

# Land Degradation Neutrality (LDN) Fund

An innovative impact investment fund  
for sustainable land use, with a linked TA Facility

Q1 2022





THE GLOBAL  
MECHANISM  
United Nations Convention  
to Combat Desertification



## SUMMARY

The Land Degradation Neutrality (LDN) Fund, co-promoted by the United Nations Convention to Combat Desertification (UNCCD) and Mirova, is a **first-of-its-kind impact investment fund** investing in profit-generating sustainable land management (SLM) and land restoration projects worldwide.

The LDN Fund has secured **\$208m** of commitments from investors, and achieved last closing in March 2021.

The LDN Fund provides **long-term financing (debt/equity) for sustainable land use projects** that will reduce or reverse land degradation. It operates according to robust environmental and social standards, which are integrated into a comprehensive E&S Management System (ESMS).

**220+ potential investment opportunities** have been identified and assessed to date, and the Fund has a well-developed pipeline in Africa, Asia, and South America, with several projects already financed and others under active consideration.

The Fund uses a **layered structure**, leveraging public money to increase private sector investment in sustainable development.

Technical assistance is provided by an **associated donor-funded Technical Assistance Facility managed by IDH**, increasing positive development impacts, reducing ESG risks, and facilitating knowledge sharing.



# The challenge 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 the 2018 World Atlas of Desertification produced by the European Commission, 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 reduce and reverse land degradation, and produce significant environmental and social benefits.

## Land Degradation Neutrality (LDN)

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 SLM practices. 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 will serve as a catalyst for progress in many areas.





# The LDN Fund

The LDN Fund 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 invests in profit-generating SLM and land restoration projects worldwide to reduce or reverse land degradation. It will provide long-term financing to projects that meet strict environmental and social standards.

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 Fund is an innovative financing mechanism that aims to catalyse the huge available pool of private capital by leveraging limited public resources.

The LDN Fund is promoted by the UNCCD Global Mechanism (GM) and Mirova, a responsible investment firm. The GM initiated and spearheaded the LDN Fund project, with the Fund structured and managed by Mirova.

## MIROVA

Responsible investment specialist Mirova provides a wide range of investment products and services. With €28.6 billion of assets under management, Mirova brings together 140 multidisciplinary professionals including thematic investing specialists, engineers, financial & ESG analysts, and project finance experts<sup>1</sup>. Mirova benefits from over 15 years' experience in structuring and managing alternative asset funds (infrastructure, carbon, renewable energy) on behalf of prominent institutional investors.

<sup>1</sup> Figures as at 31<sup>st</sup> December 2021

# LDN Fund impacts

The LDN Fund aims to generate positive environmental and socio-economic impacts, alongside financial returns, through its investments in SLM and land restoration projects. Specifically, by tackling land degradation the LDN Fund is expected to produce 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 support many decent jobs, predominantly in rural areas of developing countries, helping to lift people out of poverty. In addition, the Fund will promote gender equality and social inclusion from project design through to implementation on the ground

**Improved biodiversity:** LDN Fund projects will use biodiversity-friendly SLM practices

The Fund will monitor the LDN contribution of each investment using the official SDG 15.3 metrics, as well as other social and environment indicators. Mirova and IDH have partnered with Conservation International to develop a toolkit for measuring the LDN indicators

# Investment strategy

The LDN Fund will provide long-term financing (debt/equity) to projects and programmes in the following sectors:



The Fund will only consider projects that can make a significant contribution to reducing and reversing land degradation while producing appropriate risk-adjusted returns. To maximise impact, the LDN Fund is designed to offer financing solutions that are not readily available in the market, and should provide finance and strategic benefits in ways other investors or banks might not.

**Investment opportunities must be land-based projects that fulfil and demonstrate the following eligibility criteria:**

**Contribution to LDN:** projects have to demonstrate clear benefits of land rehabilitation and/or degradation avoidance

**Other benefits:** projects should demonstrate benefits to other environmental aspects including climate change mitigation / adaptation, biodiversity protection, etc. In addition, as land use is closely linked to social conditions, projects should clearly benefit local communities.

