Transcript Episode 5, Green Invest Asia
Guest: Nicolas Hayon, Mirova
Date: June 28, 2022
Title: Land Degradation Neutrality Fund

**Christy**: Okay, so hello, I'm Christy, Director of USAID Green Invest Asia and your host for today's episode, I'm very pleased to welcome Nicolas Haiyon, Investment Director and Head of Mirova's division in Singapore. Mirova is an asset management company with products that tie financial returns to environmental and social impacts. For today's conversation, we will be exploring the challenges and successes of managing the Land Degradation Neutrality fund[i], or LDN Fund. We will highlight key lessons that can be applied for other funds, as well as company characteristics of those who are looking to access the LDN Fund. Welcome Nicolas. Could you just get us started with a brief introduction to the LDN Fund?

**Nicolas:** Hi, Christy, of course. And first, please let me thank you for the opportunity to be with you today. The Land Degradation Neutrality Fund is a $208 million blended finance vehicle that is managed by Mirova, an asset manager exclusively dedicated to sustainable investment, with around $28 billion of assets under management, including $500 million, focusing solely on the natural capital sector, which includes the Land Degradation Neutrality Fund, and also [has] vehicles dedicated to protecting the ocean with a pure climate common approach. The LDN Fund has been initiated by the United Nations and formally established five years ago with the objective to provide patient capital to companies active in emerging markets that can deliver positive impact on the environment, sustainable economic returns, and improving livelihoods of local communities. We aim to support companies that will restore previously degraded land or prevent further degradation. That means we need to properly assess prior to making an investment decision what is the current status of the land and biodiversity, where the company wants to develop its project, what changes will be driven by our investment, and then to monitor these impacts over time to make sure we actually deliver on what was expected.

So the second objective is a delivery of sustainable economic return. The objective is not to provide grants, but rather to establish a track record of profitable investments that can deliver on appropriate risk-adjusted return to investors. This is really [a] central aspect to further scale up the flow of financing, to showcase investments that work and also are profitable.

The third objective is to make sure that this sustainable return is properly shared amongst all stakeholders, and in particular with local communities. We are convinced that it is a must in order to make the first two objectives resilient over the long term. If the local communities are not properly incentivized, it might work for some short period of time, you might increase your short-term profits, but it will typically not work well over the long run. So as of today, the fund has invested into nine companies across Latin America, Africa and Southeast Asia, to support local operators in scaling up the implementation of sustainable land use project. This could be across agriculture or forestry sectors. And as examples we have been involved in crops like coffee, timber, cocoa, citrus or banana. We typically target growth-stage company for investment between $10 to $25 million dollars. Pretty flexible on the instrument from debt to equity and in between, and can also benefit from the 15 years maturity of the fund to provide patient long-term capital to investors.

**Christy:** I want to turn to a recent development that we could use as an example, just to highlight the type of company that LDN Fund invests into. You've recently signed a deal with Kennemer Food International with operations in the Philippines. It's also a company with whom USAID Green Invest Asia has supported to get investment-ready, so we have some familiarity with it as well. But I was wondering if you can share more about what attracted LDN to finance Kennemer?

**Nicolas:** Yes, of course. So Kennemer is an agroforestry platform, which has been operating in Mindanao in the Philippines since 2010. It started by trading cocoa beans, and quickly realized there was an opportunity in developing the cocoa market in the Philippines, which was super small at the time, by working hand in hand with small holders to develop the sector and ultimately generate quality supply for Kennemer. So along the way they identified access to finance for smallholders. So they have developed a microfinance fund to overcome this problem. And they have also partnered with several development institutions to provide technical assistance to the farmers. Better access to better inputs and sharing best practices [unclear] to increase the yield. So one of the first things we love about Kennemer is their holistic approach in breaking the cycle of poverty affecting many smallholders by increasing the yield of that production, thanks to capacity building access to better inputs. And also the prices the smallholders get for their beans, increases. Kennemer links its buying price to [the] world price of cacao, which was not the case before when the market was dominated by local traders [unclear] very volatile prices to farmers.

So this has a very interesting combined multiplicator effect in improving livelihoods both on yields and price. And other parts of Kennemer's interesting value proposition is to promote agroforestry practices to cultivate cacao rather than [unclear] production. So this participates in making the environment more resilient to extreme events like drought or flooding, and also provides nice shading to young cocoa trees. This was a very important aspect in our assessments, considering the mandate [unclear]. And it also provides additional revenues for the farmers by increasing the yield as young cocoa trees benefit from the shading and also through carbon credits generated by the reforestation carbon program that Kennemer is implementing alongside its global program.

