



# LAND DEGRADATION NEUTRALITY FUND

AN INNOVATIVE INVESTMENT FUND PROJECT







It is time to get carbon back where it belongs. In the air, carbon dioxide and other greenhouse gases are changing our climate and threatening our planet. In the land, carbon enriches the soil making it fertile and productive.

If we could increase the organic matter of agricultural soils just a little, every year, we would be able to offset most greenhouse gas emissions. It is a simple but revolutionary idea. I am supporting an initiative to see how we can get an annual 0.4% increase in organic matter in soils, across the board. With just this extra 4g for every thousand (4x1000) grams of carbon currently stored in our soils, we would see yields increase, biodiversity flourish and the water holding capacity of the soil improve. This, in turn, would strengthen our resilience in the face of more climate related shocks like flood or drought.

Land degradation neutrality is a simple but revolutionary idea too. It is a global political commitment, already found in the new adopted Global Goals for Sustainable Development, to move towards sustainable land management and

to massively scale up the rehabilitation of degraded land and soil. It is a commitment to tackling climate issues and food security at the same time. It may come to redefine our relationship with the land.

The two ideas are bold, complementary and achievable by 2030. Bold if we can put this simple but revolutionary idea at the heart of a comprehensive climate agreement. Complementary if we can forge an alliance between policy makers, producers and consumers. Achievable if we mobilize international financing from the public and private sector to make it happen, across the board. These are opportunities that should be open and available to communities, regardless of their level of development, worldwide.

For these reasons, I am delighted to introduce the Land Degradation Neutrality (LDN) Fund. It is a fund in the making that will harness the power of the private sector to support a global policy and investments that agriculturalists the world over cannot do without. Edgard Pisani used to say: “We need all the farmers of the world to feed the world.” When it is launched in 2016, this fund will become an important vehicle to rehabilitate millions of hectares of degraded land, making it fertile and productive.



## PREFACE BY ANNICK GIRARDIN MINISTER OF STATE FOR DEVELOPMENT AND FRANCOPHONY IN THE MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL DEVELOPMENT

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These are challenging times. Poverty, forced migration, radicalization and insecurity are at the top of the issues we face. Climate change is adding thousands of millions of people to the already poor in the developing world, which could multiply those challenges.

Our response needs to be effective and systematic. To react effectively we need to take away the drivers of poverty and insecurity and offer a sustainable future to all. We need to pay greater attention to the plight of billions of people in developing countries; those who have few opportunities and few chances to improve their lives.

About half a billion small scale farms, for example, support the livelihoods of more than 2 billion people. They produce up to 80% of the food in developing countries. Small scale farms are the primary source of employment and the only pathway out of poverty for a majority of people. But climate change impacts and land degradation, among other environmental threats, jeopardize the achievement of our common goals for 2030, which were adopted in the post-2015 agenda: a world without carbon and without poverty.

To counter the threats we face, we must offer real opportunities and hope. That's why we must invest substantially in the land. The idea of creating a Land Degradation Neutrality Fund that, simultaneously, drives private sector investment, revitalizes degraded areas and scales up sustainable land use practices is truly innovative, and deserves the support of the global community. It concretizes the Addis Ababa Action Agenda for financing development adopted this summer. By respecting rigorous social and environmental guidelines, it offers a unique opportunity to repair our planet and its soils, provide jobs and food security, as well as mitigate climate change.

## **PREFACE BY MONIQUE BARBUT, EXECUTIVE SECRETARY OF THE UNCCD**

Faced with the daunting global challenges of land degradation and drought that are leaving millions of people hungry, homeless, destitute and defenseless, we need to secure financial resources to restore degraded land. With money to support a lot of people, we will re-build natural, managed landscapes of healthy and productive fields. By 2030, we envision a world where we no longer need to degrade land. Instead, we will restore more land than was degraded annually. The simplest response to climate change, food shortages, forced migration and resource-driven conflicts lies right beneath our feet. I invite investors and partners who share our vision to join us in a task that can yield immediate results and set future generations on the path to sustainability.