**Environmental & Social (E&S) risk management:** robust E&S Standards are an integral part of the Fund's approach, and ensure the responsible handling of E&S risk

**Additionality:** financing should be additional and complementary to what is available from traditional development and commercial funding sources

**Scale:** the Fund is designed to support large-scale land degradation reduction/reversal in order to contribute to LDN, so projects should positively impact a significant area

**Risk-return profile:** projects must be able to generate positive financial returns with an appropriate risk profile, by delivering tangible goods and/or services

The Fund's target allocation by invested capital is 60% sustainable agriculture, 30% sustainable forestry, and 10% other SLM-related sectors. Geographical scope of investments is worldwide, in line with the global nature of the SDGs, but the focus is only on developing countries. The Fund will be well-diversified between different sectors, business models, and regions.

## VALUE CREATION

As an impact investment fund, the LDN Fund targets projects that can deliver financial returns as well as development impacts. Sustainable agriculture and forestry can offer attractive investment opportunities due to rising global demand for sustainable commodities, and well-structured projects can create shared value for both producers and investors:

Improved agronomic practices help to increase yields and quality, generating better returns

Sustainable certifications (e.g. Fairtrade, Rainforest Alliance, FSC) mean that producers can get better prices

Payments for ecosystems services, such as carbon credits, can provide an additional source of revenue

Better access to market, e.g. by linking coops to international buyers, can increase incomes

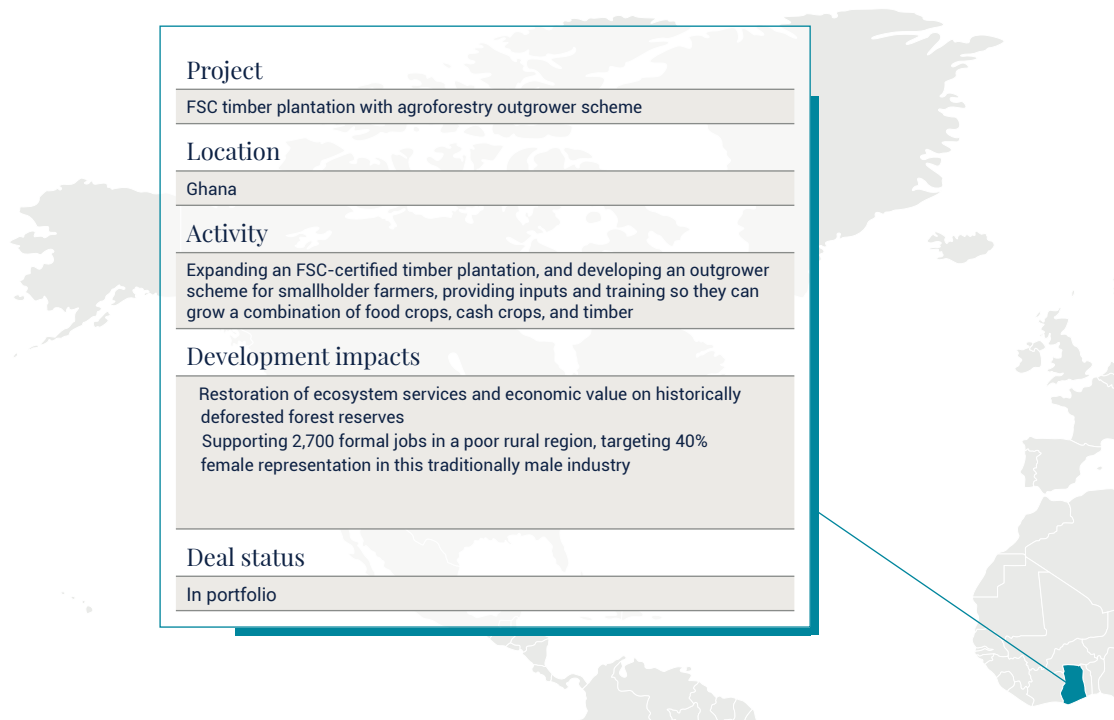
Consolidating the value chain by constructing processing facilities can capture more value for producers




# LDN Fund investments

The LDN Fund has a well-developed pipeline of potential projects.

