Funds invests in two buckets:</p> <p>Asset Development: renewable energy assets, green real estate /industrial infrastructure.</p> <p>Operating Companies: growth equity investments and VC in Cleantech, resource efficiency and logistics.</p> <p><i>Examples of funds and impact supported include:</i></p> <p>Managed by Genesis – a disruptive online logistics platform in China which increases profitability for individual truck drivers/owners while also improving air quality and reducing greenhouse gas emissions.</p> <p>Managed by Berkeley Energy – small hydro platforms in Uganda improving power supply to underserved rural regions, which have 15% electrification.</p>	
	<p>Impact</p> <p>Key areas of impact targeted include clean energy metrics (MW installed, MWh generated, MWh avoided, MT of CO₂ avoided); equity mobilisation; and social development impact (investment in SMEs, first time investee fund managers, total employment, new employment). Through its investments in a range of private equity funds the Catalyst fund has supported the development of market intermediation across LATAM, SE Asia, China, and Africa. It has backed projects and companies that are making positive contributions to climate and environmental issues.</p>
	<p>Investment</p> <p>In June 2014, the Catalyst fund closed with ~US\$418 m from eight investors. As of April 2018, the Catalyst Fund had invested ~US\$360m (86% of committed capital) in 13 funds.</p>
	<p>Investors</p> <p>Meaningful initial commitments from public sector investors enabled successful fundraising from commercial sources. Breakdown: Governments (41%); Pension & Sovereign Wealth Funds (29%); IFC (18%) and DFIs (12%).</p>
<p>Sources: IFC Annual Report 2017, IFC Catalyst Fund Case Study, May 2018</p>	

Strengthen intermediaries and grow product to attract capital

Other MDB initiatives include co-investment partnerships such as the Global Infrastructure Facility (GIF) US\$84.4m, in which the World Bank co-invests by providing technical expertise and facilities; and ADB's Leading Asia's Private Sector Infrastructure Fund (LEAP), which provides co-financing to non-sovereign infrastructure projects and seeks private sector participation through different modalities, including PPPs, joint ventures and private finance initiatives and; the Asian Infrastructure Investment Bank (AIIB) established in 2015 which can use special purpose funds to make co-investments alongside its own funding in the same infrastructure project (thereby raising effective gearing). China is also leading the way on development finance funding by creating a suite of investment funds with varying return and maturity profiles to address market gaps in infrastructure funding.

Table 4: China - selected national, bilateral and regional investment funds

Name	Created	Fund Size (US\$bn)	Chinese Investors	Non-Chinese Investors
China-Africa Development fund	2007	10	China Development Bank (CDB)	-
China-ASEAN Investment Cooperation Fund	2013	10	China Export-Import Bank (China EXIM)	-
China-Central and Eastern Europe Investment Cooperation Fund	2013	1	China EXIM	Hungarian Export-Import Bank
Silk Road Fund (SRF)	2014	40	SAFE, China Investment Corp (CIC), China EXXIM, CDB	-
China-Kazakhstan Production Capacity Investment Fund	2012	2 ¹³	SRF	-
China-LAC Cooperation Fund (Private Equity Fund)	2015	3	China EXIM	-
China LATAM Industrial Cooperation Investment Fund (CLAIFUND)	2015	10	SAFE, CDB	-
China-Brazil Production Capacity Cooperation Fund	2017	20 ¹³	CLAIFUND and Chinese Institutions (15*)	BNDES, CAIXA Economica Federa (5)
China-African Production Capacity Cooperation Fund	2016	10	SAFE, China EXIM	-
China-Russia Regional Development Investment Fund	2017	15.4	National Development and Reform Commission	-

Source: Gottschalk and Daniel Poon, UNCTAD, Background Paper, Intergovernmental Group of Experts on Financing for Development, Session 1, November 2017.

¹³ All or some not included in total to avoid double counting as funded by another fund



MDBs are also looking at ways to support infrastructure requirements outside major urban centres. Subnational governments and the MDBs together with national development banks are developing financing structures that factor in the potential differences in credit worthiness. This includes structures from blended finance to municipal bonds. ^{lviii}

While the financing tools the MDBs use to unlock significant amounts of private capital are important they recognize that substantive change needs to go beyond the capital to the support of the building blocks of policy and capability. Case Study 5 showing a long run and patient approach to Turkish healthcare reform is illustrative. This is an approach that could be adopted by countries in APAC. Australia has an important role to play in both supporting the necessary building blocks (government and philanthropy) and as active investors in the financing structures.

Case Study 5 – A multi-faceted MDB approach to social infrastructure

European Bank for Reconstruction & Development (EBRD) – Turkish Hospital Facilities



Develop solutions orientated approaches to addressing key issues

Turkey's health sector needed a major transformation. Hospital infrastructure needed modernisation to meet international standards and service fragmentation, inefficiency and patchy access required redress. The Health Transformation Program (HTP), implemented in 2003 by the Turkish Ministry of Health (MoH) with World Bank Group (WB) support, has been a gamechanger for the health sector. Along with making regulatory and policy reforms, the HTP identified the need to better align health services with population needs and to upgrade the infrastructure and technology in a large share of public hospitals. Initial efforts were on universal health insurance coverage and defragmentation.

In 2013, Turkey's MoH made a major policy decision to deliver new hospitals through a facilities management public-private partnership (PPP) program. At the time, only 20% of the beds managed by the MoH were deemed qualified beds^{lix} per international standards. The PPP program sought to replace old and obsolete facilities and beds with modern facilities offering qualified beds. Construction, management and maintenance is by private concessionaires under the PPPs. Clinical service responsibility is with the MoH.

In Sept 2014, the EBRD approved a framework of €600 m (extended by €350m in Jan 2017), debt or equity for EBRDs own account for up to 10 sub-projects.

The PPP was enabled by the work (2003-13) of the WB through loans and technical assistance which helped the MoH lay the foundation for a restructuring effort that could attract further investment. A WB sovereign loan to Turkey in Aug 2015 with a component for technical support to the MoH in the management of the PPP projects together with Political Risk Insurance guarantees from MIGA and financing from IFC, IsDB, BSTDB and EIB were also key enablers.

Impact

29 new hospitals with ~42,000 high quality beds are planned as part of the PPP with 9 hospitals financed to date delivering 13,462 beds.

