

Thirteenth Session of the Assembly
29-30 October 2025, Seoul, Republic of Korea

Agenda Item 12

DECISION 62-XIII-25R

Establishment of a Legal Vehicle

The Assembly of the Asian Forest Cooperation Organization (AFoCO),

Recognizing AFoCO's commitment to achieving the goals outlined in the Climate Action Plan 2025–2034 through sustainable forest management and climate resilience;

Acknowledging the critical strategic necessity to establish innovative resource mobilization mechanisms, including the leveraging of private capital and public-private partnerships via blended financing, to support the development of investable, country-led projects; and

Taking note of the review of legal and institutional arrangement for blended finance as provided in **A-25-13-19 Annex-1**,

Decides to:

1. *Approve* the establishment of an appropriate legal vehicle to enable the full implementation of blended finance;
 2. *Task* the Secretariat to proceed with the necessary legal and institutional groundwork to finalize the structure and operational design of the blended finance legal vehicle in compliance with the existing regulations and policies of AFoCO; and
 3. *Further task* the Secretariat to develop and initiate a detailed implementation plan in 2026 for the full operationalization of the legal vehicle, ensuring transparency, robust institutional oversight, and alignment with Member-driven development goals.
-

Review of Legal and Institutional Arrangement for Blended Finance

1. Legal Mandate and Rationale

In support of the Climate Action Plan (2025–2034), blended finance has emerged as a potential approach to complement AFoCO’s existing grant-based modalities. To enable the implementation of such mechanisms—particularly those involving private capital mobilization and co-investment—consideration is being given to establishing a dedicated legal vehicle. This would allow for more flexible engagement with external partners while aligning with current trends in climate finance that emphasize risk-sharing and blended investment models.

Given AFoCO’s treaty-based institutional framework, any such entity would need to operate in accordance with its foundational documents (**Table 1**). Preliminary legal assessments indicate that affiliated structures—such as foundations or subsidiaries—could be explored, provided that their design ensures proper governance, accountability, and consistency with the intergovernmental nature and development objectives of the Organization.

Table 1. Summary of Legal and Financial Provisions in AFoCO Instruments

Instrument	Relevant Article / Paragraph	Relevant Provision	Legal Implication
[1] Agreement on the Establishment of AFoCO	Article 4	Grants AFoCO legal personality, including the capacity to contract, acquire property, and institute legal proceedings.	Provides legal authority to create or own affiliated entities such as foundations or subsidiaries.
	Article 12 (1–2)	Defines funding sources through assessed and voluntary contributions.	Prohibits direct use of the core budget for profit-generating investment; necessitates separation between grant and commercial operations.
[2] Headquarters Agreement with ROK	Article 7 ~ Article 10	Outlines privileges, immunities, and tax exemptions for official functions in the Republic of Korea.	Since commercial activities may fall outside the protected scope of official immunities, any investment operations should be conducted through legally distinct vehicles to preserve AFoCO’s status and protections under the Headquarters Agreement.
[3] Financial Regulations	Paragraph 3.6	Allows AFoCO to establish and administer trust funds with dedicated terms of reference.	Enables the Secretariat to manage earmarked funds, subject to donor agreements and governance protocols.
	Paragraph 10	Limits financial liability of AFoCO to its own undertakings.	Reinforces the need for limited-liability entities (e.g., SPV/SPC) to isolate investment risk from the intergovernmental core.

2. The Review of Legal Structure for Blended Finance

2.1 Legal Structure Review

Based on preliminary legal consultations and a comparative review of international precedents, the the Hybrid Foundation Model has been initially identified as one of the potential legal structures that may offer a balanced approach to AFoCO's emerging needs in blended finance.

The Hybrid Foundation Model refers to a non-profit legal entity that serves as the capital-holding and governance platform for mission-driven investment activities. Under this model, the foundation could be authorized to engage in financing activities either directly or through delegated structures such as Special Purpose Vehicles (SPVs) or Joint Ventures, depending on the project and legal context. Initial legal analysis suggests that this model may offer the following potential benefits:

- **Mission Alignment:** A mixed governance board (e.g., Secretariat, Member Country representatives, and selected donors) could support political acceptability and transparency.
- **Financial Separation:** A legally distinct vehicle can help separate commercial operations from AFoCO's core intergovernmental functions, in line with existing treaties and financial regulations.
- **Investor Assurance:** Clear fiduciary structures and ring-fencing of investment activities could enhance trust among private and philanthropic capital providers.
- **Phased Flexibility:** The model allows for incremental implementation, with opportunities to outsource fund management or establish project-based legal arms as needed.

Further legal and institutional assessment will be necessary to evaluate the full compatibility of such a structure with AFoCO's current mandates and operational arrangements.

2.2 Jurisdictional Options Review

In parallel with structural considerations, the potential jurisdiction for establishing such a legal entity presents distinct trade-offs that require further exploration. Two broad options would be further reviewed (**Table 2**):

- Option A: ROK only – A single public-interest foundation established under Korean law,
- Option B: ROK + Overseas Hybrid – A dual structure with governance in the ROK and investment management in an international financial hub.

Table 2. Comparative Review of Jurisdictional Options for AFoCO's Blended Finance Vehicle

Option	Option A: ROK Only	Option B: ROK + Overseas Hybrid
Strategic Alignment	Strong alignment with AFoCO HQ and Korean green ODA frameworks (e.g., KOICA, KEXIM).	Offers flexibility for fund operations under international finance laws.
Investor Access	May present tax or capital control challenges for foreign investors.	More attractive to global capital, especially private or institutional funds.
Complexity	Simpler to govern under a single legal system.	Requires multi-jurisdictional legal compliance and oversight mechanisms.
Political Acceptability	High, given full domestic control and transparency.	Requires careful governance design to maintain AFoCO's institutional integrity.

3. Implementation Timelines

The implementation of the blended finance mechanism, including the legal vehicle and project pipelines, will proceed in phases to ensure legal compliance, operational feasibility, and political endorsement (**Table 3**):

Table 3. Proposed Timeline for the Implementation of the Blended Finance Mechanism

Phase	Timeline	Key Activities
Phase 1: Institutional Design & Legal Structuring	Q1-Q2 2026	<ul style="list-style-type: none"> - Secure Korean legal review - Design legal structure - Draft Articles of Incorporation and governance documents
Phase 2: Update at the Special Session of the Assembly	Q2 2026	<ul style="list-style-type: none"> - Endorsement of the legal vehicle at the Special Assembly Session
Phase 3: Ground work for establishment	Q3-Q4 2026	<ul style="list-style-type: none"> - Establishment of a legal vehicle to implement blended finance projects