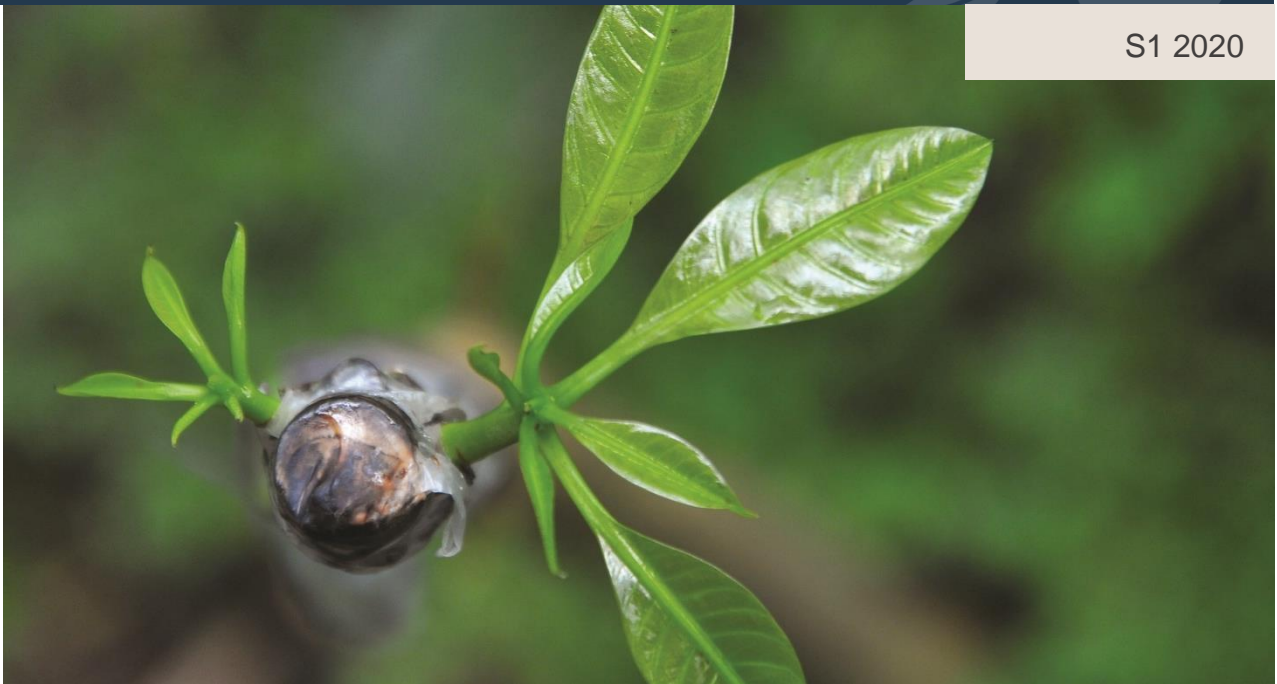


Land Degradation Neutrality initiative: Guidance for project developers

S1 2020



Introduction

This document provides information for project developers that are interested in an investment/financing from the Land Degradation Neutrality (LDN) initiative, managed by Mirova.

- The Land Degradation Neutrality (LDN) initiative targets profit-generating sustainable land management (SLM) and land restoration projects worldwide. It was initiated by the United Nations Convention to Combat Desertification (UNCCD) and is managed by French responsible investment firm Mirova, affiliate of Natixis Investment Managers.
- The LDN initiative has been fully operational since December 2018 and has secured over \$180m of commitments from investors to date.
- The LDN initiative provides long-term financing (debt/equity) for sustainable land use projects that will avoid, reduce or reverse land degradation. Projects must meet high environmental and social standards, as well as solid technical and economical requirements.
- Technical assistance can be provided by an associated donor-funded Technical Assistance (TA) Facility managed by IDH. Projects that are close to being investible may apply for project-preparedness grants from the TA Facility.