Examples of investments include:

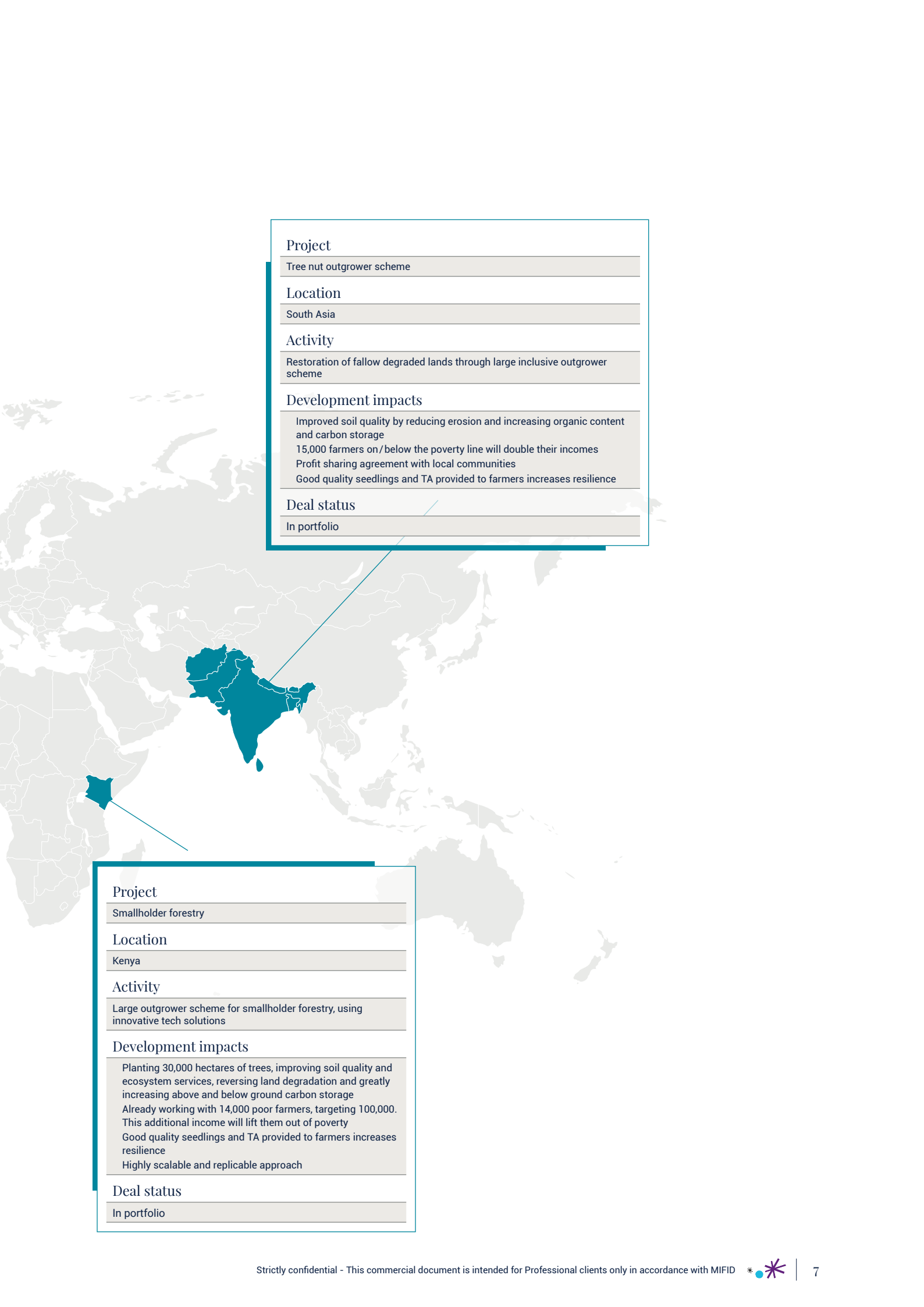


<b>Project</b>
FSC timber plantation with agroforestry outgrower scheme
<b>Location</b>
Ghana
<b>Activity</b>
Expanding an FSC-certified timber plantation, and developing an outgrower scheme for smallholder farmers, providing inputs and training so they can grow a combination of food crops, cash crops, and timber
<b>Development impacts</b>
Restoration of ecosystem services and economic value on historically deforested forest reserves Supporting 2,700 formal jobs in a poor rural region, targeting 40% female representation in this traditionally male industry
<b>Deal status</b>
In portfolio



