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**Committee for the Review of the Implementation of the Convention**

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**Effective implementation of the Convention at national, subregional and regional levels**

**Update on the operationalization of the Land Degradation Neutrality Fund**

**Operationalization of the Land Degradation Neutrality Fund**

**Report by the Global Mechanism\***

*Summary*

This document was prepared in response to decision 14/COP.14 to include an item on the update on the operationalization of the Land Degradation Neutrality Fund (LDN Fund) on the agenda of the nineteenth session of the Committee for the Review of the Implementation (CRIC).

This document presents information concerning the activities that the Global Mechanism conducted during the early stage of spearheading the establishment of the LDN Fund. Subsequently, it offers a summary of the key elements on the operations of the LDN Fund and Technical Assistance Facility by outlining the business model of the LDN Fund, including the investment process, operational modalities and project pipeline of the LDN Fund and Technical Assistance Facility.

Finally, the document offers conclusions for consideration by the CRIC.

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\* The Land Degradation Neutrality Fund (LDN Fund) and Technical Assistance Facility are managed independently by Mirova and the Sustainable Trade Initiative (IDH), respectively. Hence, most of the information conveyed in the present document and particularly chapter IV on the operations of the LDN Fund was produced based on information submitted by Mirova and IDH and from publicly accessible sources, including the websites of the two companies.



## Contents

	<i>Paragraphs</i>	<i>Page</i>
I. Introduction .....	1–3	3
II. Background .....	4–5	3
III. Operationalization of the Land Degradation Neutrality Fund .....	6–9	3
IV. Operations of the Land Degradation Neutrality Fund .....	10–20	4
V. Conclusions .....	21–22	7

## I. Introduction

1. By its decision 13/COP.14, the Conference of the Parties (COP) invited Mirova, as the manager of the Land Degradation Neutrality Fund (LDN Fund), to provide regular updates on its operations, including detailed information on the selection of projects and the definition of priorities by the Fund and, along with the Global Mechanism (GM), to provide support and capacity-building for accessing the LDN Fund. The same decision also requests the GM to submit a report on the operations of the LDN Fund at sessions of the Committee for the Review of the Implementation of the Convention (CRIC).
2. By its decision 14/COP.14, the COP decided to include an item on the update on the operationalization of the LDN Fund for the nineteenth session of the Committee for the Review of the Implementation (CRIC 19). In response to this decision, the GM, in partnership with Mirova (the manager of the LDN Fund) and the Sustainable Trade Initiative (IDH) (the manager of the LDN Fund Technical Assistance Facility (TAF)), prepared this document to provide an update on the operationalization and operations of the LDN Fund and TAF.
3. This document is structured as follows: Chapter I provides an introduction; chapter II shares the background of the report and the LDN Fund initiative; chapter III summarizes the process taken as per the operationalization of the LDN Fund and TAF; chapter IV provides updates on the operations of the LDN Fund and TAF; and chapter V contains conclusions for the consideration of Parties at CRIC 19.

## II. Background

4. Based on decision 3/COP.12, which requested the Managing Director of the GM to assist in the possible creation of an independent LDN fund, and in conjunction with decisions 18/COP.12 and 18/COP.11, the GM spearheaded the establishment of the LDN Fund to assist Parties in accessing innovative sources of funding and private sector investment.
5. The LDN Fund is designed to mobilize blended public and private sector funding to support the large-scale rehabilitation of degraded land and land degradation avoidance through sustainable and productive land management/use, thereby contributing to the implementation of the Convention and the achievement a land degradation neutral world, as part of the 2030 Agenda for Sustainable Development (i.e. Sustainable Development Goal (SDG) target 15.3). The Fund's mission is to be a source of transformative capital, bringing together public and private investors to fund triple bottom line projects that contribute to LDN. As an impact investment fund that invests in profit-generating sustainable land management and land restoration projects worldwide to reduce or reverse land degradation, the LDN Fund provides long-term financing, using debt and equity, with expectations in terms of economic/financial return and environmental and social impact. The Fund finances operators for the implementation of sustainable land use projects.