## **PREFACE BY PHILIPPE ZAOUATI, CEO OF MIROVA**

Mirova is pleased and honored to enter this partnership with the UNCCD. LDN is an ambitious objective, but it is also a crucial one when fighting climate change. At Mirova, we believe that integrating sustainable development themes can generate solutions that create value for investors over the long term. We have already successfully demonstrated this business model and intend to join forces with the UNCCD to make the LDN Fund a triple success: financial, environmental and social.

### The Land Degradation Neutrality (LDN) challenge: A global commitment to restore 12 million hectares of land per year

Two billion hectares of productive land are degraded worldwide. This is an area larger than South America or twice the size of China, and 500 million hectares of this is abandoned agricultural land. We continue to degrade another 12 million hectares of productive land every year. We need to break this destructive cycle because the benefits of preventing land degradation and reversing it are far greater than the gains from degrading new land year after year. Just by shifting to sustainable land management practices, for instance, we could gain up to US\$1.4 trillion in increased production value.<sup>1</sup>

For the next 15 years, all nations will work together to achieve 17 Sustainable Development Goals (SDGs). One of the targets is to reach a Land Degradation Neutral World by the year 2030. This means ensuring that the amount of healthy and productive land resources that every family, region or country depends on for ecosystems services (water, food, rainfall, etc) remains at least stable.<sup>2</sup>

Two joint actions need to be taken to make land degradation neutrality happen:

- Avoid further land degradation
- Recover already degraded land

We can fight land degradation by both rehabilitating already degraded and abandoned lands and promoting sustainable land management to avoid it and halt ongoing degradation.

To achieve LDN by 2030, large amounts of financial resources need to be mobilized. Public resources alone will not suffice. Thus, it is crucial to attract long term private investors, as stated in the Addis Abeba Action Agenda.<sup>3</sup> This can be achieved by creating a sound framework for, and aligning private investor incentives with, the LDN target.

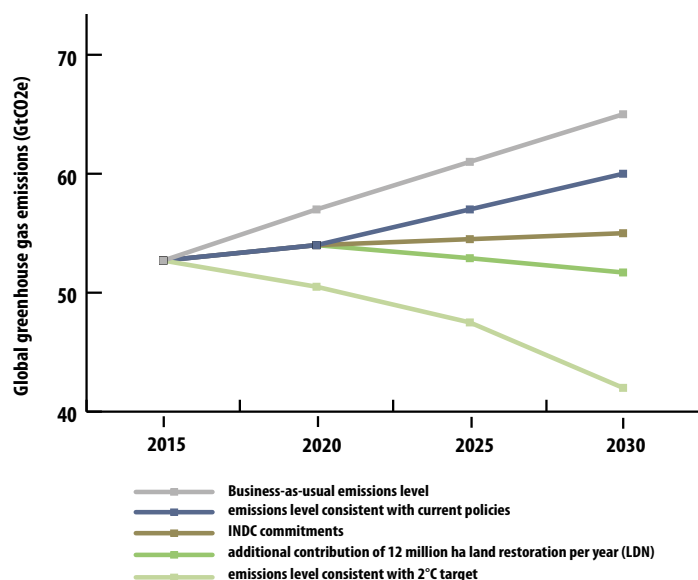
The United Nations Convention to Combat Desertification (UNCCD), through its operational arm, Global Mechanism, is taking up this challenge by promoting the creation of an independent fund that will support initiatives that aim to reach LDN.<sup>4</sup>

Investing in Land Degradation Neutrality generates multiple benefits and facilitates the achievement of several SDGs.



