

## LDN Fund and Technical Assistance Facility

### Frequently Asked Questions

#### What is the context for the creation of the LDN Fund?

Achieving the Sustainable Development Goals (SDGs) will require an estimated \$4.5 trillion per year. However, the UN puts the financing gap at \$2.5 trillion per year in developing countries alone (UNCTAD). To meet this need, only around \$160 billion of official development aid went annually to developing countries between 2012 to 2016. In particular, SDGs related to land and biodiversity (e.g. SDG 15: life on land, and SDG 14: life below water) suffer from lack of finance.



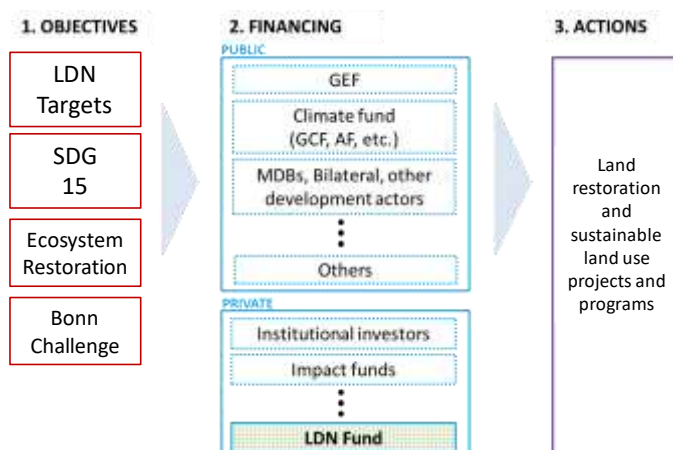
#### Public-private finance vehicles linked to the SDGs

Source: 'Making Blended Finance Work for the Sustainable Development Goals,' OECD 2018

Fighting land degradation requires the mobilisation and collaboration of a broad range of financing options.

This includes the following:

- Pre-existing land use finance (which include multilateral funds and banks) continues to play a pivotal role.
- In addition, new vehicles and structures are needed to bring together private sector investors and operators



The creation of the LDN Fund is a way to stimulate and encourage more private financing for LDN objectives. It is one solution amongst others.

## What are the LDN Fund and Technical Assistance Facility ?

The LDN Fund project was initiated by the Global Mechanism in 2015. After an international selection process, the fund is independently managed by Mirova, a private impact fund management company.

It is an innovative structure, managed by private sector entity, which invests in commercially viable sustainable land management (SLM) and land restoration projects in developing countries. The LDN Fund aims to support entrepreneurs and project developers to scale-up their activities by providing long-term financing.

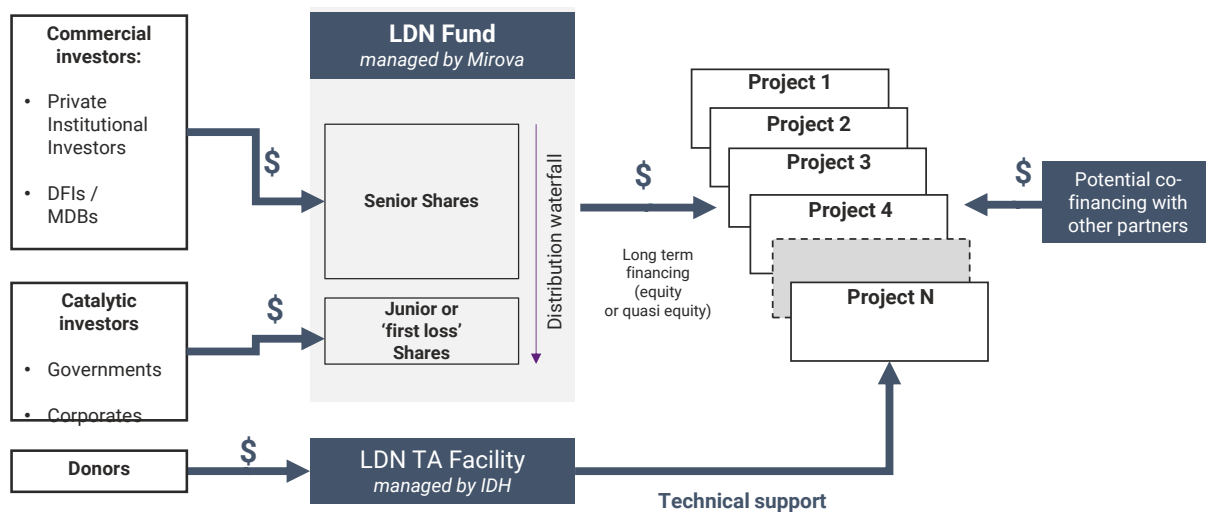
It targets positive impacts in terms of land degradation neutrality, climate, biodiversity, fight against poverty and promotion of gender equality. It operates according to robust environmental and social standards.