<b>Project</b>
Agroforestry coffee cooperatives
<b>Location</b>
Peru
<b>Activity</b>
Loans to Fairtrade organic smallholder farmers to implement coffee agroforestry systems
<b>Development impacts</b>
Reduced deforestation and restore degraded lands through organic agroforestry systems Increase carbon stock above and below ground, up to 31M tCO <sub>2</sub> emissions avoided Supporting around 10,000 smallholders, with financing, TA, improved access to market, and increased incomes Shade grown coffee has increased resilience to climate change
<b>Deal status</b>
In portfolio





### Project

Tree nut outgrower scheme

### Location

South Asia

### Activity

Restoration of fallow degraded lands through large inclusive outgrower scheme

### Development impacts

Improved soil quality by reducing erosion and increasing organic content and carbon storage  
15,000 farmers on/below the poverty line will double their incomes  
Profit sharing agreement with local communities  
Good quality seedlings and TA provided to farmers increases resilience

### Deal status

In portfolio

### Project

Smallholder forestry

### Location

Kenya

### Activity

Large outgrower scheme for smallholder forestry, using innovative tech solutions

### Development impacts

Planting 30,000 hectares of trees, improving soil quality and ecosystem services, reversing land degradation and greatly increasing above and below ground carbon storage  
Already working with 14,000 poor farmers, targeting 100,000. This additional income will lift them out of poverty  
Good quality seedlings and TA provided to farmers increases resilience  
Highly scalable and replicable approach