If you have a project that meets the criteria presented in this document, you are invited to send a summary, including key commercial and Environmental and Social information, as well as financing needs, to ldn@mirova.com. All potential projects will be reviewed, and feedback provided.

What are Land degradation and Land Degradation Neutrality?

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. 75% of the Earth's land area is already degraded, and over 90% could become degraded by 2050.

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. Sustainable land management (SLM) practices such as landscape restoration and agroforestry offer great opportunities to avoid, reduce and reverse land degradation, and produce significant environmental and social benefits.

Land Degradation Neutrality is a framework to support countries in their fight against land degradation. It is defined by the UNCCD as:

Land degradation neutrality is 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 within specified temporal and spatial scales and ecosystems.

The LDN objective translated into a national target for managing land degradation, and requires both:

1. Avoiding further degradation by use of sustainable land management techniques for all land uses
2. Working to restore already degraded land

Achieving LDN is included in the Sustainable Development Goals as target 15.3. Whether an area of land is considered to be contributing to LDN will be measured using the three official SDG sub-indicators: (i) land productivity, (ii) land cover change, and (iii) soil organic carbon.

Further information about the LDN concept can be found on [this link](#).

What is the LDN initiative?

The LDN initiative has been created in response to the great requirement (and opportunity) for more investment in sustainable land use and land restoration. It is an impact investment fund that will invest in profit-generating SLM and land restoration projects worldwide to reduce or reverse land degradation.

Public resources alone will not be sufficient to reach the SDG target of achieving LDN by 2030; attracting increased private sector investment for SLM and land rehabilitation is crucial. The LDN initiative is an innovative financing mechanism that aims to catalyze the huge available pool of private capital.

The LDN initiative is	The LDN initiative is not
✓ The LDN initiative is a <i>public-private vehicle managed by a private company</i> , Mirova, and initiated by UNCCD to accompany the LDN target by 2030.	✗ The LDN Initiative is not a public institution nor a UN body. <i>It will nevertheless work in close relationship with public entities.</i>
✓ The LDN initiative provides financing with expectations in terms of environmental and social impact.	✗ The initiative does not finance projects with no positive environmental & social impact.
✓ The LDN initiative provides financing with expectations in terms economic/financial return.	✗ The initiative does not provide any grants. <i>A TA Facility set up in parallel of the Initiative can provide technical assistance on a grant basis.</i>
✓ The LDN initiative finances operators for the implementation of sustainable land use projects.	✗ The LDN initiative does not acquire land nor does it manage projects directly. <i>In addition, specific due diligence is established to avoid land grabbing-issues.</i>
✓ The LDN initiative finances real economy and sustainable land use projects able to repay the initial financing, which in turn will generate a return in cash to the initiative shareholders	✗ The LDN initiative is not a carbon initiative : it does not directly purchase carbon credits from projects, nor does it provide return in kind in the form of carbon credits to its shareholders. <i>The Initiative is however designed as a “climate initiative” as it contributes to climate change mitigation and adaptation.</i>

Further information on the LDN initiative can be found on [this link](#).

LDN investments

The LDN initiative provides long-term financing (debt/equity) for sustainable land use projects that will avoid, reduce or reverse land degradation. Projects will have to demonstrate that they can meet robust commercial and environmental and social standards. The initiative provides financing solutions that are not readily available on the market by offering long term flexible financing, tailored to the needs of individual projects.

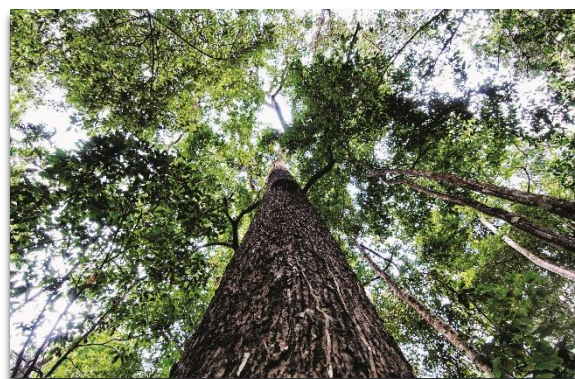
- Long-term debt or equity financing can be provided, for **up to 15 years**.
- Investment tickets are ideally between **US\$10m and US\$30m**.
- Interest rates / expected returns will be **market-based**, not concessional.
- Repayment schedules can be flexible, with **long grace periods** if required.
- Investees must be **private-sector entities**.