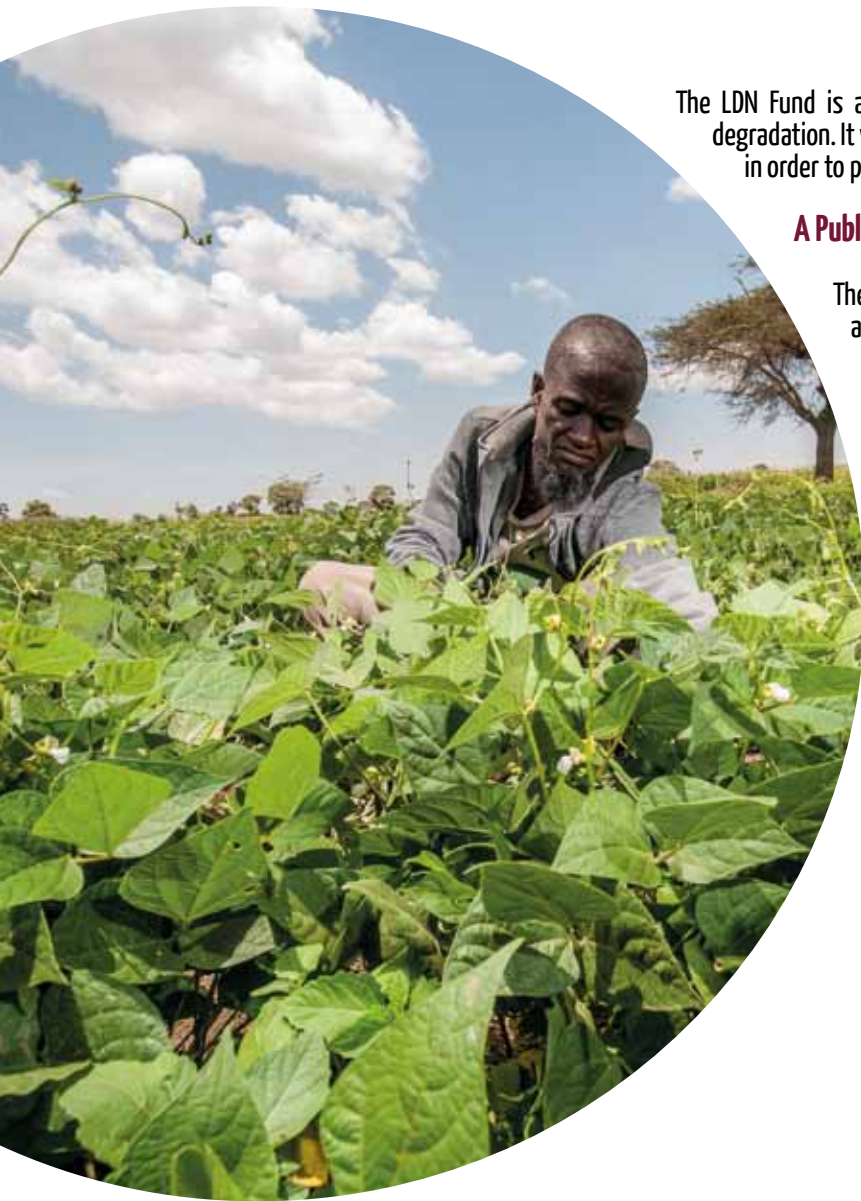
Investments in LDN projects are designed to create substantial co-benefits and contribute to the implementation of many SDGs. By rehabilitating 12 million hectares of degraded land every year, we will achieve:

- **CLIMATE CHANGE MITIGATION** objectives by sequestering about 3.3 gigatonnes of carbon dioxide in year 2030. This is roughly a quarter of the total emissions gap that must be filled in order to stay below the target of two degrees Celsius.
- **CLIMATE CHANGE ADAPTATION** objectives by strengthening the resilience and adaptive capacity of ecosystems that are vulnerable to climate-related hazards and natural disasters.
- **FOOD SECURITY AND NUTRITION** objectives by improving soil quality and promoting sustainable food production and resilient agricultural practices that increase productivity and incomes for farmers.
- **BIODIVERSITY CONSERVATION** objectives by conserving and restoring land-based ecosystems, using them sustainably and reducing the degradation of natural habitats.
- **POVERTY REDUCTION** objectives by enabling the poor to become resilient, and reduce their exposure and vulnerability to extreme events, economic shocks and natural disasters.
- **SUSTAINABLE PRODUCTION AND CONSUMPTION** objectives by promoting the sustainable and efficient use of natural resources and the reduction of land management practices with negative impacts on human health and the environment.