The Fund is a blended finance vehicle designed to attract private sector investors. Mirova has been able to attract both public and private investors (with a majority of private sector funding).

In addition to private investments by the LDN Fund, technical assistance is provided to projects by an associated donor-funded Technical Assistance Facility managed by IDH, increasing positive development impacts, reducing ESG risks, and facilitating knowledge sharing.

## How is the fund structured?

The overall blended finance structure of the fund is the following:



## What criteria do projects have to meet to be eligible for LDN Fund investment?

Because the LDN Fund mandate is to contribute to LDN, and more generally the Sustainable Development Goals, and also to attract more private capital to sustainable land use, underlying projects have to meet both (i) environmental and social criteria, and (ii) financial and risk criteria.

Underlying projects have to meet the following criteria to be eligible:

### Environmental and Social criteria

- Contribution to Land Degradation Neutrality: Projects should demonstrate how they avoid/reduce/reverse land degradation. In practice, sustainable agriculture and sustainable forest management projects (e.g. agroforestry, agroecology) can be positively linked to land protection/restoration/rehabilitation.

- 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.

### **Financial/Risk criteria**

- Projects must demonstrate the ability to generate economic returns (typically becoming profitable within 5 to 7 years, or earlier), with an appropriate and well managed level of risk:
  - There should already be a track record and a detailed business model showing the revenues and costs for the project, with a clear link to value chains or commercial activities.
  - Agronomy as well as operations and governance aspects are also critical
- The LDN Fund is not designed to finance pilot projects; potential projects should have completed a successful pilot/feasibility phase and be looking to scale up.
- The primary source of revenues for the project must be linked to commercial activities, including the sale of sustainably produced food, fiber or other goods.

Not all projects have to be 'perfect' and get the highest ratings for each component. Projects have to meet minimum thresholds, especially with respect to environmental & social (E&S) risk management and can then be allowed to follow a specific improvement plan (an Environmental and Social Action Plan) to fill potential manageable gaps or improve further risk management and positive impacts. In some cases, the LDN Technical Assistance Facility can support projects to overcome specific gaps or challenges.

For further information on the selection and investment process of the Fund, please refer to the [following link](#).

For further information on the support which can be provided by the Technical Assistance Facility, especially the pre-investment support, please refer to [the following website](#).

### **What is the process in place to assess compliance of projects with the LDN Fund ESG Policy? How do LDN Fund projects contribute to achieving LDN and benefit local ecosystems and local communities of land users for example farmer's institutions?**

The LDN Fund assesses each potential investment project against environmental, social and governance (ESG) risk. The LDN Fund bases the ESG assessments of projects on the [Mirova Natural Capital ESG Policy](#), as well as on the [LDNF's dedicated ESG Policy](#).

