

## Land Degradation Neutrality (LDN) Fund An innovative fund project dedicated to sustainable land use

### Frequently Asked Questions September 8<sup>th</sup>, 2017

#### EXECUTIVE SUMMARY: 4 key features and 4 key achievements to date

##### Key features

- ▶ A fund **aligned with the United Nations Sustainable Development Goals** (SDG) and in particular SDG target 15.3 of achieving Land Degradation Neutrality (LDN)
- ▶ An impact fund that will operate according to **robust environmental and social (E&S) standards**, which are integrated into a comprehensive E&S Management System (ESMS)
- ▶ A responsible fund that will invest in **financially viable sustainable land management** (SLM) and land restoration projects and programmes worldwide
- ▶ A layered fund that will use **public money to catalyse private investment**, combined with a technical assistance (TA) Facility, to encourage the development of the LDN investment market

##### Key achievements to date:

- ▶ **From concept to reality:** the legal vehicle for the Fund is already created, with process and governance bodies currently being established, including an advisory board of high profile development and environment leaders
- ▶ **An operational investment platform:** with the planned acquisition of Althelia Ecosphere, combined with partnerships with experts such as Crédit Agricole du Maroc, Mirova is ready to deploy capital
- ▶ **A robust pipeline of projects:** over 90 investment opportunities identified, 15 active projects and 4 at advanced stage of negotiation
- ▶ **Fundraising:** progressive on-boarding of investors from now on, with support from public investors and interest confirmed from private investors

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## 1. LDN Fund project: concept and development

### **What are the impacts of land degradation?**

It is estimated that two billion hectares of land is degraded worldwide, and we continue to degrade another 12 million hectares of productive land every year. According to a study conducted in 2016 by the International Food Policy Research Institute (IFPRI), land degradation has already negatively affected 29% of global land area.

Land degradation is not a stand-alone issue, but threatens the future sustainability of life on Earth, with severe impacts on food security, livelihoods, climate change, biodiversity, and ecosystem services.

The land use sector represents almost 25% of total global greenhouse gas emissions, but these emissions can be reduced. As well as reducing deforestation there is also great potential for carbon sequestration through proven and effective practices such as low-emissions agriculture, agro-forestry, and ecosystem restoration. These sustainable land management (SLM) practices nearly always come with adaptation co-benefits.

Land degradation is connected to many factors that are directly or indirectly related to human activities, and occurs mainly because of over-exploitation of natural systems beyond their carrying capacity.

### **What is Land Degradation Neutrality (LDN)?**

Acknowledged by the international community since the United Nations Conference on Sustainable Development (Rio+20) in 2012, LDN is defined by the UN Convention to Combat Desertification (UNCCD) as: “a state whereby the amount and quality of land resources necessary to support ecosystem functions and services and enhance food security remains stable or increases”.

LDN is the state the world needs to move towards if we are to prevent further losses in social, ecological and economic capital caused by land degradation, and it can be achieved through approaches such as land restoration and sustainable land management (SLM).

To date, more than 110 national targets and priority actions have been identified at country level, creating an enabling environment for LDN investments.

Achieving LDN is included in the Sustainable Development Goals as target 15.3. LDN is closely linked to the other SDGs, and so the LDN Fund project will serve as a catalyst for progress in many areas.

### **How was the LDN Fund initiated?**

Based on the shared observation that public and philanthropic financing is not sufficient to support the required SLM and land restoration investments, and that the private sector has a crucial role to play, Decision 3 of the 12<sup>th</sup> Conference of parties (COP12) of the UNCCD mandated the Global Mechanism (GM) to assist in the creation of an independent Land Degradation Neutrality (LDN) fund to finance LDN initiatives.

**What is the LDN Fund's mission?**

The LDN Fund mission is to be a source of transformative capital bringing together public and private investors to fund triple bottom line projects that contribute to Land Degradation Neutrality.

**What is the LDN Fund concept?**

The LDN Fund is an innovative impact investment vehicle that will draw resources from both public and private investors committed to halting land degradation, and invest in profit-generating SLM and land restoration projects worldwide. It will support the operationalization of the LDN Conceptual Framework, which has as first priority the avoidance of degradation as it is more cost-efficient than reversing degradation. It will provide long-term financing to projects that meet strict environmental and social standards.

**Why is the LDN Fund needed?**

The Fund is being established upon the premise that mobilisation of public resources alone will not be sufficient to reach the SDG target of achieving LDN by 2030. Attracting increased private sector finance and investment for SLM and land rehabilitation is crucial to achieve LDN. The LDN Fund is an innovative financing mechanism that aims to catalyse huge private sector resources for SLM and land rehabilitation projects by leveraging public resources.

