Asian Forest Cooperation Organization

Document Number:
A-25-13-19

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

Agenda Item 12

Updates on the Blended Financing Mechanism

I. Background

1. In pursuit of the implementation of the AFoCO Climate Action Plan (CAP) (2025–2034), the Secretariat has taken steps to strengthen AFoCO's financial architecture by diversifying funding modalities and exploring blended financing approaches. Pursuant to the approval of the Work Plan and Budget for 2025 at the Eleventh (11th) Session of the Assembly (DECISION 58-XI-24R), the Secretariat initiated the development of a blended finance roadmap, identifying public–private partnerships (PPPs) and impact investment as key instruments to enhance the scale and sustainability of forest-based climate solutions.

2. Blended finance—by combining grants with concessional and commercial capital—has emerged as a critical tool to de-risk early-stage investments, increase private sector participation, and mobilize larger volumes of finance aligned with climate and forestry priorities of the Member Countries. In this regard, AFoCO aims to build a fit-for-purpose blended finance ecosystem in line with its institutional mandates and Member-driven development goals.

II. Progress Update

A. Blended Finance Report for Climate Action Plan (CAP) (2025–2034)

3. In October 2025, the Secretariat published *AFoCO's Blended Finance Report for Climate Action Plan (2025–2034)*, developed as a follow-up to the 2025 Annual Thematic Dialogue. The report articulates AFoCO's strategic positioning within the blended finance landscape, presenting case studies, partnership models, and funding architecture options. It outlines a stepwise approach to operationalizing the CAP 2025-2034 and aligning with Member Countries' forest-based climate priorities. In addition, the report identifies key institutional functions required to support blended financing, including a Project Preparation Facility (PPF), impact investment partnerships, co-financing pipelines, and potential AFoCO-led financial vehicles such as dedicated funds or legal instruments.

B. Main Activities with Partners

a. Artha Networks Inc.

4. Since December 2024, the Secretariat has been collaborating with ANI, a global platform connecting mission-aligned capital with sustainable development projects. With expertise in investment structuring and ecosystem mapping, catalytic capital mobilization, this partnership has supported AFoCO in identifying investable project pipelines and designing a matchmaking mechanism between project proponents and impact investors. In particular, AFoCO recognizes that the systematic incorporation of Market-based Solutions (MbS) into ODA-funded project development is essential to foster investable local enterprises and attract blended financing.

5. Following the initial consultations in Seoul (February 2025), which focused on the design of a Nature-based Solutions (NbS)-oriented blended finance project, the Secretariat emphasized the strategic value of integrating NbS and MbS during the Twelfth (12^{th}) Session of the Assembly in Mongolia (May 2025). Subsequent partnership-building and investor outreach activities have included a series of high-level investment meetings in London (June 2025), focused on identifying potential investors for AFoCO's NbS projects. A feasibility study was conducted in Cambodia to assess the viability of a Tonle Sap-based NbS initiative (July 2025), and AFoCO recently led promotional activities during the Asia Venture Philanthropy Network (AVPN) Conference in Hong Kong to position its NbS pipeline to philanthropic donors, impact investors, and regional development partners (September 2025). These engagements mark key steps toward building a robust investment ecosystem around AFoCO's nature-based project portfolio.

b. Mutual Value Labs (MVL) under Economics of Mutuality (EOM) Alliance

6. In March 2025, the Secretariat signed a Memorandum of Understanding (MoU) with MVL, to initiate a strategic collaboration for embedding mutual value principles into AFoCO's climate financing approaches. MVL specializes in identifying the systemic drivers of environmental degradation and co-designing solutions that deliver measurable benefits across financial, social, and natural capital. Under this partnership, AFoCO and MVL are co-developing a systems-thinking diagnostic report to pinpoint leverage points for forest restoration, sustainable land use, and value chain transformation.

7. This analytical framework is intended to inform the development of blended finance projects, with a particular emphasis on strengthening the sustainability and ethical alignment of commodity value chains. These findings will not only support AFoCO's work in project development but also create potential entry points for collaboration with global corporations (e.g., Mars Inc.) seeking to enhance their sustainability performance in forest-linked supply chains.

