INTERVIEW

NATURAL CAPITAL FINANCE ROLE IN THE TRANSITION

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Gautier Quéru is the Director of the Land Degradation Neutrality Fund, an innovative fund co-promoted by Mirova and the United Nations Convention to Combat Desertification. The LDN Fund is dedicated to long term investments in sustainable land management and natural capital projects worldwide. Gautier is in charge of the business development and overall coordination of fund creation (market study, fund design, structuring, marketing to institutional investors) and team management. He also manages investment opportunities sourcing and analysis and acts as a focal point with the United Nations and other stakeholders (NGOs, business associations, international organizations).
Gautier joined Natixis group in 2004 when the European Carbon Fund (ECF) was launched. From 2004 to 2013, Gautier acted successively as investment manager, portfolio manager and fund director of ECF. Between 2013 and 2016, Gautier was Investment Director within the renewable energy fund division of Mirova. Prior to joining Natixis group, Gautier started his career at the French Ministry of Economy, in the Energy division.
Gautier is an engineer specialized in environment and energy from National Polytechnic Institute of Toulouse and is also a graduate of Sciences Po Paris.

Edit Kiss is Director of Development and Portfolio Management of the range of Mirova's Althelia funds. Since its launch in 2013, Edit manages the portfolio of investments and investor relations of Althelia Climate Fund, a pioneering climate and nature conservation fund and first Althelia fund. In addition, she is responsible for overseeing the carbon portfolio monetization strategy and the executive management of Ecosphere+, Althelia Climate Fund's marketing subsidiary as well as developing donor relations & partnerships for the Mirova Natural Capital platform.

Edit has over 13 years of experience in climate finance, carbon markets and conservation finance having worked in various financial institutions, carbon funds and renewable energy companies in London, Paris, Lugano, Rotterdam and Budapest. She is an environmental economist and has been a guest speaker at several international climate and conservation finance conferences worldwide.

Mirova is a conviction-based asset management firm dedicated to sustainable investment. It was created to bring together abundant capital and savings with the investment needs of a real, sustainable and value-creation economy. Since its formation, Mirova has benefited from the sustainable asset management expertise developed by Natixis Investment Managers for over 20 years, and has seen considerable growth in its operations and its investor base. With €10 billion in assets under management, Mirova has become a European and international leader in sustainable finance. Mirova offers a global responsible investing approach: equities, bonds, infrastructure and renewables, impact investing, natural capital. In September 2017, Mirova created an investment platform dedicated to the conservation of biodiversity and natural capital with the acquisition of Ecosphere Capital Limited, an asset management company, now renamed Mirova Natural Capital. The platform, with teams located in Paris, London, and Lima, develops innovative nature-based investment solutions dedicated to fighting climate change and protecting landscapes, biodiversity, soils, and maritime resources.

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Q1. Could you describe the value proposition and the business model of the Land Degradation Neutrality Fund? Does it relate to regenerative agriculture?

The Land Degradation Neutrality (LDN) Fund was initiated by the United Nations Convention to Combat Desertification (UNCCD) and Mirova. It aims at generating positive environmental and socio-economic impacts, alongside financial returns, through investments in Sustainable Land Management and land restoration projects. It uses mainly combinations of project finance and structured commodity finance techniques.

The value proposition of the LDN Fund is to contribute to the SDG 15 “Life on land” by financing the production of tangible and tradeable outputs, namely food commodities (for instance coffee or nuts) and doing so in an environmentally sustainable manner while generating fair revenues for farmers. Projects to restore land and fight deforestation are receiving an increasing support due to their strategic contribution to combating climate change, protecting biodiversity and ensuring food security.

Q2. What is the de-risking structuring of the LDN Fund?

The LDN Fund is designed to allow junior investors – national development agencies, climate funds, or private foundations – to take a first-loss position partially protecting senior investors. Senior investors are typically institutional investors such as pension funds, insurance companies and development banks. It is a good example of blended finance.

Q3. What is the profile of the investors in the LDN Fund? Where do you stand as of today in terms of funds collection?

Since its first closing, the Fund has convinced new European institutional investors, bringing its total amount of commitments to more than $150 million. During the week of the UN Climate Action Summit held in New York on September 23, 2019, we announced more than $50 million in additional commitments from private investors: Allianz France and Natixis Assurances, as well as the BRED, have joined the investors’ pool, while BNP Paribas Cardif and Garance, already present at the first closing, have increased their financial participation. These partners join the initial investors, among which the European Investment Bank (EIB), the Agence Française de Développement (AFD) and Fondaction, the Fund’s anchor investors.