### Deal status

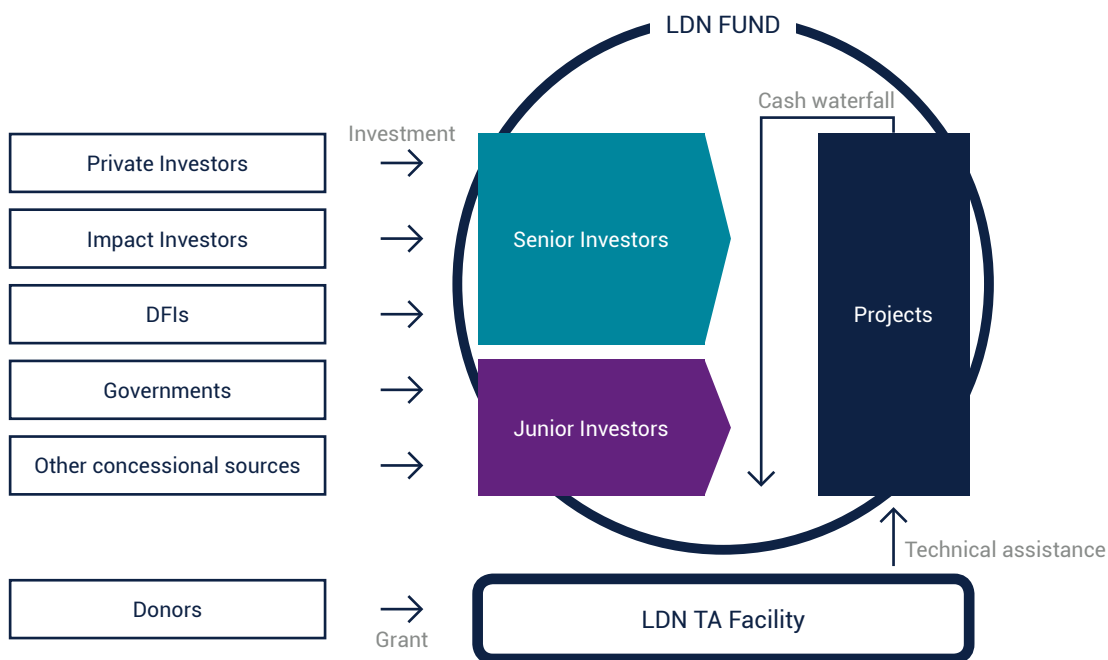
In portfolio

# LDN Fund structure and investors

A key aim of the LDN Fund is to attract private investors that may otherwise not have invested in sustainable land management projects, particularly institutional investors such as pension funds and insurers. It therefore uses a layered capital structure to offer appropriate risk-return profiles for different investors, with two classes:

**Junior investors** take a first-loss position in the fund, partially protecting senior investors. Junior investors are typically public organisations such as national development agencies, climate funds, or private foundations. These investors are targeting environmental and social development impacts first, before financial returns, so are willing to accept higher risks/lower returns. They invest in the LDN Fund because their junior participation catalyses additional private investment in the senior layer, increasing the overall amount of investment in sustainable development.

**Senior investors** are typically institutional investors such as pension funds, insurance companies, and development banks. These investors require market financial returns with a low risk profile, which is provided by the layered structure of the LDN Fund. They are often also looking to diversify their portfolios, and want to invest in real assets that are decorrelated with other asset classes. At the same time, most senior investors are also interested in the positive development impacts of the fund, but require these impacts to be in addition to an appropriate risk-return profile.



In March 2021, the LDN Fund reached final close at \$208m of commitments to date from investors.

Investors include :

- Public partners: Agence Française de Développement, European Investment Bank, DEFRA, Global Affairs Canada, the Government of Luxembourg,
  - Private partners: Allianz, BNP Cardif, Fondation and Natixis Assurances.
- Private capital represents more than 60% of the fund size.





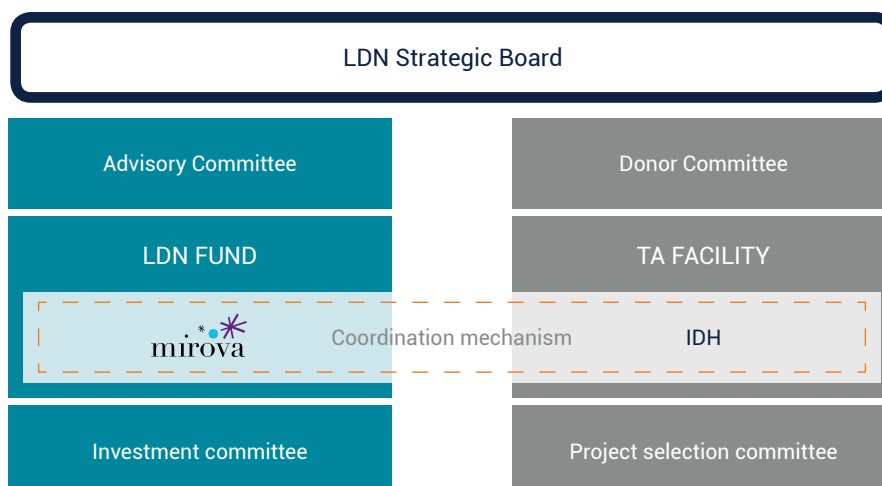


# LDN Fund governance

Governance arrangements are in line with recognised best practices for alternative investment funds, with an additional Strategic Board to provide strategic guidance. The investment process is managed internally by Mirova through specific procedures and committees.

The Strategic Board advises the Fund on strategy and provides a link to public good objectives. An Advisory committee composed of key investors provides oversight on certain Fund governance aspects, with an internal Investment committee making independent investment decisions.

The associated TA Facility shares the LDN Strategic Board, to ensure that both initiatives remain aligned with LDN objectives, with a coordination mechanism to manage the collaboration between Mirova and IDH.