**What will be the impacts of the LDN Fund?**

The core aim of the LDN Fund is to generate positive environmental and socio-economic impacts, alongside financial returns, through its investments in sustainable land management (SLM) and land restoration projects. Specifically, by tackling land degradation, the LDN Fund is expected to generate the following benefits:

- ▶ Land degradation neutrality: LDN Fund investments should directly result in the large-scale reversal or reduction of land degradation
- ▶ Climate change mitigation: LDN projects should store a significant amount of additional CO<sub>2</sub>, and will also reduce GHG emissions compared to business-as-usual approaches
- ▶ Climate change adaption: SLM approaches will increase resilience for project areas, and the people that depend on them
- ▶ Improved livelihoods: Fund projects should create or support a large number of decent jobs<sup>1</sup>, predominantly in rural areas of developing countries
- ▶ Improved biodiversity: LDN Fund projects will use biodiversity-friendly SLM practices

The Fund will assess and report on the impacts of each investment on LDN using the three internationally agreed SDG 15.3 metrics and baseline data, amongst other Key Performance Indicators (KPIs).

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<sup>1</sup> In line with SDG 8: Decent work and economic growth. Creating jobs is not sufficient; jobs should protect labour rights and promote safe and secure working environments for all workers, and should not employ children [www.ilo.org/global/topics/decent-work](http://www.ilo.org/global/topics/decent-work)

### How will the LDN Fund benefit smallholder farmers?

While investees of the Fund will be project entities, the beneficiaries are expected to be smallholder farmers, and agriculture/forestry workers in developing countries, who will benefit from the Fund's investments in SLM projects that create outgrower schemes and new decent jobs.

Access to finance for smallholders and small businesses in most land use sectors is a big challenge, often preventing them from using SLM practices that could raise their productivity and incomes. For them, the LDN Fund project will channel capital through local financial institutions and intermediaries who commit to promote LDN relevant activities by small- and mid-sized responsible producers in sustainable land use sectors.

## 2. Management and partnerships

### Who promoted the LDN Fund project and who will operate it?

The LDN Fund is promoted by the UNCCD Global Mechanism (GM) and Mirova, a responsible investment firm. The LDN Fund received financial support from the Governments of France, Luxembourg, and Norway, and the Rockefeller Foundation, for its feasibility phase.

While the GM initiated and spearheaded the LDN Fund project, the Fund will be managed by Mirova, which was selected following a competitive process. Mirova is responsible for all fund management aspects, including structuring, marketing, investing, and reporting.

Such partnership between a UN convention and a private company is unique. An independent evaluation concluded that the "LDN Fund provides a rare case study of how the UN system can undertake meaningful, deep engagement with the private sector."<sup>2</sup>

*About Mirova: Mirova's philosophy is based on the conviction that integrating sustainable development themes can generate solutions that create value for investors over the long term: not only through better assessment of risks, but also by identifying favourable investment opportunities in a changing world.*

*Leveraging a comprehensive and consistent approach to responsible investing, Mirova provides a wide range of investment products and services through 5 centres of expertise: equities, fixed income, infrastructure, impact investing, and proxy voting & engagement. With €8.2 billion of assets under management, Mirova brings together nearly 70 multidisciplinary professionals including thematic investing specialists, engineers, financial & ESG analysts, and project finance experts<sup>3</sup>.*

*Mirova benefits from 15 years' experience in structuring and managing alternative asset funds (infrastructure, carbon, renewable energy) on behalf of prominent institutional investors, which combined with our planned partnership with impact investment manager and natural capital specialist Althelia Ecosphere should contribute to the success of the LDN Fund project.*

<sup>2</sup> 'Evaluation report: support to the development of the LDN Fund, UNCCD', February 2017

<sup>3</sup> Figures as at June 30, 2017

### **Who will invest in the Fund?**

One of the key aims of the Fund is to encourage more private investment in sustainable development. Targeted investors include public entities, Development Finance Institutions (DFIs) and philanthropic donors, as well as private investors such as pension funds and insurers<sup>4</sup>.

The fund will be capitalized by public and private investors with a target first closing of \$100m and a final closing of \$300m.

### **How will the Fund be structured?**

Using a blended finance approach, the LDN Fund will be structured as a layered fund with different classes of instruments (notes, shares), to bring in private investors that may otherwise not have invested in SLM projects. This capital structure can offer appropriate risk-return profiles for different investors. The junior tranche de-risks more senior tranches, encouraging investment from private investors.

The legal vehicle has been created in September 2017.

### **What will be the relationship with the UNCCD?**

Once the fund is operational, the UNCCD Executive Secretary is expected to chair the fund Advisory Board, which will provide a key link to the UNCCD and the LDN Target Setting Program.

### **How will technical assistance be provided?**

A technical assistance facility will support LDN project developers and facilitate project preparation and knowledge sharing. It will complement the LDN Fund in supporting the development of a large portfolio of attractive LDN projects.

## **3. Investment strategy, processes and governance**

### **What types of projects will the LDN Fund invest in?**

Land use projects and programmes that generate environmental and socio-economic benefits, alongside financial returns.

### **Which sectors will the LDN Fund invest in?**

Sustainable agriculture, sustainable forestry, and other LDN-related sectors, such as green infrastructure and ecotourism.

### **Which regions will the LDN Fund invest in?**

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<sup>4</sup> The fund will be available to professional clients only in accordance with MIFID.