## III. Operationalization of the Land Degradation Neutrality Fund

6. During the early stage of the LDN Fund initiative, the GM facilitated the LDN Fund's initial design with the financial support from the governments of France, Luxembourg and Norway, and the Rockefeller Foundation. This included conducting feasibility studies on the market as well as on the environmental and social standards, designing the legal framework, preparing the legal documentation, conducting prudential and market analyses, developing financial models and contributing to the establishment of the infrastructure to support the development of the project pipeline, including the setup of the TAF. The GM also supported relevant outreach activities, including preparing communication materials and facilitating the presentation of its vision and expected impacts to target audiences. In parallel, the GM complemented its in-house capacity to design the business model of the LDN Fund by procuring the services of external companies to draw on their expertise in impact investing.
7. The GM published a call for expression of interest on 2 July 2015 on the UNCCD website with the aim of identifying qualified asset management firms that would be

committed to acting as a co-promoter to develop and implement the LDN Fund, co-lead the structuring and establishment of the LDN Fund, identify and secure anchor investors, and provide global fund management services. The French investment management firm Mirova, an affiliate of Natixis Investment Managers, was selected through a competitive process between 1 July 2015 and 7 September 2015 as the preferred candidate with which to engage in further discussions regarding the fund structuring partnership with the GM. Subsequently, the LDN Fund completed key developmental and structuring activities, which led to the legal establishment of the LDN Fund in the form of the Luxembourg Special Limited Partnership. These efforts culminated in the launching of the LDN Fund on 12 September 2017 at the thirteenth session of the COP in Ordos, China. Following this formal launch, the LDN Fund has been fully operational since December 2018 with a successful first capitalization closing. Mirova, as the manager of LDN Fund, then selected IDH as the partner to develop and manage the TAF through a process of competitive tendering. IDH is an international non-governmental organization specializing in sustainable supply chains, with extensive expertise in smallholder agriculture, supply chains and innovative finance.

8. Once Mirova was selected as the fund manager and took on the full responsibility to manage the LDN Fund independently, the engagement of the GM mainly focused on linking country Parties and project developers with the managers of the LDN Fund and the TAF while facilitating the introduction of interested public sector investors, such as country Parties, to the LDN Fund and the TAF. The Executive Secretary of the UNCCD serves as a Chair of the advisory Strategic Board of the LDN Fund and the TAF, which also comprises the heads of the Rio conventions, to provide strategic guidance to the managers of the LDN Fund and the TAF in line with the objectives of the three Rio conventions. In January 2019, the inaugural Strategic Board meeting took place in Paris, in the presence of the Executive Secretary of the UNCCD, the UNCCD COP Presidency, the Executive Secretary of the United Nations Framework Convention on Climate Change, as well as representatives of civil society organizations (CSOs), the Science-Policy Interface and the World Wildlife Fund (WWF).

9. According to Mirova, as of October 2020, the LDN Fund has secured over USD 170 million in commitments from a wide range public and private investors, with USD 140 million currently deployable. Public investors – the Agence Française de Développement, European Investment Bank, Grand Duchy of Luxembourg and the United Kingdom of Great Britain and Northern Ireland’s Department for Environment, Food & Rural Affairs were joined by private investors, including the North American private investor Fondation, the Fondation de France, and insurance companies Allianz, BNP Paribas Cardif, Garance and Natixis Assurance. Given the COVID-19 situation, the fundraising period was extended until December 2020 with the aim of reaching the target fund size of USD 200–300 million. The TAF, as of 1 January 2019, manages USD 5 million, through combined commitments of the Agence Française de Développement and the Global Environment Facility (through the WWF United States as implementing agency).

#### **IV. Operations of the Land Degradation Neutrality Fund**

10. The LDN Fund offers financing solutions that are not readily available in the market, providing finance and strategic benefits in ways other investors or banks might not, for example, longer tenors, longer grace periods and more flexible repayment schedules. The LDN Fund provides long-term financing via debt (mezzanine, profit-sharing loans) and equity (minority or majority position) for up to fifteen years. The Fund invests in projects that generate expected returns at market-level interest rates. The investees must be private-sector entities. According to Mirova, investment tickets are ideally between USD 10 million and USD 30 million.

11. The LDN Fund uses a layered structure, leveraging public money to increase private sector investment in sustainable development. The layered structure offers appropriate risk-return profiles for different investors in view of junior shares de-risking more senior tranches, which results in encouraging investment from private investors.

