HIGH-LEVEL MEETING ON THE INITIATIVE FOR THE ADAPTATION OF AFRICAN AGRICULTURE TO CLIMATE CHANGE "AAA"

RENCONTRE DE HAUT NIVEAU SUR L'INITIATIVE POUR L'ADAPTATION DE L'AGRICULTURE AFRICAINE AUX CHANGEMENTS CLIMATIQUES "AAA"
GAUTIER QUERU

Investment Director, Mirova
THE LAND DEGRADATION NEUTRALITY FUND PROJECT

Presentation
AAA High-level summit
*September 29, 2016*
Established in 1994, the United Nations Convention to Combat Desertification (UNCCD) is the sole legally binding international agreement linking the environment, poverty and development to sustainable land management in the drylands. The UNCCD is particularly committed to a bottom-up approach, ensuring the participation of local communities in combating desertification and land degradation. The secretariat of the Convention also facilitates cooperation between developed and developing countries, particularly regarding knowledge and technology transfers for sustainable land management practices. The Global Mechanism (GM) is the operational arm of the UNCCD—mandated to support UNCCD country parties in the mobilization of resources for its implementation. The GM facilitates countries to translate the Convention into action and to achieve Land Degradation Neutrality at the national level.

Mirova is the responsible investment division of the Natixis group. It offers a global responsible investing approach involving Equities, Fixed Income, General and Renewable Energy Infrastructure, Impact Investing, and Voting and Engagement. As of March 2016, Mirova has €6 billion of assets under management and as of December 2015, €40.3 billion under advisement in Voting and Engagement. Its team of circa 60 multidisciplinary experts includes specialists in thematic investment management, engineers, financial and environmental, social and governance analysts, project financing specialists and experts in solidarity finance.
What is at stake?

Poor land management practices, often fueled by exploitation for short-term economic gains instead of favouring long-term sustainability, have led to the loss of more than 25% of the world’s arable land in the last two decades.

**12 million hectares**
- degraded each year

**40%** of the world’s degraded land is in areas with high poverty rates

**1.5 bn** people rely directly upon degraded land for their livelihood

Land-degradation is not an isolated issue

As well as the direct economic value of using land and its resources, land-based ecosystems and their management can have substantial indirect effects:

- Food security pressure
- Biodiversity
- Climate change
- Poverty
- Social instability and conflicts
- Migrations

Sources: Nkonya, Ephraim et.al.(2011): Economics of Land Degradation., IFPRI Issue Brief 68; Bonterra /Mirova 2016 Market Study
Increasing awareness that the cost of inaction is significantly higher than the cost of action led to the emergence of the Land Degradation Neutrality (LDN) concept, and its inclusion in the SDGs:

"Land Degradation Neutrality is a state where the amount and quality of land resources necessary to support ecosystem functions and services and enhance food security, remains stable or increases"

LDN is linked to many other SDGs, and should serve as a catalyst for making progress ...

Estimated investment needs in key SDG sectors
USD trillions

<table>
<thead>
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<th>SDG Sector</th>
<th>Estimated Investment Needs</th>
<th>Current Annual Investment</th>
<th>Estimated Annual Investment Gap</th>
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<td>Climate change</td>
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<td>Other SDG sectors</td>
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Source: Adapted from UNCTAD “World Investment Report 2014"
Public momentum generated by various forest and landscape restoration initiatives around the globe:

**LDN TARGET SETTINGS**
- Reach LDN by 2030

**THE NEW YORK DECLARATION OF FORESTS**
- Restore 350 Mha by 2030

**4P1000**
- Increase of soil carbon by 0.4% per year

**THE BONN CHALLENGE**
- Restore 20 Mha by 2020
- Restore 100 Mha by 2030

**Increasing political support**
Over a 100 countries to date have shown a strong interest in LDN, participating in national target setting exercises and/or developing government initiatives to spur the growth of sustainable land management and land restoration investments.

**Public money as the main source of financing**
Of the $5-10 billion annual investment currently being deployed into LDN activities, it is estimated that as much as 90% of it are contributed by public funding sources (FAO & UNCCD, 2015); few multilateral key dedicated public funding initiatives that include LDN-related activities as part of their investment mandate.
**The LDN Fund’s mission:**

To contribute to the objective of LDN by bringing together public and private interests to fund triple bottom line investments that combat land degradation around the world.

**INVESTEES (Assets)**

- **Projects from various sectors:**
  - sustainable agriculture
  - sustainable forestry
  - green infrastructure
  - land rehabilitation

- **Projects meeting four criteria:**
  - strong contribution to LDN and strict environmental and social standards
  - potential for scalability or replicability to maximise impact
  - bankability / ability for the project to generate return
  - investment readiness with potential assistance from a technical assistance facility

  Developers can implement land use transformation and repay the financing with revenues generated by the projects

**FUNDING (Liabilities)**

- **Capital raised from Public and Private Investors:**
  - public: DFIs, international and multilateral financial institutions, donors
  - private: impact investors, institutional investors, foundations

- **Layered structure with different risk-return profiles:**
  - public investors are junior to private investors, i.e. junior investors are repaid after the other investors
  - by taking first loss risk, junior investors play a catalytic role to attract more private capital
  - issuance of notes with lower risk and higher liquidity will allow further private fundraising

**Investors commit capital and have expectations in terms of impact and return**
Investees / partners:
The Fund will team-up with:
• supply chains actors to improve their supply chains,
• landscape investment specialists to scale-up their pilot projects and
• local banks and small funds to reach small-scale projects and SMEs

Terms and conditions:
• Provide long term financing to fund land use transformation CAPEX (replanting, rehabilitation, renovation) mainly in the form of mezzanine debt (and equity)
• Provide technical assistance through TA Facility set-up alongside the Fund
• Support blended finance structures and coordination with public partners at project level

PROGRAMMATIC APPROACH
(well-suited for agriculture and outgrower schemes)

INTEGRATED APPROACH
(well-suited for forestry and green infrastructure projects)
Argan region plays a key role against desertification

- Argan trees represent a surface of 830,000 ha, with a sharp decrease over recent years.
- A large-scale programme consisting in the rehabilitation of 200,000 ha has been established by public authorities (Ministère de l’Agriculture et des Pêches Maritimes, Haut Commissariat aux Eaux et Forêts et à la Lutte contre la Désertification, le Ministère des Finances avec la Fédération Interprofessionnelle Marocaine de l’Argane (FIMARGANE)).

Argan oil as a growing export sector

- Local structure are being implemented to support the development of the argan sector.
- Local operators are implementing robust operational processes.
- Argan oil market is expected to grow 4 times until 2022.

An investment opportunity for the LDN Fund

- Given the triple bottom line potential for the project: environmental, social and economic, Mirova is structuring an investment in the argan oil supply chain in Morocco for the LDN Fund.
- Specific features and challenges:
  - Establish the right contractual structure in order to reach smallholders while limiting counterparty risk.
  - Share benefits with all stakeholders.
  - Increase technical assistance to improve SLM practices.