Investment

As at June 2018, the EBRD has closed financing for 9 PPPs for €722m with total financing of €5.4 bn. Assuming a consistent average hospital size and cost for the remaining 20 hospitals an additional €7.1bn for a total to €7.9bn. Viewed from EBRD's role the leverage ratio of its catalytic effect is 10:1 when taking all MDBs into account (incl EBRD) this is 4:1.

Investors

48% of funding came from the private sector: commercial banks (22%); Sponsor equity (22%) and institutional bondholders (4%). The remaining 52% was provided by: EBRD (13%); Other IFIs (19%); DFIs aligning behind specific sponsors in their roles as Export Credit Agencies (20%).

Source: Collaboration of MDBs, (June 2018), *Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions, 2017*

Deep Dive on the Pacific

“The 21st century is often referred to as the “Pacific Century,” reflecting the rising economic and political importance of East Asian nations and trans-Pacific relationships.... the Pacific Island Countries (PICs) can truly make the Pacific Century their own, by taking advantage of new opportunities that are already on the horizon. These developments may help offset the challenges the PICs are facing to achieve sustained high growth, which include extreme remoteness, small size, geographic dispersion, and environmental fragility that limit the range of economic activities where the PICs can be competitive. Indeed, many PICs have seen only very limited increases in per capita incomes over the past 25 years.” ...World Bank, 2017^x

Unique Characteristics of the Pacific Island Countries (PICs)

Australia’s geographical proximity to the PICs make them particularly important as a focus for Australia’s support across the dimensions of both policy and investment. Many of the barriers and opportunities discussed for SE development in broader APAC are also highly applicable for the PICs. As was discussed however in the World Bank’s 2017 report *Pacific Possible* there are a number of specific challenges related to the PICs unique characteristics as follows:

Geographic and cultural diversity. The Pacific is the largest expanse of ocean in the world, and the PICs are a long way from any other countries of substantial size. Their combined land area is only ~ 517,000 km² (about the size of Thailand) while their combined Exclusive Economic Zones (EEZs) cover 16.8m km², (larger than the United States and almost the size of Russia)¹⁴. They fall into 3 cultural groups: Melanesia (Fiji, PNG, Solomon Islands and Vanuatu); Polynesia (Samoa, Tonga, Tuvalu, Cook Islands, Nuie and Tokelau) and Micronesia (Kiribatu, Nauru, Palau, Marshall islands and Federated states of Micronesia).

Susceptibility to Natural Disasters. All the PICs are archipelagos, ranging from four inhabited islands (Samoa) to more than 300 (Solomon Islands). They range from low-lying atolls to larger islands with significant elevations. Their location around the equator and on the Pacific Ring of Fire exposes them to frequent and intense natural disasters, including tropical cyclones, earthquakes, volcanic eruptions, and tsunamis.

Small populations with varying growth rates. The total population is ~9.7m, of whom 7.5m live in Papua New Guinea (PNG). Each of the other countries has a population of less than 1m, with Tuvalu the smallest at only ~10,000 people. Annual population growth for PNG, the Solomon Islands, Kiribati, and Vanuatu is ~2%, while most of the smaller PICs have population growth rates of less than 1%, partly because of emigration^{lxix}.

Young and mainly rural populations. With the exception of Fiji, populations tend to be fairly young with a median age of ~ 21 years. Fiji and Kiribati have ~50% of their populations living in urban areas, while the other countries tend to have urbanization rates of ~20% or less^{lxxii}.

Democracies. The PICs all have Democratic systems although with different forms of government. This includes four constitutional monarchies (Tonga, PNG, the Solomon Islands and Tuvalu) and seven republics. Eight countries are members of the Commonwealth while three countries in the North Pacific are closely associated with the United States through a Compact of Free Association.

¹⁴ These figures are sourced from the World Bank, *Pacific Possible* Report and relate only to 11 of the 14 PICs.



The key issue presented by the combination of these characteristics is the inability of the PICs individually to reach economies of scale. The possible exception to this is PNG in part due to its natural resource base. This highlights the need for greater regional collaboration and trade to open up larger market opportunities.

Based on the PICs geography and demographics the key areas of potential lie in the development of sustainable agriculture and fisheries; tourism; labour mobility; and ICT.^{lxiii}

Foreign Governments, MDB, DFIs and donors all have a role to play in supporting key enablers of these industries including: Capacity building, finance, education, PIC government policy that encourages the above and technical assistance to ensure grants and other financial assistance is maximised to its full advantage.

Australian Government policy in the Pacific

“The Government is delivering a step change in our engagement with Pacific island countries. This new approach recognises that more ambitious engagement by Australia, including helping to integrate Pacific countries into the Australian and New Zealand economies and our security institutions, is essential to the long-term stability and economic prospects of the Pacific.”