12. Potential projects must be land-based projects that can avoid, reduce or reverse land degradation while producing financial returns. The LDN Fund does not finance pilot projects, but rather it helps scale up what already works. The projects must comply with the Fund's investment criteria – the projects should demonstrate their contribution to LDN, benefit local communities and ecosystems, and comply with robust environmental and social standards. The projects should demonstrate their additionality and scale potential. Furthermore, projects are assessed against the financial/risk criteria to demonstrate their ability to generate economic/financial returns starting within around five to seven years, with an appropriate risk profile and management by showing a relevant track record, robust operations, an adapted governance and legal structure, and a detailed business model with a clear link to a value chain approach. Project developers can submit the proposals directly to the LDN Fund investment team at Mirova by sending a short summary of the project aims, current status and financing needs to the official email account (LDN@mirova.com).<sup>1</sup>

13. According to Mirova, the LDN Fund investment process is comprised of five steps, namely deal-sourcing, preliminary analysis, in-depth analysis, due diligence and contracting and investment. 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” or “no go” decision; an investment opportunity progresses if the investment is deemed to be in line with the LDN Fund's investment criteria and Environmental, Social, and Corporate Governance Policy (ESG Policy).<sup>2</sup>

14. The LDN Fund operates according to robust environmental and social standards, which are integrated into a comprehensive environmental and social management system (ESMS). The ESMS approach was developed with the support of an independent international expert and benefited from public consultations that included CSOs. In addition to its compliance with the International Finance Corporation (IFC) Performance Standards and the IFC Environmental, Health, Safety Guidelines, the LDN Fund follows the Voluntary Guidelines on the Governance of Tenure of Land Fisheries and Forests and the United Nations Guiding Principles on Business and Human Rights. The Fund also complies with national environmental, social and labour laws and legislation, including the International Labour Organization's Core Conventions, and with any environmental, social, and corporate governance requirements of investors in the Fund. The ESMS also includes a complaint and compliance mechanism to ensure that project-affected populations have formal ways to voice their concerns and identify and correct the causes for grievance.<sup>3</sup>

15. Mirova reports that the LDN Fund seeks to engage the UNCCD national focal points (NFPs) and other authorities to include their views in the project selection process. As part of the LDN Fund's due diligence, the Fund considers whether a potential project is aligned with a country's development priorities. NFPs are encouraged to introduce relevant project developers to the LDN Fund and highlight how projects can contribute to the social and environmental aims of the country. It is expected that the Fund will invest mainly in countries that have made a national voluntary LDN commitment, but this commitment is not required for an investment to be considered. Mirova will send a letter of notification to the NFP and the GM before the LDN Fund investment is committed.

16. In January 2019, the LDN Fund selected one of the first projects to receive an LDN Fund investment. As of the second quarter of 2020, the LDN Fund has invested in four land restoration projects: Urap Sustainable Land Use project in Colombia and Peru; the Mountain

<sup>1</sup> Detailed information on the LDN Fund investment criteria can be found in Land Degradation Neutrality Initiative: Guidance for Project Developers.

<<https://www.mirova.com/sites/default/files/2020-08/Guidance%20for%20project%20developers.pdf>>.

<sup>2</sup> Detailed information on the investment process can be found from page 5 to page 7 of Land Degradation Neutrality Initiative: Guidance for Project Developers.

<<https://www.mirova.com/sites/default/files/2020-08/Guidance%20for%20project%20developers.pdf>>.

<sup>3</sup> A detailed analysis on the ESG Policy of the LDN Fund can be found in Natural Capital – LDN expertise: Summary of ESG Policy. <<https://www.mirova.com/sites/default/files/2020-08/LDN%20Initiative%20-Summary%20of%20ESG%20Policy.pdf>>.

Hazelnuts project in Bhutan; the Miro Forestry project in Ghana and Sierra Leone; and the Komaza project in Kenya. Descriptions of these projects are as follows:

(a) The objective of the Urapi Sustainable Land Use project is to implement agroforestry systems and develop sustainable production in certified organic and fair-trade coffee sectors in Colombia and Peru. The project aims to benefit 2,000 small-scale producers, restore 8,000 hectares and conserve 12,000 hectares of forest, and capture 1.2 million tonnes of CO<sub>2</sub>;

(b) The Mountain Hazelnuts project in Bhutan aims to restore degraded land through sustainable orchards and production development in the hazelnut sector. The project aims to benefit 15,000 small-scale producers while restoring 10,000 hectares of land and capturing 1.5 million tonnes of CO<sub>2</sub>;

(c) The objective of the Miro Forestry project is to expand large-scale reforestation activities in Ghana and Sierra Leone through the timber sector. The project aims to support 2,000 jobs, restore 40,000 hectares, and capture 5 million tonnes of CO<sub>2</sub>;

(d) The goal of the Komaza project in Kenya is to support Komaza in planting one billion trees by 2030 through a micro-forestry model that aims to benefit 50,000 smallholder farmers and restore 20,000 hectares through reforestation.