Eligibility criteria

Investment opportunities must be land-based projects that can avoid, reduce or reverse land degradation, while producing financial returns. Projects should meet all the criteria listed below:

a. Impact criteria

- Contribution to Land Degradation Neutrality: Projects should demonstrate **how they avoid/reduce/reverse land degradation**. In practice, most sustainable agriculture and forestry projects can be positively linked to land protection/restoration.
- Environmental & social benefits: Projects should **benefit local communities** and ecosystems.
- Environmental & social (E&S) risk management: Projects will have to **comply with robust E&S standards**.
- Additionality: The initiative will support **projects that traditional funders or banks do not provide suitable financing** for.
- Scale: Projects should **positively impact a large area** and/or have a significant replicability potential.



b. Financial/Risk criteria

Projects must demonstrate the ability to generate economic/financial returns starting within around 5 to 7 years, with an appropriate risk profile and management:

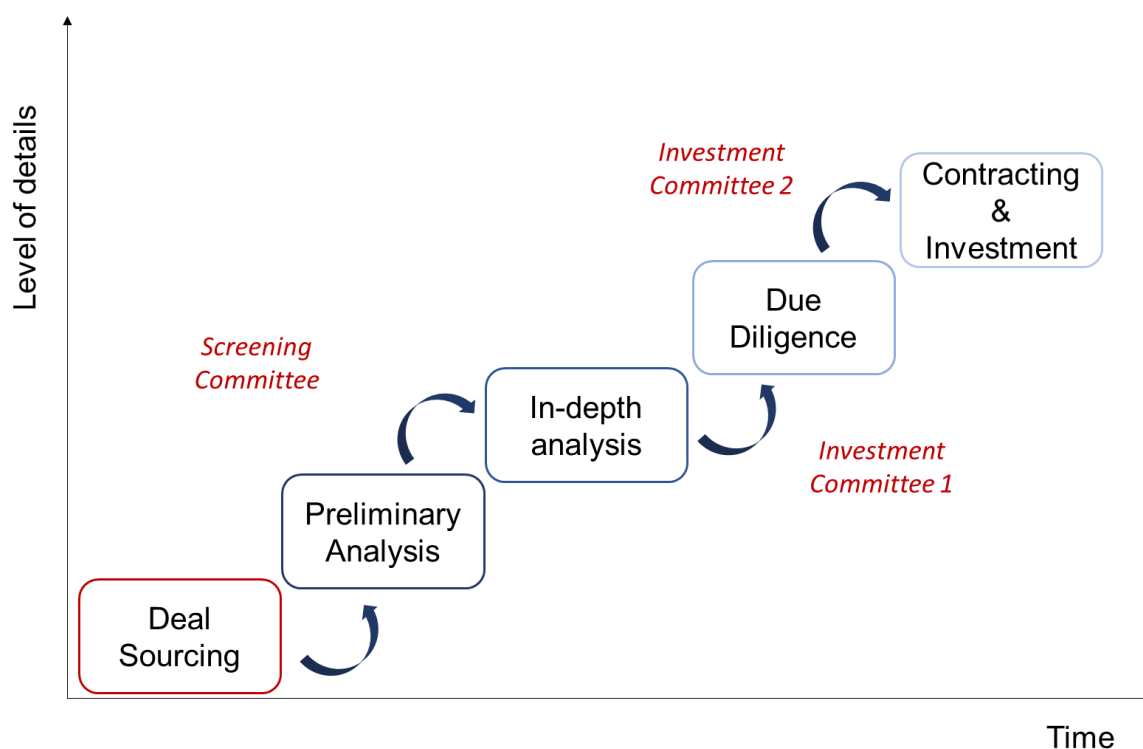
- There should already be a **significant track record** and a **detailed business model** showing the revenues and costs for the project, with a **clear link to value chains**. Agronomy as well as operations and governance aspects are also critical.