### Box 1: Land Matters in Reducing the Emissions Gap and Achieving SDG Targets

The land use sector releases almost 25% of total greenhouse gases emissions. The sector can reduce its emissions if it sequesters carbon in the soil by scaling up and scaling out proven, effective practices. Improved land use and management, such as climate smart agriculture, agroforestry and ecosystem conservation and restoration can, under certain circumstances, further reduce emissions.



The LDN Fund is a new investment territory for initiatives in land rehabilitation and avoided degradation. It will create an investment frame and demonstrate the value of these investments in order to pave the way for channelling enough financing to reach LDN by 2030.

**A Public-Private Partnership**

The LDN Fund will be set up as a coordination platform for blended finance. It is a Public-Private Partnership for institutional investors, impact investors and development finance institutions and donors committed to support land degradation neutrality.

It will be privately managed and run as an investment vehicle by primarily using public resources to cover investment risks and technical assistance. As the model is refined, it is expected to attract two kinds of private investors. Impact investors, whose focus is on environmental sustainability criteria. Institutional investors, such as the pension funds, with an interest in long term investments.

ASSETS	LIABILITIES
Financial instruments for land rehabilitation and degradation avoidance activities generating financial returns as well as social and environmental benefits	Capital provided by public and private investors with a risk-sharing arrangement in the form of a layered structure (Junior and Senior tranches)



## Business model

The LDN Fund can achieve its aims by directly or indirectly financing projects and entities that promote land rehabilitation and sustainable land management in all countries.

Initially, the Fund will focus on existing initiatives involving like-minded players in order to significantly increase the scale and impact of the efforts deployed globally towards the achievement of SDGs. Over time, the Fund will help to structure and finance new initiatives worldwide.

Initiatives with a triple bottom-line return on investment are the focus of the LDN Fund.

- Financial returns that could be earned from the interest paid on loans or dividends from the equity investments. An investor's return could be linked to the risk/return profile of the portfolio.
- Environmental benefits, which include the regeneration of the productive capacity of the soil, the restoration of ecosystem functions, improved biodiversity and climate change mitigation and adaptation.
- Social benefits, such as 'green' employment opportunities, increased food and water security and the empowerment of local communities and of female small-scale landholders.

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### Box 2: Business Model

#### Targeted sectors

Projects financed by the LDN Fund will promote sustainable land management on rehabilitated land or where degradation is avoided across many sectors and land uses, including:

- Agriculture: e.g. sustainable livestock management projects; sustainable crop planning and harvesting practices
- Forestry: e.g. reforestation projects, sustainable forest management and agroforestry projects
- Energy: e.g. locating solar, wind or biomass farms on rehabilitated land; combining renewable energy projects with re-greening/agriculture components
- Conservation: e.g. habitat preservation and rehabilitation projects; sustainable construction and infrastructure for eco-tourism
- Land reclamation: e.g. landfill redevelopment; sites rehabilitated for conservation or recreation parks; rehabilitated land used to house land degradation neutral or 'green' infrastructure

Sustainable land management projects in these sectors can generate double-digit returns and thus, accommodate several options for land rehabilitation or avoided degradation, and still have attractive commercial potential.





## LDN FUND PROJECT IMPLEMENTATION: A COLLABORATIVE APPROACH

### Partnership with a renowned management company

The Convention's Global Mechanism is collaborating with specialized experts and advisors to develop the LDN Fund. Mirova, a management company of Natixis S.A. group dedicated to sustainable investment, was selected as the Fund's Structuring Partner.