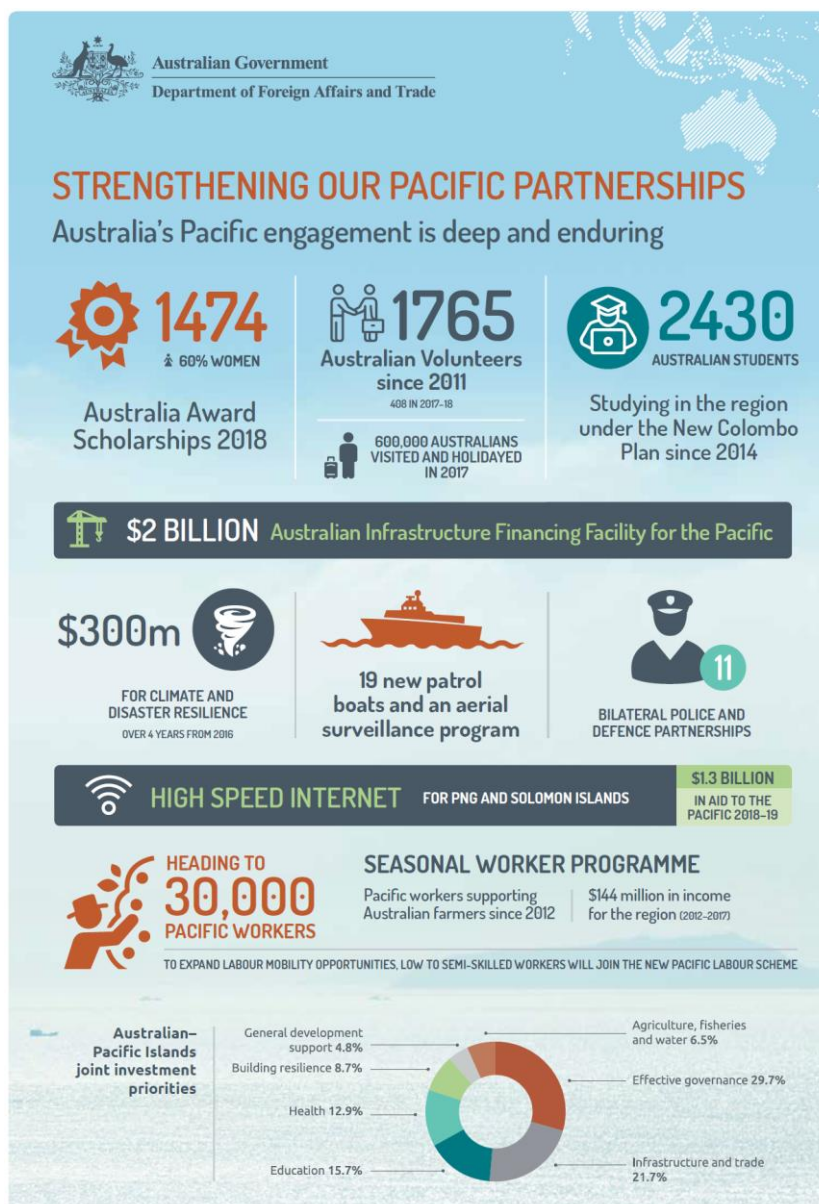
The Foreign Policy White Paper, 2017

The 2017 Foreign Policy White Paper commits Australia to a step up of its engagement in the Pacific to support a more resilient region. Australia further committed at the 2018 Pacific Forum Leaders' meetings to a range of supportive measures including:

- Stronger partnerships for economic growth
- Stronger partnerships for security
- Stronger relationships between our people.^{lxiv}

Figure 3 shows a range of DFAT funding and activities proposed or underway. To consolidate and co-ordinate these efforts across government an Office of the Pacific was established within DFAT in November 2018.

Figure 3: DFAT Infograph – Australia’s Pacific Partnerships



Source: <https://dfat.gov.au/geo/pacific/engagement/Pages/strengthening-our-pacific-partnerships-infographic.aspx>, accessed 01/03/2019

There are already a number of initiatives that the Australian government has advanced in relation to ICT, labour mobility and capacity building. One of the other more recent initiatives that was announced in November 2018 the \$2bn Australian Infrastructure Financing Facility for the Pacific (AIFFP) was targeted at addressing the infrastructure needs of the PICs. This policy has bipartisan support with a re-iteration of their commitment to the Pacific and a similar infrastructure facility outlined by the Australian Labor Party in October 2018. The proposed AIFFP will consist of a \$1.5bn loans facility, funded through a new capital injection from government, and a \$500m grants component, from within the aid budget^{lxv}. The magnitude of this initiative raises two key questions:

- 1) Are these the right financing tools? Should the AIFFP look at lessons from DFIs globally in determining whether debt and grant funding are the best type of financing tools for the Pacific in support of the SDGs?
- 2) Is this the right geographic scope? What is the capacity of the PICs to absorb this level of funding (particularly if it is predominantly debt) and should the remit of AIFFP be directed to the broader APAC?

Extending the remit of the AIFFP

“DFIs play a critical role in blended finance, structuring the transaction, bringing together actors and monitoring the investment.”

Nanno Kleiterp, The Association of European DFIs

“ The private sector stands ready to promote development and facilitate the reduction of poverty. Development finance providers can play a key and critical role in blended finance, providing the enhancement that incentivises the private sector to engage.”

Julia Prescott, Chief Strategy Officer, Meridian^{lxvi}

Expanding the tools in the financing tool box

In addressing the nature of the AIFFP it is timely to examine the recent developments in the United States and considerations regarding the most effective mechanism for optimising development finance outcomes.

Lesson from the United States: The bipartisan introduction of the BUILD Act

“The President’s signature launches a new era for development finance. With more tools, more flexibility and more running room – the United States will be able to have even greater impact.”

Ray W. Washburne, President & CEO, OPIC

In October 2018, with bipartisan support, the Better Utilization of Investment Leading to Development (BUILD) Act was passed. This will result in the formation of a new US development agency, the US International Development Finance Corporation (USIDFC). The new USIDFC is expected to be operational by October 2019 at which point it will seek to “crowd-in” capital to advance its development objectives.

The plan for the new USIDFC anticipates the need for different types of finance in support of developing nations. It extends the remit of its predecessor OPIC beyond largely loan based finance and combines this with key private capital functions of USAID. As such, it is authorized by Congress to make loans or loan guarantees (including in local currency); acquire equity or financial interests in entities as a minority investor; provide insurance or reinsurance to private sector entities and qualifying sovereign entities and importantly provide technical assistance; administer special projects; establish enterprise funds; issue obligations, and charge and collect service fees. Through these market-based fees, it is anticipated that the USIDFC will be self-sustaining^{lxvii}.

The legislation sets a priority on less-developed countries, minority and women-owned business, small business, and women’s economic empowerment.



Attracting private capital through blended financing

The expansion of the remit of the USIDFC recognises the need for an expansion of the tool kit of development finance providers to facilitate their critical role in blended finance transactions. DFIs along with MDBs providing they have the tools and the remit can address key risk for institutional investors and effectively “crowd in” private capital. Extending far beyond a loan and grant program, the table below indicates the suite of potential tools that could be used by the AIIFP to support Pacific Infrastructure development.





Figure 4: Tools and mechanisms to attract private investment

		RISKS									
		MACRO		CREDIT / COMMERCIAL			TECHNICAL		FINANCE	INFRA SPECIFIC	
		Political/ country risk	Currency risk	Credit risk	Liquidity risk	Demand risk	Construction risk	Operation risk	Access to capital	Lack of pipeline	Off-take risk
INSTRUMENTS	1. Guarantees										
	2. Insurance										
	3. Hedging										
	4. Junior/ subordinated cap										
	5. Securitisation										
	6. Contractual mechanisms										
	7. Results-based incentives										
	4. Grants										

Source: Blended Finance Taskforce, *Better Finance Better World*, 2018

To date, Australia has directed a significant proportion of ODA to the MDBs particularly the World Bank (WB) and the ADB. (See Appendix 4 for more detail). As Figure 5 illustrates, DFIs working together with MDBs have been successful in creating a number of blended financing models that have attracted investment and addressed key areas of the SDGs. (See Appendix 1 for further examples).