## Partnership with WWF

Mirova and WWF France have had an official partnership since 2017, with WWF supporting the LDN Fund on areas such as:

- **DEAL-SOURCING** – identification and analysis of potential project opportunities in the WWF network
- **ESG** – advice on impact monitoring and reporting indicators
- **LOCAL SUPPORT** – access to on-the-ground expertise from WWF's global network of offices
- **STRATEGIC DIRECTION** – WWF France provide guidance via their seat on the LDN Fund's Strategic Board
- **ADVOCACY** – promotion of land restoration as a biodiversity, climate, and livelihoods solution

As part of the partnership, WWF France has hired an expert on land restoration and impact investing, to work with the LDN Fund.



# Provision of technical assistance

The LDN Fund Technical Assistance (TA) Facility will provide grants to support projects seeking investment from the LDN Fund. The TA Facility will help to build a strong portfolio of project by increasing positive impacts and reducing commercial and ESG risk. It will also help the Fund to monitor its impacts, and coordinate learning and knowledge sharing activities.

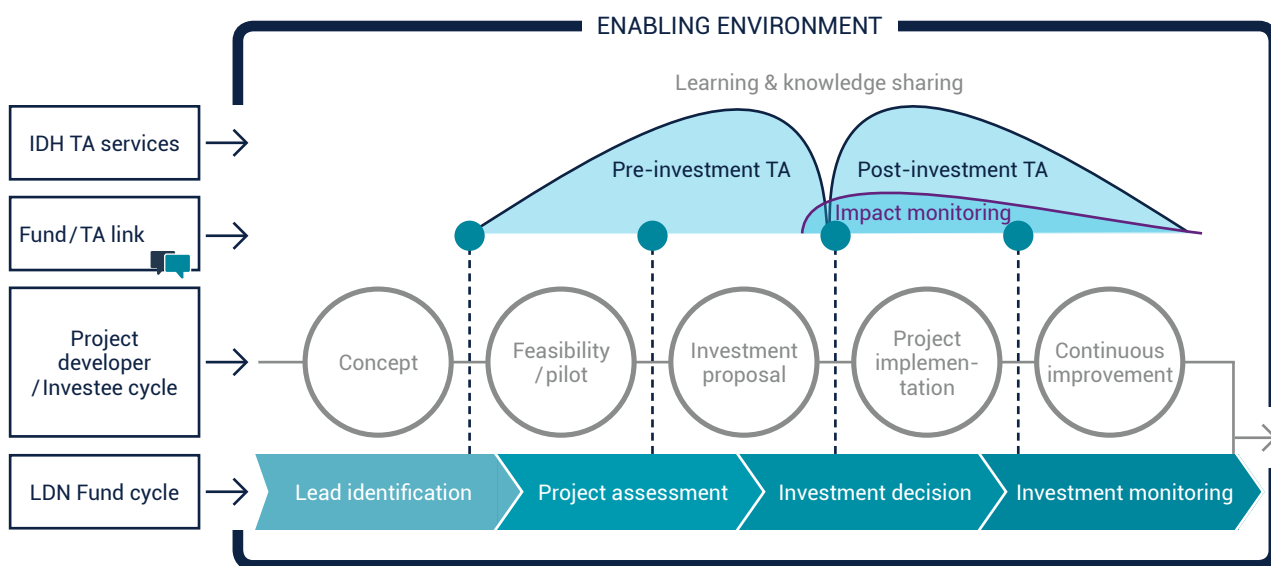
## The four key workstreams for the TA Facility are:

Pre-investment stage project design support, to build a strong and balanced portfolio of investable projects for the LDN Fund

Post-investment assistance 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

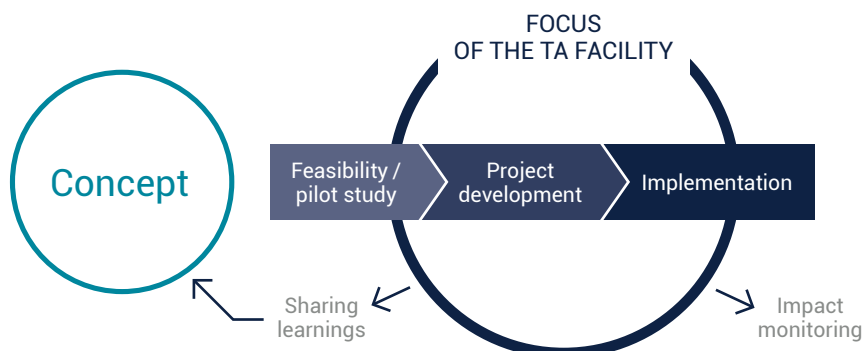
Impact monitoring, including of LDN impacts. This enables project developers and the LDN Fund to better monitor their impacts and practice adaptive management more effectively