Together, they will refine the Fund's investment strategy, governance structure and the environmental and social performance standards, as well as mobilize public and private capital and select the eligible projects. The Fund will be launched in the last quarter of 2016.

### Supervision by an Advisory Group

Global Mechanism and Mirova will be assisted by an Advisory Group drawn from senior members of the Fund's main stakeholders, including non-governmental and international organizations. The Advisory Group will be part of the Fund's development and structuring process in order to advise on diverse issues, especially the environmental and social performance standards. A Steering Committee formed by members of Mirova and the Global Mechanism will have the ultimate decision-making authority.

Figure 1: Governance of the LDN Fund





Project proposals and investment decisions will undergo a rigorous due diligence process to ensure LDN Fund investments comply with the set performance standards. Two elements are of particular interest. Firstly, how the projects contribute to land degradation neutrality. Secondly, the environmental and social risks posed by the project in all phases of its life-cycle. The Fund's performance standards will build on internationally acknowledged standards, such as IFC Performance Standards on Environmental and Social Sustainability and the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security.



### Example: A large-scale land rehabilitation project via agroforestry, sustainable forestry and avoided deforestation

#### Context

The San Martin region of Peru was heavily deforested in the 1980's as it became a red zone of coca production, and was plagued by terrorism, high delinquency and severe insecurity. In the 1990's, farmers switched from coca to cocoa cultivation, with the help of the United States Agency for International Development. The first fair trade and organic cooperatives formed at about the same time brought added value through higher price guarantees, bonuses and long term partnerships with the buyers.

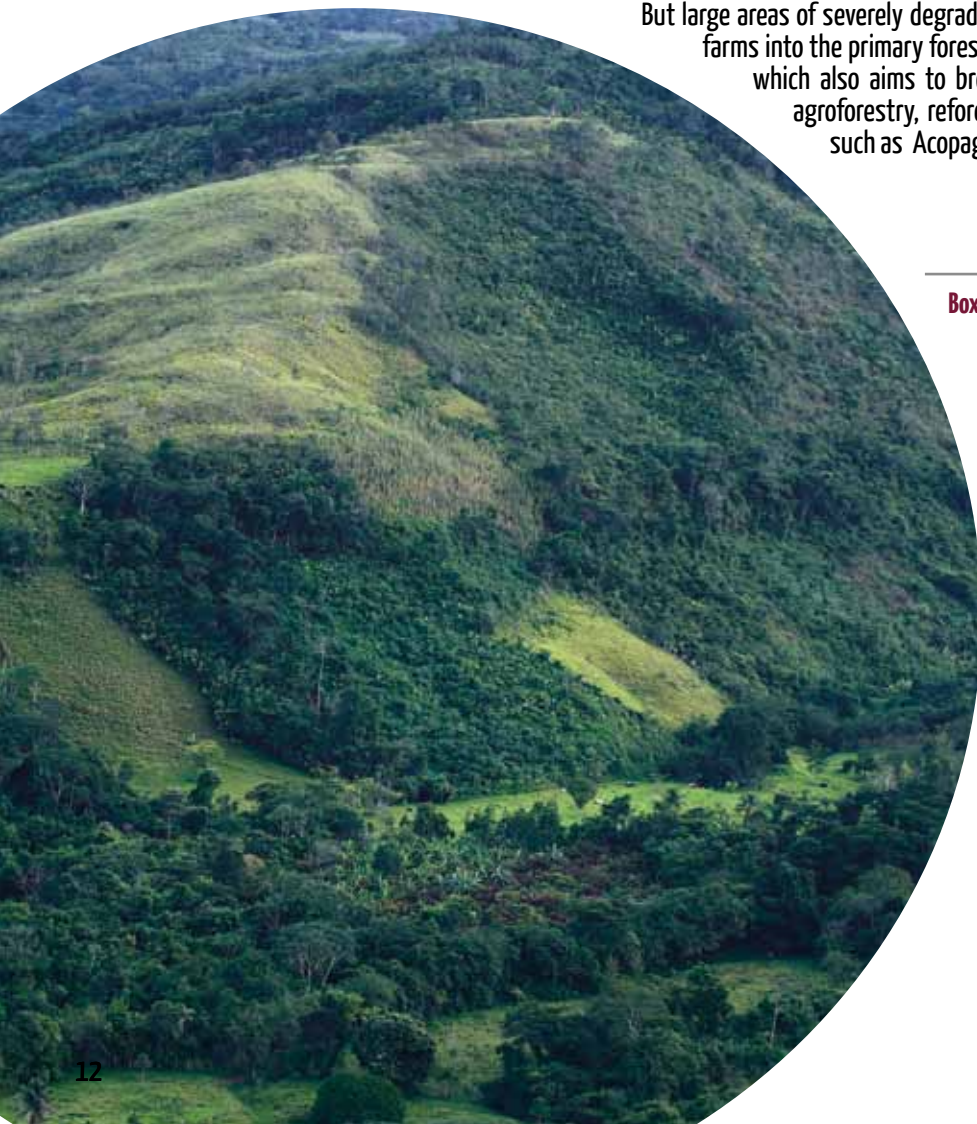
But large areas of severely degraded land were left uncultivated, even as communities expanded their farms into the primary forest. In 2008 PUR Projet initiated a large-scale response to the problem, which also aims to broaden the farmers' perspectives of their future. The project links agroforestry, reforestation and forest conservation projects to farmers' organizations, such as Acopagro and Oro Verde cooperatives and the Fundacion Amazonia Viva.