Figure 5: Examples of blended finance in key SDG-investment systems

 FOOD AND AGRICULTURE	 CITIES	 ENERGY AND MATERIALS	 HEALTH AND WELL-BEING
<p>&Green Fund: concessional funds from Norway to support sustainable intensification of agricultural production and business models that reduce deforestation in tropical areas</p> <p>Terra Bella Fund: USAID technical assistance and first-loss provisions for sustainable land use projects</p>	<p>Affordable housing and mortgages in Honduras using OPIC loans for low income families to overcome lack of safe housing and limited financing for local development</p> <p>Housing microfinance funds with concessional long-term loans to local financial institutions e.g. by the World Bank</p>	<p>Climate Investor One: technical assistance, first loss capital, subordinate equity and guarantees in a multi-stage renewable energy fund</p> <p>Laos hydro project: MIGA political risk insurance for development, construction, and operation of a trans-basin power plant</p>	<p>Global Health Investment Fund: first-loss guarantee from Gates Foundation and SIDA for a low-income country fund that seeks to eradicate preventable diseases</p> <p>Elazig Greenfield Hospital Bond: MIGA political risk insurance coupled with EBRD liquidity facility enabled credit rating of bond issuance above Turkey's sovereign ceiling</p>

Source: Blended Finance Taskforce, *Better Finance Better World*, 2018

The co-investment potential in blended financing models could be significant for the AIFFP providing it has a broad suite of tools to leverage and the targeted region has capacity to absorb the investment. The latter point is the potential issue in constraining the mandate of the AIFFP to the Pacific.

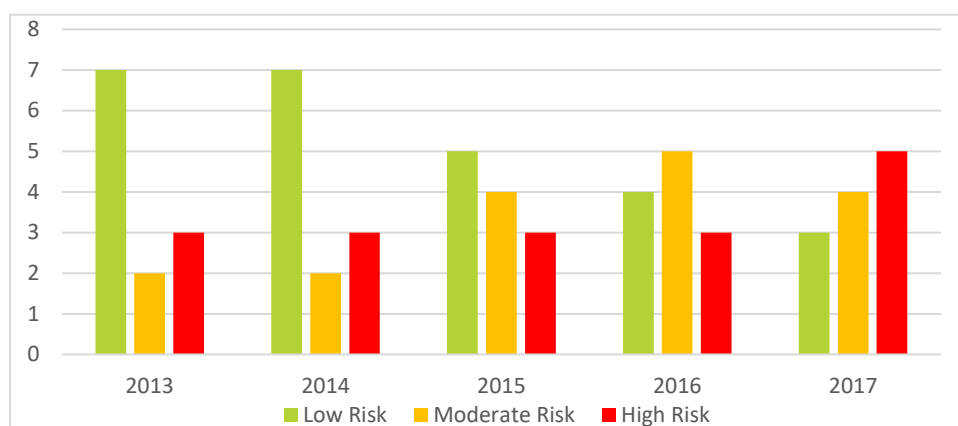


Expanding the region of focus of the AIFFP

Debt sustainability risks in the PICs

According to the ADB, debt sustainability risks, which had been abating gradually, are once again on the rise among ADB's Developing Market Countries (DMCs): the number of low-income DMCs at high risk of debt distress rose from 5 in 2016 to 11 in 2018, more than half of the 18 Group A DMCs eligible for grants are allocated Asian Development Fund grants¹⁵. Within the Pacific, as the table below shows debt distress has been increasing since 2013. The ADB has been cognizant of the risks associated with this debt distress and is now providing 100% grants to seven of the smallest Pacific island economies¹⁶, 50% grants to two others¹⁷, and concessional financing to three larger and/or richer countries¹⁸ that are not eligible for grant financing.^{lxviii}

Figure 6: IMF/ADB debt distress ratings 2013-2017 for PICs and Timor-Leste



Source: Adapted from a graph (based on IMF Article iv data) in Fox and Dornan, Devpolicy Blog "China in the Pacific: Is China engaged in debt-trap diplomacy", November 2018



¹⁵ Key criteria for ADF grants are determined on an assessment of a country's risk of debt distress based on the debt sustainability framework, jointly developed by the IMF and the World Bank, for low income countries.

¹⁶ Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Samoa, Tonga and Tuvalu.

¹⁷ Solomon Islands and Vanuatu.

¹⁸ Papua New Guinea, Timor-Leste, and Palau

Table 5 breaks this debt distress down by country. This indicates that selective PICs may have an ability to take on further debt with PNG based on this and broader economic and demographic factors having the most potential for scale.

Table 5: IMF Debt Distress Rating by PIC

Country	Year of Assessment	Debt Distress Rating
Cook Islands	2017	Low
Fiji*	2016	Low
Nauru	2017	Low
Palau*	2016	Low
PNG	2017	Moderate
Solomon Islands	2017	Moderate
Timor-Leste	2017	Moderate
Vanuatu	2018	Moderate
Kiribati	2017	High
Marshall Islands	2018	High
Micronesia	2017	High
Samoa	2018	High
Tonga	2017	High
Tuvalu	2018	High

* Review completed 2018, result pending

Source: Fox and Dornan, Devpolicy Blog “China in the Pacific: Is China engaged in debt-trap diplomacy”, November 2018

Pacific Countries Infrastructure Needs:

In addition to the PICs ability to service debt there is also a question around the magnitude of the infrastructure spending required vis the vis the size of a facility supporting that investment. The table below sourced from the ADB provides estimates of the infrastructure requirements for the PICs from 2016-2020.

Table 6: Infrastructure investments and gaps by region¹⁹, 2016-2020 (\$bn in 2015 prices)

Region using Selected Countries	No. of Countries in analysis	Estimated Current Investment	% of GDP	Base Line Estimates			Climate-adjusted estimates ²⁰		
				Annual Needs	Gap	Gap (% GDP) ²¹	Annual Needs	Gap	Gap (% GDP)
East Asia Countries (incl the PRC)	2	686	6.3%	757	71	0.5%	840	154	0.5%
Central Asia Countries	3	6	2.9%	11	5	2.3%	12	7	3.1%
South Asia Countries	8	134	4.8%	294	161	4.7%	329	195	5.7%
SE Asia Countries	7	55	2.6%	147	92	3.8%	157	102	4.1%
Pacific Countries	5	1	2.7%	2	1	6.2%	2	2	6.9%
Total	25	881	5.5%	1,211	331	1.7%	1,340	459	2.4%

Source: Adapted from a table in Asian Development Bank, *Meeting Asia's Infrastructure needs, 2017*

¹⁹ Based on data from the ADBs 25 Developing Member Countries

²⁰ Climate change adjusted figures include climate mitigation and climate proofing costs, but do not include other adaptation costs, especially those associated with sea level rise.