These policies are based on international standards and were initially 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, projects supported by the LDN Fund have to be compliant with the Voluntary Guidelines on the Governance of Tenure of Land, Fisheries and Forests (VGGT) 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 ESG policy also requires a complaint and compliance mechanism for each project, and at Fund level, to ensure that project-affected populations have formal ways to voice their concerns and identify and correct the causes for grievance. An exclusion list also describes the activities that cannot be supported by the LDNF.

The LDN Fund ESG Policy is an essential component of the Fund legal documentation. LDN Fund investment guidelines and exclusion lists are closely aligned with this Policy. It is integrated in our Investment procedure as well in the projects monitoring:

Every project considered for investment is analysed over a 3-steps process in regard to ESG Policy:

- Preliminary analysis of its potential eligibility (potential for positive environmental and social impacts, LDN contribution, alignment with the LDN target of the country, no excluded activities, no ESG risk considered as red flags, etc).
- In-depth desk review based on the developer documentations, (about local context, impact targets, ESG risks, management/governance in place, land tenure issue, communities engagement, certifications achieved or targeted, etc.) complemented by exchanges with the project developer (E&S questionnaire and discussions), and consultation of sectorial reports, scientific and press articles, and cross-checking information with experts.
- Full due diligence, including at least one site-visit, and use of external experts or local support whenever needed for on field assessment.

The outcomes of this process are:

- A final opinion on the ESG performance of the operation, assessing whether the project meets the fund's requirements on ESG risk management, together with an evaluation of the level of positive impacts that can be expected from the project development, per environmental and social theme
- An Environmental and Social Action Plan (ESAP), co-developed with the project developer, to ensure the project will meet the Fund's ESG requirements, and to improve further risk management
- A monitoring plan, agreed with the project developer, to keep track of impact and ESG performance over the life of the investment.

Both the pre-investment assessment and the post-investment monitoring of projects is led by in-house ESG specialists with strong sectorial expertise, supported by technical or local external experts whenever relevant.

In addition, the ESG policy requirements are reflected in the legal documentation with each investee.

Regarding more details on each of the portfolio projects, information can be found directly in the [Learning Briefs](#) published on IDH Sustainable Trade Initiative, the manager of the LDN Technical Assistance Facility.

The aim of the LDN TAF is to regularly publish learning publications on the website with LDN Fund and TAF case studies and lessons. The last publication was made in March 2021, with a focus on the projects in Bhutan, Nicaragua, Ghana and Sierra Leone. The two other projects in Kenya and Peru were presented in 2019. Regular Learning Briefs, events and webinar are organised by IDH and Mirova, with the website to be updated regularly.

Also, Mirova has issued a broader [impact report](#) in 2020 including the LDN Fund activities. It will publish in Q2 2021 a fully fledged annual impact report on the 5 projects in the portfolio, which will explain into further details the contribution of the projects to LDN and the benefits to local ecosystems and local communities.

**How much public money was spent on the LDN Fund, and in what proportion to secure the private funding? What is the 'before' and 'after' status of the previously degraded lands in terms of Soil Organic Carbon, biodiversity, ecosystem functionality and well-being of the local populations?**

The LDN Fund blends public and private resources, all raised by Mirova, with USD200m raised to date. Less than 40% of this amount is provided by public institutions. In addition, please note that the public money used to secure private funding represents only 17% of the fund size. Indeed, some public

investors require risk/return profiles similar to private institutional investors. On the other hands, some private investors (philanthropy) can secure and de-risk other private and public funding.

Regarding the state of the land 'before' and 'after', the LDN Fund and TAF have developed 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. The detailed methodology can be found on the [following link](#).

All projects are assessed against the current project's land use baseline, which is established with the support of the Technical Assistance Facility for each project.

This not only allows projects to report on progress and comply with environmental and social action plans and LDN objective, it also enables them to practice adaptive management, minimizing land degradation risk and optimizing positive environmental, social and economic returns resulting from restoring land.