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#### Box 3: PUR Projet

PUR Projet is a community forestry project operator specialized in the development of forestry, agroforestry and agro-ecological projects in developing countries. It develops innovations for small-scale farmers willing to make long-term commitments. For instance, it combines cropping with agroforestry or reforestation, and self-sufficiency projects for small-farmer organizations. It has a portfolio of 37 agroforestry projects in 30 countries, to improve productivity, self-sufficiency, income diversification for farmers, capacity building and the emancipation of the local populations.

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### Investment Potential

Today, up to 500,000 hectares of land in San Martin are still degraded. It can be restored through agroforestry or reforestation because deforestation through slash and burn practices continues in the pursuit of extensive farming and illegal logging. Global warming and changing climate conditions are also affecting and threatening cocoa and coffee cultivation. Opportunities exist for:

- Rehabilitating the degraded lands: the installation of cocoa or coffee in more productive agroforestry systems or the installation of timber parcels for sustainable forestry
- Renovating underproductive coffee and cocoa plots
- Avoided deforestation through better community management, diversification of economic and improved productivity of farms.

LAND RESTORATION OPPORTUNITY	SCOPE	COST	TOTAL BUDGET
Rehabilitation of degraded lands by establishing new agroforestry cocoa/coffee parcels	250,000 ha	USD 3,000/ha	USD 750m
Rehabilitation of degraded lands by establishing sustainable timber plantations	50,000 ha	USD 2,000/ha	USD 100m
Renovation of underproductive coffee or cocoa plots through agroforestry	10,000 ha	USD 2,000/ha	USD 20m
Avoided Deforestation through forest conservation, community empowerment, alternative economic activities, agriculture intensification	500,000 ha (threatened over 40 years)	USD 400/ha (preservation for 40 years)	USD 200m

Source: PUR Projet

### Endnotes

1. ELD Initiative 2015. The Value of Land: Prosperous Lands and Positive Rewards through Sustainable Land Management.
2. UNCCD 2015. Land Matters for Climate: Reducing the Gap and Approaching the Target
3. UN DESA, 2015. The Addis Ababa Action Agenda for the Third International Conference on Financing for Development
4. UNCCD COP12, 2015. Integration of the Sustainable Development Goals and targets into the implementation of the United Nations Convention to Combat Desertification and the Intergovernmental Working Group report on land degradation neutrality