²¹ The gap as a % of GDP is based on the annual average projected GDP from 2016-2020.

Taking into account climate related infrastructure the annual need (and gap in funding) is estimated at an annualised \$2bn for the Pacific to 2020²². The Pacific infrastructure capital need represents 6.9% of GDP to 2030 the highest of all the APAC regions. This relates in part to the relative low state of development of a number of the PICs including PNG where a large share of the population resides. That said, the \$2bn gap is a relatively small amount compared to the size of the AIFFP. Assuming appropriate investment diversification and risk mitigation by the AIFFP (which may be difficult to achieve anyway given debt distress in PICs as discussed above) and a desire to mobilise private capital, the commitment and deployment of AIFFP capital may be a slow and protracted process.

Some commentators harbour concerns regarding the rising level of Chinese investment across APAC and the level of in country and regional control that may be ultimately exerted by the Chinese government. While there is no question that any investment by the AIFFP would be well intentioned a 2017 study by Deakin University did present a view within a PNG community that “whilst Australian aid was highly accountable and funded state institutions to improve governance and address corruption, such aid was highly paternalistic, ‘We give you money, you have to spend it this way’”.^{lxix}

Across the broader APAC however this is a different story. In the SE Asian region for example, another key priority for Australia, climate adjusted annualised needs of \$157bn and a funding gap US\$102bn suggest significant more market depth and opportunity for diversified investment. Extending the mandate of the AIFFP to the APAC but with the Pacific as a key focus area could improve the speed of capital deployment, help to lower risk and increase the potential to attract higher proportional levels of private capital.

Overall, the AIFFP, can be a significant contributor to international development in APAC and underscore Australia’s commitment to the SDGs in the region. The benefit of this vehicle could however be limited by inflexibility in financing and a constrained geographical remit. An AIFFP at least partially focused on the Pacific with the right tools is unquestionably an important priority. The extension of the AIFFP’s mandate to allow investment in the broader APAC would however increase its potency, sustainability and the speed and effectiveness of its capital deployment.



²² The ADB acknowledges that this figure may be understated due to the relatively high reconstruction costs related to adverse climate events (e.g. Cyclone Winston cost Fiji US\$136m in reconstruction costs).

Conclusion

Australia has an important role to play in the APAC Region in contributing to the achievement of the SDGs both as investors, capacity builders and leaders in enabling policy.

Investors can build their awareness and capacity, reframe their investment approach to incorporate SDG impact and potentially reassess tolerance and/or mitigation approach for risk and liquidity management.

Australian corporates can adopt a shared value approach that considers the SDGs in a regional context. Sustainability of supply chain including potential investment in capacity building, technology and ensuring integrity of labour practices are all important factors.

The Australian Government can continue to promote and develop policies for the region that build SE capacity, support and develop intermediation, and assist in supportive in country policy development that improves ease of doing business and promotes SE development and infrastructure investment. This includes ongoing support for the organisations critical in this area such as the MDBs. It can also work with these organisations and others active in the field locally to build investor awareness around impact investing and opportunities for investment *from* Australia into the region.

In establishing the AIFFP, the Government needs to equip that organisation with a mission and mandate that will see the effective and timely deployment of different types of capital. The AIFFP also needs to have the capability to utilise other tools used in blended finance to attract private investment in a way that is beneficial and sustainable for targeted countries. The AIFFP may also provide a vehicle through which broader collaborations can be evolved with emerging DFIs such as FinDev Canada and the new USIDFC.

The regional issues encapsulated in the SDGs require Australia to take further action NOW if we are to avoid the detrimental and irreversible effects of a failure to act for current and future generations. Impact investing is providing an important mechanism to collaborate, participate and actively engage around solutions to these issues but Australian stakeholders need to engage more broadly if it is to have any chance of helping to achieve the SDGs in our region.



Appendices

Appendix 1 – Abbreviations and Acronyms

AAB	Australian Advisory Board on Impact Investing
ADB	Asian Development Bank
AIFFP	Australian Infrastructure Financing Facility for the Pacific
AIIB	Asian Infrastructure Investment Bank
ANDE	Aspen Network of Development Entrepreneurs
APAC	Asia Pacific
ASEAN	Association of South East Asian Nations
AVPN	Asia Venture Philanthropy Network
BSTDB	Black Sea Trade and Development Bank
BUILD Act	Better Utilisation of Of Investment Leading to Development Act
CDB	China Development Bank
China EXIM	China Export-Import Bank
CIC	China Investment Corporation
DFAT	Department of Foreign Affairs and Trade (Australia)
DFI	Development Finance Institution
DMC	Developing Market Countries
EBRD	European Bank for Reconstruction and Development
EEZ	Exclusive Economic Zone
EIB	European Investment Bank
EMIIIF	Emerging Market Impact Investment Fund
FinDev Canada	Canada’s Development Finance Institution (announced in 2017)
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GIF	Global Infrastructure Facility
HTP	Health Transformation Program (Turkey)
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IDA	International Development Association (World Bank Group)
IFC	International Finance Corporation (World Bank Group)
IFC AMC	IFC Asset Management Company
IFI	International Finance Institution
IIF	Impact Investment Forum (established by RIAA)
IIA	Impact Investing Australia
IIX	Impact Innovation Exchange
IMF	International Monetary Fund
IMP	Impact Management Project
Indo-Pacific	Region ranging from the eastern Indian Ocean to the Pacific Ocean connected by Southeast Asia, including India, North Asia and the United States.
INGO	International Non-government organisation
IsDB	Islamic Development Bank
iXc	Innovation Exchange (A DFAT initiative)
LEAP	Leading Asia’s Private Sector Infrastructure Fund
LDCs	Least Developed Countries
LLDC	Landlocked Developing Countries
MCPP	Managed Co-lending Portfolio Program (an IFC Initiative)
MDB	Multi-lateral Development Banks
MIGA	Multi-lateral Investment Guarantee Agency
MoH	Ministry of Health (Turkey)