Kennemer has reached our sweet spot in terms of development stage, meaning that it has developed and proved its model turn profitable, and is now looking to raise capital to scale this model and increase its impact. They have developed a robust management team and are well-established in Mindanao, where they've been operating for more than 10 years.

**Christy:** So it sounds like it's a really good story. And I was kind of curious, you know, with the pandemic, and how have you been able to actually visit Kennemer during this process?

**Nicolas:** Yes, so I've been able to spend a week visiting the facilities in November last year. It was not that easy in a pandemic context, but I could benefit from the fact that my wife is Filipina, which facilitated the visit. And it's very important for us to make sure we go on site, of course, to visit the facilities, and see the project developed by the company, but also to meet with the team, not only the CEO or the CFO, but employees at [unclear] level of the organization. Assessing the capability and motivation of the management team is a key aspect, you know, due diligence process in general.

**Christy:** Yeah, and that makes a lot of sense. I mean, I was able to go and visit as well, back in 2019. I actually thought it was a very interesting operation, very inspirational to see their nursery, their farming trainers' center, hear more about their commitment to women leaders in the cacao sector and in their own operation. So from inception until now, how long has it taken for the LDN Fund to finance this deal to get through this process? And I asked only because, you know, given the urgency to lower greenhouse gas emissions and combat climate change, what lessons can you share as an early fund in the sustainable finance space, in agriculture, with other like-minded investors on how to speed up and scale climate-friendly investments? Because frankly, what was considered admirable like a plus for the finance world in 2015, has increasingly become a must climate-wise.

**Nicolas:** You're totally right. So an average I would say takes 12 to 18 months between the first contact with the company and actual funding from the fund, which is still way too long. So it has improved over time, both due to internal development within Mirova, but also I think for external reasons. Within Mirova, I think an important driver has been the reinforcement of our own investment and research capabilities.

Since we launched the fund six years ago, we have grown organically, hiring specialists from forestry and agricultural sectors, and also externally with the acquisition of Althea, the UK-based specialized asset manager, which is now fully integrated within Mirova. So today, we have a team of 22 investment specialists dedicated to natural capital spread across Europe, Latin America, and our recently opened office in Singapore.

This investment team is complemented by classic support functions like risk, legal and compliance, but also by a team of E&S specialists, which is fully integrated in our investment process and focuses on the environmental and social aspects of an investment, which are central in our analysis for the LDN Fund. So we are also trying to apply and replicate as much as possible, the investment standard we have developed over the past 20 years investing in the energy transition sector. So leveraging [a] robust operational and compliance process, and also trying to standardize the terms we can propose to companies, it makes it easier and quicker to communicate with companies more transparent[ly] also, and reduces transaction costs that can quickly [increase] when we're looking at ticket size of a few millions.

Externally, I think the development and maturation of the impact investment space plays also a role in accelerating timing to funding. And we should collectively continue our efforts to keep the momentum. It's supported by various stakeholders, including Green Invest Asia, which will provide additional support to companies in improving their investment readiness. And I would like to really highlight the role you played with Kennemer, including the construction of a robust financial model. It might not seem like much, but Sometimes we do see some funky financial models that make it hard to take a developer [unclear]. So it was an important thing really to facilitate our review, and overall accelerate our decision process.

**Christy:** I appreciate hearing that type of feedback. I think it's important for us as a program, but also for others who are interested in providing similar type of support to investors. And I do you understand that it can be a very delicate and shifting balance to move fast enough given climate change risks, but also slow enough to mitigate investment risks. Can you tell me a little bit more about how you have worked with public donors like USAID or nonprofits to de-risk transactions, and improve the investment readiness of companies you're evaluating for investment?

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**Nicolas:** We believe there is an important role for public money to play in reducing the perception of risk by the private sector, and ultimately increase the allocation of private capital to where it makes sense. So it's been and still is instrumental [unclear] for the LDN Fund, first and foremost, at the fund level, which is structured with a junior tranche of approximately 20%. That helps in de-risking the senior tranche where most of the private capital is located. It has really been [unclear] in attracting private capital to the fund.

I must warn the audience that it has been a long and complex process, however, to get there. So you have to be ready and prepared for extensive due diligence to prove the robustness of your process. And to go through the approval stages of the public entities. It takes time. So if you're willing to go down that road, don't underestimate the time and effort levels.

And don't engage too early with private investors, if you know that securing the junior tranche will be instrumental in their own investment decision. Then, alongside the fund, the French Development Agency and the Global Environment Facility have sponsored a $5 million technical assistance facility, which is managed by IDH [the Sustainable Traded Initiative] with the objective to provide pre and post-investment technical assistance to potential investors. So one key objective there is really to improve and accelerate investment readiness and [unclear] accelerate our development base. Finally, I think to originate opportunities and gather market intelligence, great to benefit from having a wide network of partners~~,~~ such as IDH, the French Development Agency, the United Nations focal points or Green Invest Asia. They and you have a local anchorage in several countries we are targeting that is very complementary to our own footprint and provide useful access to pipeline and market intelligence before taking any investment decision.