### Photos

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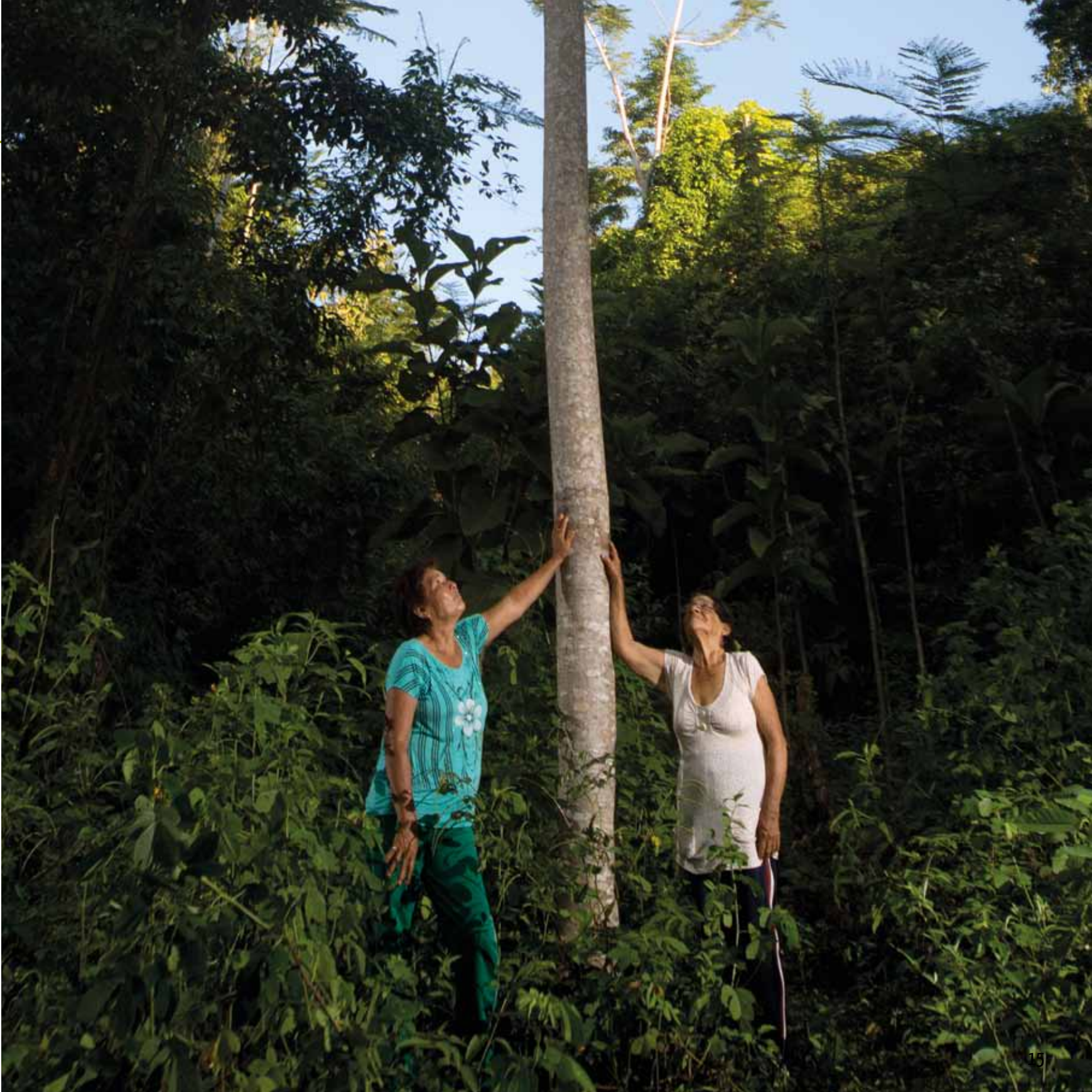
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