



The HUB

NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS



Blended Finance: Why Partnerships Power Progress Towards Net Zero

Collaboration is allowing Natixis IM to take a proactive role in addressing climate change.

There are limits to what can be accomplished through private markets alone. If we are to amass the scale of finance needed to meet the UN Sustainable Development Goals (SDGs)¹ and achieve our Net Zero ambitions², providers and distributors of finance will need to collaborate with the public sector.

One type of collaboration between public and private finance is called 'blended finance'. It's a financial approach that is gaining traction as a solution to many of the challenges presented by climate change, biodiversity loss and land degradation.

What is blended finance?

Blended finance uses public funds or government support to encourage private investment, the result of which can finance projects or businesses that, under normal circumstances, would be considered 'un-investable'. Governments effectively provide a safety net – their co-investments and guarantees unlock private investment by lowering risk or enhancing returns and, in many ways, transform the 'un-investable' into the 'investable'.

But government financing also provides time for investments to build a proper track record – to prove they can deliver not only positive social or environmental impact, but also the profits, cash flow or dividends that investors depend on for returns.

For investors, blended finance can offer market returns or better. But the advantages go far beyond the financial aspects. In developing countries, blended finance can reduce reliance on overseas aid or philanthropy.

Pooling resources means more investment at scale. Most importantly, money goes to the areas that need it most: to help in the fight against climate change and biodiversity loss, and to build better, more sustainable livelihoods for local communities.

Why is blended finance of importance to Natixis IM?

For some time now, Natixis Investment Managers (Natixis IM) has been exploring ways to address climate and societal concerns through different

Nathalie Wallace is Global Head of Sustainable Investing at Natixis IM. Nathalie is responsible for driving Natixis IM's sustainable investment commitments across its distribution network, its affiliate managers and as part of industry-wide initiatives. Nathalie joined from Mirova, where she led ESG Strategy & Development. Previously, she served as Global Head of ESG Investment Strategy at State Street Global Advisors and, while at Ceres, advanced collaborative engagement on climate-related risks. Nathalie is a member of the ESG Technical Committee at the CFA Institute, the US SIF Research Committee, and the Climate Change Committee for the Investor Leadership Network.

blended finance mechanisms. This is in direct response to the demands that clients have placed upon us and our affiliate investment managers, as well as the recognition that the negative impacts of climate change and the potential solutions presented by impact investing are beginning to move into the mainstream.

Since 2018, Natixis IM has partnered with specialists like the Investor Leadership Network (ILN) while also participating in investor working groups to further capital allocation towards emerging markets through private-public partnerships. Earlier this year, Natixis IM joined

1. The 'SDGs' are the 'world's to-do list' of large problems to solve. They have also become a key reference framework for managing and investing for positive impact, ranging from the fight against poverty and hunger to the development of sustainable cities to the emergence of responsible methods of production and consumption <https://sdgs.un.org/goals>
2. 'Net Zero' refers to a state in which the greenhouse gases (GHG) going into the atmosphere are balanced by their removal out of the atmosphere. To put it simply, it describes the level we need to reach – cutting GHG emissions to as close to zero as possible – with any remaining emissions re-absorbed from the atmosphere, by oceans and forests for instance.

Convergence Finance – a global network of public, private, and philanthropic investors, as well as sponsors of transaction and funds, that aims to mobilize trillions of dollars into sustainable development. Convergence generates data, intelligence, and deal flow to increase private sector investment in developing countries, and it has over 200 members and provides data on over 700 deals representing \$166 billion.

Nathalie Wallace, Head of Sustainable Investing at Natixis IM, said: “Partnerships like these allow Natixis IM to play a proactive role in the blended finance marketplace. Through Convergence, we have another platform through which we can develop thought leadership on this topic, contribute to the growth of the market, and expand the network with the public sector and foundations. Thanks to these partnerships, we can help our clients deploy capital and scale investment solutions provided by our affiliates towards innovative and larger-scale projects in both developed and emerging markets.”

How are investors collaborating to solve climate and societal challenges?

In June 2022, Natixis IM joined a major working group led by Convergence, USAID, UK Foreign Commonwealth and Development Office, and worked with other large investor groups such as the Net-Zero Asset Owners Alliance to identify the most effective and efficient

approaches to increase investment in emerging markets to achieve the SDGs and Climate objectives. This group brings together a core group of 20-25 organizations from the investor community, Official Development Assistance donor community and philanthropic foundations to agree the required details of a ‘Private Capital Mobilization Action Plan’ for Climate and SDGs.

Meanwhile, Natixis IM has been a founding member of the ILN since 2018. The ILN is an open and collaborative platform for those investors interested in addressing sustainability and long-term growth. It was assembled after the G7 in Canada and its 13 members currently represent an AUM of \$10 trillion – or an 85% stake in the S&P 500.

The ILN helps assemble working groups with leading experts in the fields of climate, blended finance, and diversity, equity, and inclusion (DEI) to develop thought leadership for the financial services industry. By participating in the ILN’s diversity, climate, and blended finance initiatives, Natixis IM can lend its own knowledge in these topics as well as learn from the expertise of fellow investors. Engaging with leading asset owners and managers, family offices, and leading experts to ensure and inform best practices will move the industry towards comparable engagement strategies to combat climate change and ensure a more sustainable future.

In November 2021, the group published a toolkit giving asset managers and

owners a framework for addressing direct and indirect physical risks associated with climate change. And earlier this year, Natixis IM hosted ILN workshops in its Paris and Boston offices to develop research for the next annual report that will focus on the Net Zero transition for investors.

Nathalie Wallace co-leads the ILN’s climate committee, while Natixis IM’s Laura Kaliszewski co-leads its sustainable infrastructure committee, which focuses on growing sustainable investment in the private sector as well as accelerating the climate transition.

In October last year, the group published the Blended Finance Blueprint, which sought to identify obstacles and opportunities, and make recommendations for players in the blended finance space. The taskforce has subsequently met with leaders such as US Climate Envoy John Kerry to discuss blended finance and make these recommendations a reality. Including these world leaders in the conversation is crucial to accelerating blended finance adoption.

Meanwhile, Natixis IM affiliate Mirova recently acquired SunFunder, a private debt management company that finances renewable energy projects in Africa and Asia. This represents a major step for Mirova’s development strategy in real assets and for expanding its investment platform in emerging markets.

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