**Christy:** So what would happen just hypothetically, if these companies hadn't received investment readiness, technical assistance, the ones that you've invested in. Is that a deal breaker or would it just delay the timeline for finance?

**Nicolas:** Typically this investment readiness, technical assistance, would address a need identified during your due diligence process as a must before an investment by a fund. So without this technical assistance, the company might still be able to implement with its own funding, but it will typically take longer. And it's not all about the funding. It's also about the expertise this technical assistance will bring.

So we also have a specific post investment technical assistance where the goal is to support the investee after funding over the long term. For example, in implementing monitoring measures to report on specific KPIs that we are interested in, like impact on soil or biodiversity. The important aspect here is to make sure that there is a progressive transfer of knowledge to the investee, for it to fully own the process of the [unclear] without external implementing support.

**Christy:** I think that's important. That level of transparency I know is appreciated. If I'm not mistaken, you finance about five to 10% of all projects you evaluate. What are some of the most common reasons that transactions don't move forward?

**Nicolas:** The most common reasons we don't progress on a transaction will typically be the misalignment with either our impact objectives, or the minimum track record [that] we still expect to see from a company we invest in. On one end of the spectrum, we see many well- established companies with operational track record, looking for scale of capital, but where we are not aligned on the impact paths. And on the other end of the spectrum, we will find companies that have both environmental and social matters at the center of the project, but which, which are still unfortunately, a bit early in the development stage for the LDN Fund. So in this later case, we might involve the technical assistance, to see if it can improve the investment readiness of the company, or we can also refer them to the program often we know of and which might be better suited to finance early stage ventures.

**Christy:** What we try to do here at Green Invest Asia is try to help lower the risk for funds like yours, investing in Southeast Asia. We certainly have experienced this challenge of finding companies that are past early stage incubation that actually have a solid business model that that looks to be profitable, or is profitable, environmental social track records, as well, which is a, you know, that trifecta is hard to find.

To qualify for climate finance, as you mentioned, the metrics can be increasingly difficult to meet if the systems aren't in place for those measurements. So what that means, then, is that companies that make it through, like Kennemer, become the standard bearers of the climate changing potential of sustainable finance, for the better. And so with Kennemer Foods as your third investment in Asia after ones in Lao and Bhutan, might this mean more investments in Southeast Asia through the LDN Fund?

**Nicolas:** Definitely, we are currently looking at several opportunities. So hopefully we'll be able to make more investment in the region shortly. We have so much to do here, impact wise to make sure this ~~[unclear]~~ is achieved sustainably, protecting biodiversity and improving livelihoods along the way. We opened an office in Singapore last year for which we are currently adding more staff. We are convinced it is important to build teams closer to the market we invest in to facilitate sourcing and due diligence, but also, and it is a very important point, to facilitate a regular monitoring of the investment, once it is made.

I should also highlight that Green Invest Asia played a great role in putting us in contact with developers ones we didn't know about. And so I'm also taking this opportunity to share that we still have capital to allocate and would be very happy to further engage with companies or other stakeholders to share more about our investment scope and process.

**Christy:** Glad you're taking this opportunity to put it out there are that you're open to additional investments and interested in engaging with companies further. And I certainly hope that your next investment is listening now. But before we wrap up, I just want to give you a chance for any last takeaways you want to leave with the listeners.

**Nicolas:** Don't underestimate the power of a good story, and how you present it to prospective investors. Our experience has been that there are companies that are doing very good things on the ground, but have trouble communicating it and packaging it in a way that impact investors might expect. So impact investor are looking for how companies meet Sustainable Development Goals. But also ultimately, we are looking for a good story to tell-internally to our investment committees, but also externally to our own investors and to the public. So it's our job as an asset manager to develop sourcing channels, screening processes to make sure we don't miss the opportunity to support a great company only because of marketing issue. Or whether companies should also spend time to improve the way they present their impact. It's really becoming a key metric in assessing an opportunity, together with more traditional risk-and-return companies.

**Christy:** Thank you so much. I think those are some very key points. Never underestimate the power of a good story. So you have been listening to Nicolas Hayon, who joined us today from Singapore on behalf of Mirova and the Land Degradation Neutrality (LDN) Fund. Thank you so much for listening to this episode. And please join us again for upcoming conversations to get more inside investment insights on sustainable land use in Southeast Asia. Thank you.

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[i] The reported data reflect the situation as of the date of this document and are subject to change without notice.



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