- The LDN initiative **is not designed to finance pilot-projects**; potential projects should have completed a successful pilot/feasibility phase and be looking to scale up.
- The LDN can **also assist conventional actors that show a strong commitment to convert to sustainable and LDN targeted practices**. The primary source of revenues of the project must be linked to the commercialization of the good or service.



The investment process

The investment process has five main steps, as shown below. Each step involves collecting increasingly detailed information about the investment opportunity and completing in-depth analyses, to understand the project’s potential performance and associated risks.



Each step in the process ends with a go/no go decision; an investment opportunity progresses if the investment is deemed to be in line with the initiative’s investment criteria and ESG Policy. As an opportunity advances through the investment process we will provide the project developer with appropriate information on our policies and requirements, as well as tools and templates to help them collate and present the necessary information.

In the section below, we outline what information is required from project developers, how we will gather that information and how we decide whether to proceed at each step. Due to the complex nature of investments we are unable to provide set schedules for each step, but we will provide an estimated timeline and will keep you informed about progress.

(i) Preliminary analysis

This phase will focus on whether the project appears to meet the eligibility criteria listed above. Project developers will be asked to provide written materials and/or data room access. A **'Project Information Form'** template can be provided to gather key information. Potential deal structures can be discussed.

The management team will summarize the results of this phase in a brief **'Project Opportunity Note'**. This will be reviewed by the senior manager and then be approved or rejected, or more detail will be requested.

Documents provided by the LDN initiative
<ul style="list-style-type: none"> - Standard NDA - Project Information Form template ("PIF") [optional]
Information needed from counterparty
<ul style="list-style-type: none"> - Completed Project Information Form - Initial materials/deck/company profile, financial statements - Relevant business plans / feasibility studies - Financial model
Documents produced by the LDN initiative
<ul style="list-style-type: none"> - Project Opportunity Note (internal) - Non-binding Letter of Interest (optional)

(ii) In-depth analysis

In this stage there will be an in-depth analysis of all aspects of the project, including commercial, governance, risk, ESG, etc. A site visit will be carried out at this stage. A deal structure and draft term sheet are agreed. An Expert Committee will be consulted for an opinion on the project.

The results of the in-depth analysis will be written up as an **Investment Committee Memo (IC1 Memo)**, which will be presented to the first Investment Committee. This will give a formal go/no-go decision, or request clarifications or further detail.

Documents provided by the LDN initiative
<ul style="list-style-type: none"> - ESG policy of the LDN initiative and screening questionnaire - Legal and 'know your client' document guidance - Due diligence kick-off documentation
Information needed from counterparty
<ul style="list-style-type: none"> - Full data room access - Detailed financial model - Detailed information on business model, links to value chain, market trends etc. - Detailed information on all the partners involved - Completed ESG questionnaires, and responses to follow-up questions
Documents produced by the LDN initiative
<ul style="list-style-type: none"> - First Investment Committee Memo (IC1 memo, internal) - Draft term sheet

(iii) Due diligence

If the first Investment Committee approves the deal as presented, a due diligence process will be conducted.

Due diligence will be led by the LDN Fund investment team, including a site visit from both investment and E&S staff. Third party service providers will be engaged to assess specific aspects, such as land tenure or agronomy concerns.

The due diligence report is presented to the Expert Committee for consideration. Any Expert Committee comments are then sent with the updated **Investment Committee Memo (IC2 Memo)** to the Investment Committee for review, and a final investment decision.

Documents provided by the LDN initiative
- Due diligence information gathering requests
Information needed from counterparty
- Legal documents as requested
- Data/evidence to support the business plans/models provided
- Interviews with key staff and stakeholders
- Site visit
Documents produced by the LDN initiative
- Due diligence report (internal)
- IC2 Memo (internal)
- Updated term sheet / draft financing legal documentation

(iv) Contracting and Investment

The Second Investment Committee (IC2) will review all the information presented and decide whether the investment can go ahead, any changes that are necessary to the investment structure, and any additional contractual terms that need to be added.