The LDN Fund's investment scope is worldwide, and its investment strategy does not foresee allocations by countries/regions. It does however have a target capital allocation of at least 80% to developing countries.

**Will the Fund only invest in countries that have set a national LDN target?**

Priority is given to countries that participated in the UNCCD LDN Target Setting Programme. It is expected that the Fund will invest mainly in countries that have made an LDN national commitment, but this commitment is not required for an investment to be considered.

**What will be LDN Fund investment instruments?**

The Fund is designed to offer financing solutions that are not readily available in the market, providing finance and strategic benefits in ways other investors or banks might not, e.g. longer tenors, longer grace periods, and more flexible repayment schedules. The Fund will mainly provide junior debt and equity.

**Will LDN Fund provide grants?**

No. The LDN Fund will provide long-term financing (debt/equity) to projects that meet strict environmental and social standards and are able to generate financial returns. However, through LDN Fund's dedicated technical assistance facility, projects that require assistance to become bankable and investment ready can be supported.

**How will Fund investments create value?**

The Fund will invest in profitable projects with the aim of delivering competitive returns for investors. Sustainable agriculture and forestry can potentially offer attractive investment opportunities due to the rising global demand. Using improved agronomic practices helps to increase productivity, product quality and generate better returns, while sustainable certifications (e.g. Fairtrade, Rainforest Alliance, FSC) drive prices up.

**How will the Fund be governed?**

The Fund's governance structure includes an Investors' Committee, an Advisory Board and Mirova's internal committees.

- ▶ The Investors' Committee will be composed of representatives of key investors, and will have final oversight and decision-making responsibility for the Fund's governance.
- ▶ The Advisory Board will be composed of recognised experts in sustainable land use and public policy matters, and will provide overall guidance on fund positioning in relation to public good objectives. It will advise Mirova on any matter related to the Fund and particularly on Fund strategy, stakeholder engagement, and industry and sector insights. The Board will provide a key link to the UNCCD and the LDN Target Setting Program.
- ▶ Internal committees will include an investment committee, composed of senior Mirova employees in accordance with applicable regulations. The investment committee will be advised by an expert committee, composed of specialists in sustainable land management, rural development, developing countries and sustainable supply chains.

### **How will the investment process integrate environmental and social aspects?**

The LDN Fund has developed an Environmental and Social Management System (ESMS) that aims to meet international best practices while also attracting investment from the private and public sectors. This framework builds on the successful implementation of management systems developed for investment portfolios similar to the LDN Fund, and is based on the following principles:

- ▶ The ESMS is part of the LDN Fund’s policy framework and is an important element of its overall risk management and due diligence approach
- ▶ The ESMS is integrated into all aspects of the LDN Fund’s investment process

The ESMS addresses (i) risk management (through the E&S Standards and related processes to ensure they are observed) and (ii) positive impacts (including LDN contribution as a formal eligibility criteria).

Both for risk management and positive benefits, a project’s performance is assessed before investment decision, as part as the investment process, through an Assessment Procedure, and monitored after investment, through a Monitoring Procedure, allowing Mirova to assess actual benefits generated from the project and to ensure risk management remains adequate.

### **How will the Fund avoid or manage environmental and social risks?**

Projects need to comply with robust environmental and social standards. These standards were developed with support of an independent internationally acknowledged expert and benefited from a public consultation.

To complement these elements, the ESMS includes a Complaint and Compliance Mechanism, to ensure that project-affected populations have formal ways to voice their concerns about project matters that do not correspond to their expectations of a project or that could bring or actually do bring harm to them, as well as to help to identify and correct those causes for grievance that are directly or indirectly related to a lack of compliance with the LDN Fund E&S Standards.

### **How will the Fund avoid conflicts over land use and land grabbing issues?**

Commitments will be required from project operators, in accordance with current best practices: one of the eight E&S Standards of the LDN Fund is dedicated to land tenure. It is largely based on the VGGT (Voluntary Guidelines on the responsible Governance of Tenure, 2012). All project developers will be required to abide by the LDN Fund’s E&S Standards.

In addition, processes are defined to identify significant risks and assess risk management in place. Integration of land tenure issues will be included in all the steps of the pre-investment analysis process:

- ▶ Preliminary questionnaire to appraise the level of risk and identify potential critical issues
- ▶ In-depth analysis of risk management based on the operational Guide “Respecting Land and Forest Rights” aimed at aligning operations with the VGGT (The Interlaken Group and the Rights and Resources Initiative (RRI), 2015)
- ▶ Complementary review conducted by an external party for projects with material remaining risk.

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*Limited liability company - Share capital € 7 461 327, 50*

*RCS Paris n°394 648 216*

*Registered Office: 21 quai d'Austerlitz – 75 013 Paris*

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Regulated by AMF under n°GP 02-014  
RCS Paris n°394 648 216  
Registered Office: 21 quai d'Austerlitz - 75 013 Paris

**NATIXIS ASSET MANAGEMENT**

Limited Company - Share Capital: €50 434 604,76  
Regulated by AMF: GP 90-009  
RCS Paris n°329 450 738  
Registered Office: 21 quai d'Austerlitz - 75634 Paris