MSME	Micro, Small and Medium-sized Enterprises
NGO	Non-Government Organisation
OECD	Organisation for Economic Co-operation and Development
ODA	Official Development Assistance
OPIC	Overseas Private Investment Corporation (USA)
PICs	Pacific Island Countries
PNG	Papua New Guinea
PPF	Project Preparation Facilities
PPP	Public Private Partnerships
SDGs	Sustainable Development Goals
SE	Social Enterprise
SIDA	Swedish International Development Co-operation Agency
SIDS	Small Island Developing States
SMEs	Small and Medium-sized Enterprises
SRF	Silk Road Fund
RIAA	Responsible Investment Association of Australasia
TLFF	Tropical Landscape Financing Facility
UN	United Nations
UNCTAD	UN Conference on Trade and Development
UNCDF	UN Capital Development Fund
UNESCAP	UN Economic and Social Commission for Asia and the Pacific
USAID	United States Agency for International Development
WB	World Bank

Appendix 2 – The Impact Imperative in Sustainable Development

A recent OECD report, *Social Impact Investing 2019: The Impact Imperative in Sustainable Development* sets out 4 key pillars and recommendation to ensure the effective impact and results for sustainable development. An extract from the report, together with the infograph is set out below.^{lxx}

1) *The financing imperative:*

- **Ensure financing is going where it is need most and that no one is left behind.** Financing for sustainable development too often targets “the usual suspects”.
- **Focus on engaging local investors to build sustainable social impact investing financing markets.** The goal of international, and particularly public, funding should be to facilitate the development of vibrant local financial markets.
- **Transition from concessional finance to commercial sustainability.** Not only concessional but also commercial finance should seek to have a measurable impact.

2) *The innovation Imperative:*

- **Catalyse innovation and experimentation in addressing social, environmental and economic challenges.** Additional funding is not sufficient to meet the SDGs – more effective and efficient approaches to address these challenges are needed.
- **Develop an ecosystem that promotes innovation.** The full range of development actors should aim to facilitate the development of ecosystems to encourage innovation and experimentation.
- **Recognise the role of the public sector in scaling pilots that are working.** While the private sector plays a critical role in innovating and piloting new approaches, in many cases scaling of what works is only possible through the public sector.

3) *The policy imperative:*

- **Require the *ex post* assessment of the social and environmental outcomes of policy initiatives.** To meet the impact imperative, policy initiatives must require the *ex post* assessment of the social and environmental outcomes actually achieved through public funding
- **Ensure that impact represents a substantive commitment.** Policy makers as market regulators must ensure impact is not just a marketing brand.
- **Leverage development co-operation as a vector for policy transfer.** The lessons learnt from domestic social impact investment initiatives in advanced economies can be transferred to developing countries via development co-operation.

4) *The data imperative:*

- **Facilitate transparent, standardised and interoperable data sharing.** This requires co-ordinated efforts in the development and implementation of data standards as well as linkages between existing data platforms.
- **Ensure Funding.** Securing financial support for transactions and performance data and the related infrastructure is difficult. Going forward, it is important to raise awareness of the importance of the funding needed to further transparency, and sort out respective roles.
- **Develop a framework and co-ordinate approaches for assessing impact.** For financing sustainable development to deliver on the SDGs, embedding an impact imperative into investment is critical.

Figure 7: The OECD Impact Imperative Infograph





Source: OECD (2019), Social Impact Investment 2019: The Impact Imperative for Sustainable Development, OECD Publishing, Paris

Appendix 3 – Additional information on Blended Finance

The Blended Finance Taskforce along with the UNCDF link blended finance to SDG related investment. Blended finance is viewed as the use of development capital (from public sources like government aid or development banks, or philanthropic sources like foundations) to de-risk SDG-related investments in order to attract commercial capital from private investors who would otherwise not have participated. In other words, it “blends” capital which has a development mandate with capital which does not, in a way which makes the SDGs more “investable”^{lxix}. In this way it is an important part of the impact investing tool kit.

Figure 8: Blended finance instrument table

INSTRUMENT	DESCRIPTION	RISKS / BARRIERS MITIGATED	EXAMPLE PROVIDER ³¹
1. Guarantee	Provides protection to one party if the other party fails to perform. Guarantees are provided by a third party who “steps into the shoes” of the defaulting party so that the innocent party does not suffer loss. Guarantees are a form of credit enhancement, strengthening the creditworthiness of the investment because of the promise from the guarantor to complete performance in the event of default. As such, guarantees are one of the most catalytic forms of blending. There are many types of guarantees including first loss, partial risk or credit guarantees and trade finance guarantees.	Access to capital; credit / counterparty risk; off-take risk; construction / completion / technical risk; demand risk	 GuarantCo Guarantées For Development ³¹  USAID FROM THE AMERICAN PEOPLE
2. Insurance	Insurance provides protection by promising to compensate for a specified loss or damage in return for payment of a specified premium. There are many types of insurance; one of the most common is political risk insurance to protect against adverse government actions or war, civil strife, and terrorism. Insurance provides a more stable environment for investments into developing countries. Along with guarantees, they are one of the most catalytic forms of blending.	Political risk; construction risk; operation and output risks; upstream resource-related risks; access to capital	 OPIC  MIGA
3. Hedging	Hedging reduces the risk of adverse current price movements in an asset and its associated earning stream. Currency hedging reduces or eliminates exposure to the movement of foreign currencies – addressing one of the key risks for investing in emerging markets.	Currency / Commodity risk	 TCX the currency exchange fund
4. Junior / subordinated capital	Subordinated (debt) or junior (equity) protects senior investors by taking first losses on the value of the security i.e. if something goes wrong, the most junior / subordinated tranche will be paid out last. First-loss capital takes a position that will suffer the first economic loss if the assets below it lose value or are foreclosed on (this can also be provided through a grant or guarantee).	Multiple risks including off-take, construction, and reputational risks; access to capital	 FMO Entrepreneurial Development Bank  KFW DEG
5. Securitisation	Securitisation refers to the process of transforming a pool of illiquid assets into tradable financial instruments (securities).	Liquidity / time horizon; scale; counterparty / off-take and credit risk	 European Investment Bank
6. Results-based incentives (e.g. pay-for-performance schemes)	Instruments that provide incentives and disincentives to achieve desired outcomes or results (tie at least a portion of payments to achievement), including social impact bonds and performance-based contracts. This type of financing is aimed at rewarding innovation and successful implementation of a project with clear climate benefits.	Operation and output risks	 IFFim SUPPORTING CIVIL  BILL & MELINDA GATES foundation
7. Contractual mechanisms (e.g. feed-in-tariffs or off-take agreements)	There are various contractual and project finance arrangements to support the development of bankable infrastructure projects including public and private off-taker agreements, subsidies such as feed-in-tariffs, and tax credits. These mechanisms involve an agreement between producers and buyers of a resource to purchase or sell portions of future production. These agreements are to secure financing for a production facility or buy the equipment needed to extract a resource (e.g. power purchase agreements (PPAs) in the energy sector).	Demand risk; financing risk (demonstrate bankable revenue stream)	 ofgem  Google
8. Grants (especially for technical assistance)	Capital which is paid in without any expected repayment or compensation over a fixed period of time. It could include money for technical assistance or project preparation to bring a project to bankability. Grants can be critically important for pipeline development, especially in less mature sector and riskier geographies, creating significant (if often hard to measure) crowding in of private capital	Access to capital; high transaction costs; operational risks; lack of bankable pipeline, lack of local intermediaries; lack of capacity	 THE ROCKEFELLER FOUNDATION  Sida