Final contract negotiations will then take place, as well as a contractual review by our lawyers.

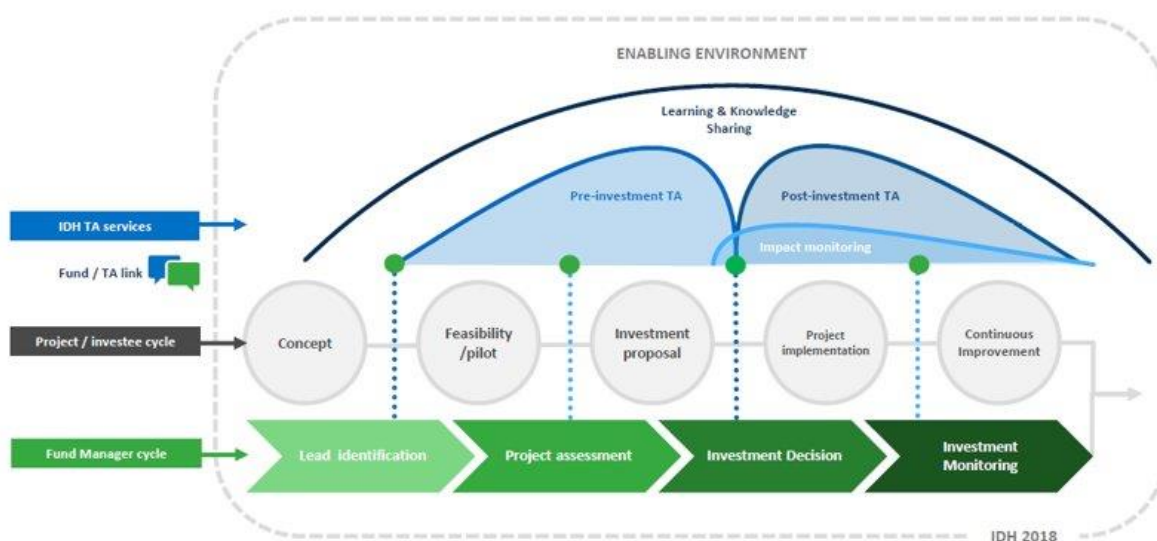
The LDN Technical Assistance Facility

The LDN Technical Assistance Facility (TAF) was established to help project developers get ready for investment, and link projects to the LDN Fund and LDN impacts.

TA is essentially advisory, assistance or training that is provided to enable the investment transaction, reduce risk and increase development impact. The LDN TAF can provide grants and reimbursable grants to (potential) LDN Fund investment projects, to improve technical quality, and strengthen environmental and social impact, so that the investment project meets the Fund investment criteria.

Managed by Dutch foundation IDH, the LDN TAF will provide the following assistance to projects to be financed by the fund:

- **Pre-investment TA**, for projects that are developing an investment proposal, to provide support to meet the LDN Fund investment criteria.
- **Post-investment TA** to projects in the implementation phase, so that project developers have greater capacity to implement projects to a higher technical standard and/or with increased positive social and environmental impacts.
- **Impact monitoring**, including on LDN indicators. This enables project developers and the LDN Fund to better monitor their impacts and practice adaptive management more effectively.
- **Learning and knowledge sharing** of successful models for sustainable land management investments, beyond the LDN fund and its projects.



The LDN TAF will limit its assistance to projects in developing countries in accordance with the Development Assistance Committee (DAC) list of Official Development Assistance (ODA) recipients. The LDN TAF will only enter into contract with project developers that ensure that all of their suppliers, contractors, subcontractors, consultants or subconsultants comply with international and national environmental and labor standards.

Further information on the LDN TA Facility can be found on [this link](#)

CONTACT:**For inquiries please contact:**

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