8. Based on the initial findings, the Secretariat and MVL are also exploring the design of a membership-based corporate engagement and fundraising platform, which was formally acknowledged at the Twelfth (12^{th}) Session of the Assembly. This platform will align prospective partners with AFoCO's mission, providing structured channels for multi-stakeholder collaboration and investment in resilient forest ecosystems.

c. Merry Year Social Company (MYSC)

9. In April 2025, AFoCO entered into a strategic partnership with the MYSC, a Korea-based impact enterprise builder with proven expertise in inclusive business model development, entrepreneurship acceleration, and impact investment. The core objective of the collaboration is to co-develop a new impact-oriented NbS fund that will support blended finance initiatives within the AFoCO framework. In particular, the fund is envisioned to serve as a platform for identifying and nurturing NbS start-ups in AFoCO Member Countries.

10. Leveraging MYSC's strengths, the fund will facilitate the acceleration of community-based and socially inclusive forest enterprises. Selected enterprises will have the opportunity to pilot innovations across AFoCO project sites—particularly through the Living Lab Initiative—thereby enhancing the integration of climate adaptation, forest restoration, and sustainable livelihood solutions. This model is expected to generate a positive feedback loop between R&D actors, local entrepreneurs, and early-stage investors, reinforcing a sustainable project cycle and fostering a dynamic NbS ecosystem in the region.

11. Ultimately, this partnership aims not only to expand enterprise-level impact but also to contribute to AFoCO's institutional goals of strengthening public–private partnerships and climate resilience strategies. A joint fund structure is currently under development to connect impact investors with enterprise acceleration mechanisms and market testing processes, enabling broader access to innovative financing models in support of Member Countries' forest-based climate goals.

III. Plan for Blended Financing in 2026

A. Pilot Project Development

12. To operationalize blended finance modalities in 2026, the Secretariat will initiate pilot project development and set up the basic frame of the PPF for blended financing project development. Three to five (3 to 5) scalable project concepts are currently under early-stage design, with a focus on the NbS, community forest enterprises, and carbon-linked interventions. These pilot initiatives will be designed to attract co-financing from concessional and commercial sources, building on the technical and market groundwork laid in 2024–2025.

13. AFoCO will prioritize the development of projects that can function as proof-of-concept models for blended finance, including pilot sites Cambodia. Each project will be assessed for investability, social and environmental returns, and alignment with Member Country priorities.

B. Establishment of a Legal Vehicle to Activate Blended Financing

14. In alignment with the CAP (2025–2034), the Secretariat proposes the establishment of an appropriate legal vehicle to enable blended finance implementation. This structure will enhance AFoCO's ability to mobilize private capital, facilitate public-private partnerships, and support the development of investable projects in member countries.

15. Over the past two years, AFoCO has actively worked with a range of partners—including global corporate advisory firm specializing in shared value creation, impact investing technology and network provider, legal experts, and technology providers—to build a foundational blended finance

ecosystem. These collaborative efforts have led to the development of project origination models, pilot pipelines, and risk-sharing mechanisms that require a formal legal structure for full implementation. Establishing a legal vehicle will enable AFoCO to enter into investment agreements, manage returns, and ensure reinvestment of revenues in a transparent and accountable manner.

16. Importantly, this new legal structure is designed to benefit Member Countries directly by expanding access to innovative financing mechanisms, supporting co-financing of national climate and forestry priorities, and increasing investment flows to country-led projects. It will also provide a platform for countries to engage with private sector actors through AFoCO in a more structured and de-risked manner, while maintaining institutional oversight and alignment with Member-driven development goals.

17. The Secretariat seeks approval of the Assembly to establish a legal vehicle for blended finance and to proceed with the legal and institutional groundwork for this proposal. Based on the endorsement, a detailed implementation plan will be developed and initiated in 2026, including finalization of the legal structure and operational design.

18. The review of legal and institutional arrangement for blended finance is summarized in **Annex-1**.

IV. Points for Consideration

19. The Assembly may wish to:

a. Take note of the information and provide further guidance and recommendations, as appropriate; and

b. Consider and approve the establishment of a legal vehicle for blended finance and task the Secretariat to proceed with the necessary legal and institutional groundwork.

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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	- 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	- Endorsement of the legal vehicle at the Special Assembly Session
Phase 3: Ground work for establishment	Q3-Q4 2026	- Establishment of a legal vehicle to implement blended finance projects