Source: Blended Finance Taskforce, 2018, *Better Finance Better World*

Figure 9: Examples of Blended Finance

NAME	STRUCTURE	SUMMARY	INSTRUMENTS	GEOGRAPHY/ SECTOR	KEY TERMS	PRIVATE COMMERCIAL FINANCING
1 &Green	Fund	Provides purpose-built capital for the sustainable intensification of agricultural production systems and business models that reduce deforestation.	Concessional / Subordinated loans	Global / Sustainable Land Use	Target size: \$400m (incl. \$100m Norway)	Unilever
2 Abraaj Growth Markets Health Fund (AGHF)	Fund	Aims to improve access to affordable high-quality healthcare services for low- and middle-income healthcare populations.	Anchor Investment	Africa and South Asia / Healthcare	Target size: \$1bn	PBUCC, Phillips, Mediatronic
3 Africa Agriculture Trade Inv. Fund (AATIF)	Fund	Financing agricultural businesses and local financial institutions which on lend. Structured with three different levels with different risk/return profiles.	First loss mechanism / Subordinated capital	Sub-Saharan Africa / Sustainable Land Use	Size: \$146m Fund	Deutsche Bank, Other investors
4 Africa Clean Energy Facility (ACEF)	Project Prep Facility	First-Loss Funding (incl. as grant or guarantee)	A position that will suffer the first economic loss if the assets below it lose value or are foreclosed on (can be provided through grant or guarantee).	By improving risk-return profile, first-loss can catalyse the participation of more risk-averse investors		
5 Climate Investor One (CIO)	Fund	Three separate facilities to spread the risk between the development stage, the construction stage, and the operations stage of clean energy projects.	TA / subordinated / guarantee	Africa, SE Asia, Latin America / Clean Energy	Size: \$445m, Target return: varies / inflation to 20% (8% hurdle)	SANLAM, KLP, CFM, Royal Berkshire Pension Fund, Phoenix
6 Danish Climate Investment Fund (KIF)	Fund	Established by the Danish State and IFU (The Danish DFI) to invest in low-carbon and climate-resilient projects in developing countries.	Preferred return structure / TA	Global / Clean Energy	Target: 12% net IRR (8% hurdle) Size: DKK 1.2bn	Pension Danmark, Dansk Vækstkapital, PBU and PKA
7 Elazig Hospital Turkey	Project (PPP)	A hospital construction project in eastern Turkey which employs a hybrid financing structure made up of a loan and bond issuance (achieved rating above sovereign ceiling).	Bond / Political Insurance / Subordinated liquidity Facility	Turkey / Healthcare	Size: €360m bond, €90m equity	HSBC, Siemens, various private sector
8 Global Energy Efficiency and Renewable Energy (GEEREF)	Fund-of-funds	Initiated by EU and supporting the deployment of clean and renewable energy technologies in developing countries by investing in specialised private equity funds that in turn invest in a broad mix of SMEs.	Seed Equity	Developing Countries / Energy Efficiency	Size: €222m (typically invest in funds €50-200m). Target: 20%	Other private: €110m EC, EU, Germany, Norway (€112m)
9 Global Health Investment Fund (GHIF)	Fund	A social impact investment fund designed to provide financing to improve healthcare. GHIF supports late-stage innovations for public health challenges.	First loss guarantee / Mezzanine debt	Developing Countries / Healthcare	Size: \$108m	AXA, Storebrand, JP Morgan Social Finance

NAME	STRUCTURE	SUMMARY	INSTRUMENTS	GEOGRAPHY/ SECTOR	KEY TERMS	PRIVATE COMMERCIAL FINANCING
10 IFC Asset Management Company (AMC)	Institutional / Fund	Invests in high potential companies and infrastructure projects across Latin America and the Caribbean, Africa, the Middle East, Eastern Europe and Asia.	Equity	Developing Countries	Size: \$10bn raised (13 funds), \$6bn committed (102 funds)	Various
11 Impact Loan eXchange (ILX)	Debt Fund / Platform	Debt fund to invest in MDB/DFI B-loans. An investment platform where MDB/DFI investments, initially loans, can be managed on behalf of institutional investors.	Syndicate / platform	Developing Countries	Target size: \$1bn Term: Long term (20 year+)	Target: Dutch Pension funds
12 Lake Turkana wind power	Project	Wind farm (producing 310.25 MW) which has a public - private aspect: i.e. the wind farm was financed by the private sector and the transmission by the public sector	Partial Risk guarantee / political commercial guarantee	Africa: Kenya / Clean Energy	Size: €625m	South African banks, KP&P Africa, Aldwych, Vestas / Google (Share purchase agreement)
13 LeapFrog II Fund	Fund	Invests in high-growth companies across Asia and Africa that offer empowering tools such as insurance, savings and investment products to emerging consumers.	Anchor Investment	Africa & Asia / Financial Inclusion	US\$400 million; currently fundraising for second fund up to US\$100 million	AXA, Christian Super, MetLife, HESTA, Prudential Finance, Swiss Re and TIAA-CREF
14 Livelihoods Fund for Family Farming fund (L3F)	Fund	Provides upfront concessionary capital to project developers to train, assist and provide equipment to smallholder farmers to improve their agricultural productivity while restoring ecosystems.	Offtaker agreements / Results-based payments	Global: Africa, Asia, LATAM / Sustainable Land Use	Targeting >10% IRR; currently breakeven	Companies seeking to transform their supply chains: Danone, Mars, Firmenich, Veolia
15 Managed Co-Lending Portfolio Program (MCCP)	Platform	Offers a syndications process that allows institutional investors the opportunity to passively participate in IFC's future loan portfolio.	First-loss / Guarantees	Global	Target size: \$5bn, Committed: \$1.5bn	AXA, Allianz, Eastspring (\$500m each)
16 REDD+	Market based initiatives	REDD+ is a climate change mitigation solution developed by the UNFCCC. It incentivises developing countries to keep their forests standing by offering results-based payments for actions to reduce or remove forest carbon initiatives.	Various market based instruments / TA	Developing Countries / Sustainable Land Use	n/a	None
17 Solar Power Company Group (SPCG)	Project	Solar farm reducing CO2 emissions by almost 200,000 tonnes per year. SPCG is the leading developer of solar farm projects. Strong returns are resulting in replication of this model	Below market rate debt	Asia: Thailand / Clean Energy	Size: \$800m	3 x local commercial banks
18 Terra Bella Colombia Fund	Fund	Mobilises private equity investments to finance smallholder agriculture, non-timber forest products, and climate change mitigation.	First-loss / TA	LatAm, Colombia / Sustainable Land Use	Target Size: \$100m	Fundraising (N/A)
19 Tropical Landscapes Financing Facility (TLFF)	Facility	Loans to enhance smallholder farmer livelihoods, rehabilitate degraded land, and provide cleaner electricity, through mobilising international capital markets (initial project sustainable rubber)	Long Term Loans / Notes / TA	Asia, Indonesia / Sustainable Land Use	Target size: \$1bn Loan Fund, \$100m Grant Fund, Target: ca. 10% IRR, 5-15yrs payback (deal dependent)	BNP Paribas, ADM Capital