Learning & Knowledge Sharing of successful models for sustainable land management investment, beyond the LDN Fund and its projects.



The TA Facility will be funded by donor contributions, with a target size of 5% of the Fund's size. Current donors include the French Development Agency (AFD) and the Global Environment Facility (GEF).

The Facility is managed by the IDH Sustainable Trade Initiative, an international NGO specialising in making supply chains more sustainable. They have extensive expertise in smallholder agriculture, supply chains, and innovative finance, and their global network of offices will be able to support LDN Fund activities on the ground.



## FUND INFORMATION

Fund name	Land Degradation Neutrality Fund SLP
Fund Manager	Mirova
Subscription period	Until March 2021
Investors	Public, donors, development finance institutions, private investors
Fund life	15 years
Fund size	USD 208m



## MAIN RISKS<sup>1</sup>

Main risks	Description	Mitigants
Deal flow risk	Inability to deploy capital in a swift manner	Mirova has assembled a team made of natural resources and fund management practitioners. The team brings a broad international sourcing network with a track record of successful transaction execution, ensuring a steady deal flow of investment ready opportunities.
Operational risk	Risk of loss incurred for failed internal processes	Mirova has developed robust investment processes, building on Natixis Investment Managers' internal controls and existing support functions.
Liquidity Risk	Inability to exit investment	The LDN fund is primarily looking at providing its investees with long term debt. Equity investments will only be made in assets that are actively sought by strategic or secondary buyers and will not represent more than 30% of portfolio
Country risk	Adverse conditions arising from possible changes in the business environment (mass riots, civil war, etc.)	Portfolio diversification will limit exposure to a given country. The team constantly liaises with Natixis's Country Risk department, which is consulted for every investment appraisal. Political risk insurance policies can be purchased if deemed necessary.
Market risk	Risk of losses for the Fund arising from a fluctuation in the market value of the positions in its portfolio which can be attributed to a change in the market variables	The LDN Fund will strive to invest into projects that generate revenues that are decorrelated from mainstream commodity markets, or require specific hedges. Portfolio diversification is also critical.
Currency risk	Currency of production and sale are different. Currency pairs subject to swings between USD and emerging market local currencies.	The LDN Fund intends to finance operators that have their currency of borrowing match their currency of revenues, thus eliminating FX risk. Financing in local currency will be limited.
Project risk	The risk of losses related to operation incidents arising on the underlying projects.	Main project risks are examined in advance during a thorough due diligence process, using a risk matrix developed in-house and third party consulting firms.
Capital loss risk	Risk of capital loss for investors	Prospective investors should have the ability to understand the risks involved as well as sufficient financial means to bear the loss of their investment

<sup>1</sup> Indicative risks description. Prospective investors should have the ability to understand the risks involved as well as sufficient financial means to bear the loss of their investment. The subscription or the purchase of the Fund's shares or interests should be considered only by prospective investors who do not require liquidity with respect to their investment in the Fund for the duration of the fund and who can afford a loss of their entire investment.

# Thank you!

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MIROVA

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Regulated by AMF under n°GP 02-014 – 75013 Paris  
RCS Paris n°394 648 216  
Registered Office: 59, avenue Pierre Mendes France – 75013 Paris  
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Under Mirova's social responsibility policy, and in accordance with the treaties signed by the French government, the funds directly managed by Mirova do not invest in any company that manufactures sells or stocks anti-personnel mines and cluster bombs.

The fund is established as a Luxembourg special limited partnership and is an Alternative Investment Fund in accordance with the AIFM Directive.

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