LDN Fund impact reporting will follow and report on the 3 criteria: land cover, land productivity and soil organic carbon. In line with the LDN Conceptual Framework, the LDN Fund supports projects which contribute to avoid, reducing and reversing land degradation.

For other environmental and social aspects, the LDN Fund is also measuring and reporting multiple KPIs to be detailed in the annual Impact Report. This includes:

- Environmental:
  - o Carbon sequestration (tCO<sub>2</sub>e)
  - o Forests Area of a/reforestation (including agroforestry)
- Biodiversity:
  - o Conservation areas
  - o Number of threatened species (IUCN Red List) in conservation areas
- Sustainable production:
  - o Total area under sustainable land management
- Social:
  - o Livelihood: jobs created/supported
  - o People in cooperatives/outgrower schemes/smallholder farmers
  - o Permanent young (under 25 years old) employees
- Gender:
  - o Gender ratio for management roles and workforce
  - o Women benefitting directly from livelihoods generated by the project (excluding direct employees)
- Community:
  - o Engagement events
  - o Community projects

Regarding the annual impact reporting, Mirova is a signatory of the [IFC Operating Impact principles](#) and our reports are aligned with the principles.

**How does the LDN Fund ensure that the Voluntary Guidelines on the Governance of Tenure are applied and take women's rights into consideration in large-scale projects? How does the LDN**

## **Fund guarantee meaningful participation of local people in decision-making processes and FPIC?**

Land governance and land tenure security have a central role in LDN projects. According to the legal documentation, all projects to be supported by the LDN Fund shall:

- Comply with the requirements of IFC PS5, the Voluntary Guidelines on the Governance of Tenure of Land Fisheries and Forests, and the UN Guiding Principles on Business and Human Rights.
- Identify all legitimate land tenure rights on project land, whether legally or customarily defined, engage with all people affected by the project, and map their tenure rights.
- Gain free, prior and informed consent for any changes to people's tenure rights as a result of the project.
- Implement an effective and accessible grievance mechanism.
- Aim to improve gender equality with respect to land tenure.
- Conduct and document a land tenure assessment for all resources that are part of a project

To implement the Fund's projects must at a minimum carry out and document a tenure assessment for all resources that are part of a project. This assessment should recognise that there may be a variety of different rights to any parcel of land, e.g. agriculture, grazing, access, transit etc.

Whenever an FPIC process is relevant to a project, Mirova's ESG senior specialists review the profiles (competencies, experiences) of people and/or organizations in charge of its implementation. The FPIC process can be already planned and led by the project developer at the time of investment, or the TAF can assist project developers to mobilise additional expertise in supporting the design and implementation of an FPIC process, with additional resources. The aim is to strengthening capacities to ensure meaningful participation of local people in decision-making processes is possible, with special attention for participation of women and youth. The various outcomes, such as participation and conclusions, are also monitored regularly by the LDNF ESG teams along the phases of the process.

Regarding women's right, the LDN Fund is committed to promoting (i) increased adoption of gender-responsive sustainable land management (SLM) and environmental conservation practices, (ii) improved capacity of farmers, and particularly women smallholders, to implement SLM models that are climate resilient and have environmental benefits, and (iii) increased investment in and adoption of gender-responsive SLM practices by financial institutions and business in vulnerable areas. It also supports increased representation in leadership and skilled/technical roles, and increased female decision-making/land/training/finance in cooperatives, and small farming business.

The TA Facility for post-investment TA projects works closely with project operators to identify opportunities and barriers to gender equality related to the project, and can co-fund projects to promote and contribute to gender equality. All TAF-supported projects will include an awareness-raising part regarding gender. To this end, IDH has developed the [IDH Gender Toolkit](#). This document guides program teams and partners on how to recognize opportunities related to gender in their programs.

## **Does the LDN Fund support small scale projects, including those promoted by the CSOs?**

The main mandate of the fund is to target "large-scale" sustainable land management projects and programmes. A strong attention was paid to ensuring inclusion of smallholders and local communities in the projects, which is the case for all projects supported by the fund so far: 3 of them are 100% based on smallholders' model, 2 have an outgrower component with important scalability potential.