Source: Blended Finance Taskforce, 2018, *Better Finance Better World*

Appendix 4 - Australia's Support of MDBs

Australia and the Asian Development Bank (ADB)

The Government of Australia was a founding member of the ADB upon its establishment in 1966. The strategic agendas of both Australia and ADB are closely aligned — working jointly to reduce poverty and achieve inclusive and sustainable economic growth in Asia and the Pacific.

Australia works with the ADB in different capacities as a (i) shareholder, (ii) Asian Development Fund (ADF) donor²³, (iii) co-financer, and (iv) knowledge partner. Across these different facets of the ADB-Australia partnership, Australia has been a key partner in catalysing innovation and ensuring momentum for reforms internally within the ADB and, through policy, programs and projects in ADB's Developing Member Countries (DMCs), particularly in the Pacific²⁴ and Southeast Asia²⁵

The partnership between Australia and the ADB is reinforced through several different multilateral and bi-lateral fora including the ADB's Annual General Meeting, yearly High-Level Consultations between the ADB and Australia, participation in Country Programming Missions, working relationships at the Resident Missions, and secondments and sponsored positions. The ADB's key counterparts in Australia are DFAT and the Australian Treasury. The Treasurer is Australia's ADB Governor and the Assistant Treasurer is Australia's Alternate Governor. Senior Treasury and DFAT Representatives participate in Annual High-Level Consultations and inform Australia's position on key ADB policy and portfolio matters.^{lxxii}

Australia and the World Bank (WB)

The World Bank Group is Australia's largest multilateral partner and is the world's largest development organisation. The World Bank Group consists of five organisations:

- the International Bank for Reconstruction and Development (IBRD) which lends to governments of middle-income and creditworthy low-income countries;
- the International Development Association (IDA) which provides interest-free loans – called credits – and grants to governments of the world's poorest countries;
- the International Finance Corporation (IFC) which provides loans, equity and advisory services to stimulate private sector investment in developing countries;
- the Multilateral Investment Guarantee Agency (MIGA) which offers political risk insurance (guarantees) to investors and lenders; and,
- the International Centre for Settlement of Investment Disputes (ICSID) which provides international facilities for conciliation and arbitration of investment disputes.

Australia's membership of, and financial contributions to, the World Bank Group provide Australia with the opportunity to influence policies and priorities. An ongoing objective of the Australian government is to ensure that the activities of the World Bank Group recognise and actively target key development priorities in the Indo-Pacific region.

²³ The ADF provides grants to ADB's lower-income DMCs, allocated primarily to aid debt sustainability. Established in 1974, the ADF initially provided loans on concessional terms. Grants were introduced in 2005, and beginning 2017, with ADB's concessional lending financed from its ordinary capital resources (OCR), the ADF has become a grant only operation. Activities supported by the ADF promote poverty reduction and improvements in the quality of life in the poorer countries of the Asia and Pacific region.

²⁴ DMCs in the Pacific Islands are the Cook Islands, Republic of Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, PNG, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

²⁵ DMCs in the Southeast Asia are Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.

The Australian Government supports economic development in the Indo-Pacific region through contributions to the World Bank's International Development Association (IDA). The IDA fund is the largest pool of concessional finance in the world, providing grants and highly concessional loans to 74 low-income countries. It is closely aligned with Australia's aid program priorities: promoting private sector development; boosting women's economic empowerment; effective governance; supporting fragile states; and tackling climate change.

Negotiations for the 18th replenishment of the IDA (2017-18 to 2019-20) concluded in December 2016. US\$75 bn will be available to client countries, through highly concessional loans and grants, to advance sustainable economic development and reduce poverty. Australia will contribute \$774.5m to the IDA18 replenishment, which will be drawn from Australia's aid program over a nine-year period.

Australia also partners with the World Bank Group on specific development programs which support Australia's aid policy priorities.^{lxxiii}

Australia and the Asian Infrastructure Investment Bank (AIIB)

The AIIB is a multilateral bank focused on infrastructure investment in Asia across a range of sectors, including transport, energy, water and communications. The AIIB, along with the work already being undertaken by the World Bank Group and Asian Development Bank, is helping to fill the large infrastructure funding gap in Asia by leveraging private sector funds for infrastructure projects.

The AIIB became operational in January 2016 and has a total authorised capital of US\$100bn. Australia was a founding member of the AIIB and Australia's Governor for the AIIB is the Treasurer. Australia is contributing US\$738m paid-in capital to the AIIB over five years and is the sixth largest shareholder.

The AIIB is expected to improve trade and investment opportunities across the APAC region. It should also provide opportunities for Australian businesses to bid for contracts under the AIIB's open procurement model.^{lxxiv}



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