17. Mirova reports that the fifth project, in Nicaragua, is also about to be signed. Mirova assesses the pipeline as promising, with projects currently being reviewed in Cambodia, Colombia, the Lao People's Democratic Republic, South Africa and the United Republic of Tanzania, among other countries.

18. The TAF was established as a grant-making arm of the LDN Fund with the aim of building a strong portfolio of projects for the LDN Fund. The TAF provides tailored technical assistance (TA) and grants to support the project developers seeking investment from the LDN Fund to become investment-ready and meet the LDN Fund investment criteria. The TAF selects and provides pre-investment TA to projects that can demonstrate the potential to be investable for the LDN Fund within 24 months. The TAF also supports the LDN Fund investees to strengthen their projects' environmental and social impacts, reduce risks of the investment, and monitor progress on key impact indicators, including setting LDN baselines and annual reporting on the LDN indicator. In November 2019, IDH published a learning brief on the insights gathered from managing the TAF.<sup>4</sup> In November 2020, the second learning publication is expected to be launched in partnership with the LDN Fund and the GM.

19. In October 2020, the portfolio of the TAF consisted of eight pre-investment TA projects and two post-investment TA projects. As of October 2020, three projects that were supported by the TAF in the pre-investment stage were invested into by the LDN Fund.

20. The LDN Fund and TAF are developing an LDN monitoring methodology in order to monitor the impacts of the LDN Fund projects throughout the investment period. The LDN TAF contracted Conservation International and OpenGeoHub to partner with them in the development of the methodology. The methodology was developed in line with the UNCCD Scientific Conceptual Framework for Land Degradation Neutrality, reviewed by key members of the Scientific and Technical Advisory Panel, and adapted for application at the LDN Fund investment project level. The methodology outlines the recommended approach for monitoring the impact of LDN Fund investments, adapting the national-level indicators for SDG 15.3, and assessing the overall contribution of each project to achieving LDN.<sup>5</sup>

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<sup>4</sup> Please find more information in the Innovative and Inclusive Sustainable Land Management and Ecological Restoration Finance Case Studies, available at: <https://www.idhsustainabletrade.com/uploaded/2019/11/LDN-Report-5.3-Final.pdf>.

<sup>5</sup> The Land Degradation Neutrality Fund Impact Monitoring Methodology is currently being published and will be made available on the website of the Sustainable Trade Initiative at: <https://www.idhsustainabletrade.com/>.

## V. Conclusions

21. To sum up, the GM has fulfilled the COP requests to create an independent LDN fund (see decision 3/COP.12), assist affected country Parties in identifying and accessing innovative sources of funding (see decisions 18/COP.12 and 18/COP.11), and increase its efforts at attracting private sector investments (see decision 14/COP.11). The LDN Fund has mobilized capital from both public and private investors, and concrete projects have started implementation on the ground around the world. The LDN Fund initiative achieved the operationalization of the LDN Fund and the TAF. The project portfolios managed by Mirova and IDH are growing, resulting in the promotion of land as a new asset class among the investors. Furthermore, the LDN Fund initiative is promoting the use of the LDN framework and indicator at the project level. The managers of the LDN Fund and the TAF secured more than a USD 170 million commitment from a wide range of public and private investors despite the COVID-19 pandemic. The LDN Fund is receiving increased global attention, as seen at the One Planet Summit describing the LDN Fund as 1 of the 12 global initiatives that will be supported under the Summit. The LDN Fund has also inspired other players in the market to establish a growing asset class for sustainable land use. Before CRIC 19, Mirova and IDH will share a publication with more insights and lessons learned from the first two years of operations of the LDN Fund and the TAF.

22. This concept initiated by the UNCCD in 2015 is even more relevant to the challenges of current time: land restoration and sustainable land use are increasingly hailed as nature-based solutions to multiple global issues: climate change, biodiversity, food security and health. As a result, having established a dedicated vehicle able to support the scale-up of such solutions is timely.

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