Regarding smaller projects, the Fund is actively considering approaches that allow them to be supported. For example, the investment in Urapi in Latin America allows aggregation of smaller projects and addresses the needs of small to mdi-size cooperatives of smallholders. Other types of aggregators of smaller projects are currently being analysed, in Latin America and Africa.



2 projects among the 5 supported by LDN Fund were initially started as NGOs, and then turned into commercial activities.

The LDN Technical Assistance Facility also provides support for such smallholder inclusive investment projects to become investment ready, and to strengthen their design and governance, including initiatives on strengthening of local farmer cooperatives and community enterprises as well as the development of outgrower schemes.

The LDN TAF is open for project applications year round, through the [IDH website](#).

Also, in addition to the LDN Fund, Mirova was selected by IUCN to establish the Nature+ Accelerator Fund, targeted at small projects in the early stage development. The Nature+ Accelerator Fund combines the set expertise of leading public and private institutions and platforms to address the conservation gap by attracting private finance to conservation. The Accelerator is anchored in IUCN's global leadership in Nature-based Solutions (NbS), Mirova Natural Capital's experience in investment management for NbS, and a trusted network of partners within the Coalition of Private Investment in Conservation (CPIC). The initiative is anchored by funding from the Global Environment Facility (GEF).

Please see further details on the [following link](#).

### **Can the LDNF support large-scale reforestation programs / commercial forestry plantations?**

Based on the initial market study "[Unlocking the market for land degradation neutrality](#)", different sectors were identified as offering the potential for contributing to the LDN objective while generating environmental, social and economic returns. Sustainable forestry was identified as a suitable sector. Sustainable forestry projects are also often identified in publications related to LDN (for instance the [LDN Transformative actions – Tapping opportunities project and programmes](#)).

As a result, as part of the investment policy, forestry activities and timber production can be considered. Like for any projects, such projects have to meet the fund criteria, especially with respect to environmental and social aspects. Reforestation programs through commercial forestry plantations especially have to (i) contribute to LDN/ reverse past land degradation (e.g. by being implemented on degraded lands), and (ii) implement proven sustainable forest management practices, in order to comply with the ESG Policy.

When tree plantations are well designed and managed, they can provide ecosystem goods and environmental services such as provision of habitat, clean water and carbon sequestration. Sustainable plantations are an important component of Forest Landscape Restoration, as one type of land use in the landscape combined with natural forest protection/restoration, agriculture, and other activities. With the increasing of global demand for timber and woody biomass, tree plantations can also represent an efficient production system of renewable resource, that reduces pressure on remaining natural forests (avoiding further land degradation).

The impacts and risks of large-scale forestry plantations are closely linked to management approach and local context, but good practices and a suitable location allow for the effective mitigation of risk and promotion of positive impacts. The LDN Fund will identify and support programmes that follow best practices to overcome common plantation concerns. More precisely, rather than monocultures, programmes supported by LDN Fund will plant a mosaic of commercial species, reinforced by other requirements for conservation areas with indigenous species, buffer zones, and the protection of High Conservation Value areas (currently representing 30% of the areas in the project supported). This mosaic of different species and conservation areas will support higher biodiversity than the degraded agriculture land it replaces. The Fund also supports silvo-pastoralism and agroforestry practices in these tree plantations. It is necessary to assess potential negative impacts of a plantation on the wider landscape, e.g. on water availability. Robust due diligence and post-investment processes ensure that

risks are understood, well managed, and closely monitored. This includes the review of tree species used given the local context.

The LDN Fund can also support models of outgrower/smallholder tree planting, where farmers grow trees in small plots in their farm plots, or as wind breaks. By providing an alternative source of firewood and construction materials such programs reduce deforestation pressures on natural forests.



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