Q4. Would the LDN Fund also be open to companies acting as investors in order to improve their “extended” carbon footprint (carbon credits, zero deforestation, local employment)?

The Fund is focused on institutional investors looking for both financial return and impact. In parallel, we see an increasing number of carbon net neutrality goals announcement from companies.

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It is right that carbon offsetting is a necessary (but insufficient) answer to climate emergency. Forests and soils are a formidable carbon sink as highlighted by the recent report from the IPCC "Climate Change and Land"*. The land use sector is instrumental to the 2°C target and climate emergency. Nature based solutions represent 50% of the near-term mitigation opportunity (by 2020) and 37% of the longer-term 2030 mitigation opportunity.

We need to increase and secure stable demand for sustainable agroforestry with the help of corporates, that can act as off takers of the sustainable agriproducts from the "responsible value chains" financed by the LDN Fund. An offtake agreement is an arrangement between a producer and a buyer to purchase or sell portions of the producer's upcoming goods. We need to increase and secure stable demand for sustainable agroforestry. Beyond offtake agreements, sustainable premiums or payment for ecosystem services (that could be carbon) are even more important to help the return profile of these investments.

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Q5. So, carbon sequestration and carbon credit generation for offsetting purpose are not primary goals of the LDN Fund?

The Fund specializes in scaling agroforestry projects built on degraded lands: this can include for example projects implemented on areas ranging from 1,000-hectare to 10,000-hectare and developing production of hazelnut, coffee, cocoa, teak, hevea plantations in Latin America, Africa or South East Asia. The LDN Fund methodology invites us to think of agroforestry, land restoration and improvement not only as a carbon sink generating carbon offsets, but to consider ecosystems in their entire complexity, with a holistic approach leading to numerous co-benefits. Carbon credit generation as offsetting would not be done at LDN level, sequestration is a mere co-benefit, alongside positive contributions to biodiversity protection, climate adaptation, fight against rural poverty, protection of water resources, etc.

Q6. What are the recent developments in the natural capital and nature-based solutions landscape? Is it gaining in maturity and scale?

Nature-based solutions are gathering momentum and appear to be at a similar stage as renewable energies were 15 years ago. Capital markets start to discover its unraveling potential and benefits. Highly emissive companies pledge to invest in reforestation programs or build their own expertise on natural capital (Total, Shell, BP) in order to both compensate for their environmental impact and secure sustainable material sourcing.

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*Climate Change and Land: an IPCC special report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems. Available here: https://www.ipcc.ch/report/srccl/

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Airlines have compensation requirements under the CORSIA (Carbon Offsetting and Reduction Scheme) where nature-based solutions are expected to be part of the eligible units for compliance, the WEF and WBCSD have launched a Natural Climate Solutions Alliance (website: https://www.weforum.org/natural-climate-solutions-alliance/home) that aims to catalyze a gigaton of demand for these credits.

On the international stage, global responses such as the "New Deal for Nature", including all stakeholders, need to be supported. The private sector has a key role to play, alongside scientists, civil society and governments. The meetings of IPBES and IUCN in France are intended to accelerate the momentum from the private sector, towards the COP15 of the Convention on Biological Diversity in China in 2020. We could also mention the Article 6 of the Paris Agreement that will be further developed at COP25 in Madrid that will also drive more action to jurisdictional/national scale REDD+.

Q7. The recent Transition Bond from the beef producer Mafrig steered controversy. The proceeds of the Bond will be earmarked to projects meeting the sustainability criteria of the company, including zero deforestation. What are the pre-requisites for further and better accepted issuances from agri-food companies in the area of responsible sourcing?

The production of agricultural goods, such as meat, soya (for animal feed), palm oil, corn, is the first driver of tropical deforestation. Furthermore, a significant share of this agricultural commodity production is intended for exportations. High income countries thereby “import deforestation”.

On the zero-deforestation commitments I would just say that the issue is still that all these players make these commitments but do not want to pay a premium for the sustainable attributes and/or for the externalities like carbon so it is not helping with the financing gap/business case unless they start looking at it more holistically.

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Q8. What are the next financial innovations around natural capital solutions?

On Mirova’s side, we have been innovating with the carbon-collateralized loans that provide a way to use carbon finance in a catalytic way to complement sustainable production side. Collateralizing loans with carbon credits and payment for ecosystem services is a way to reduce farmers’ land insecurity while contracting a loan. We have a White paper (link: https://althelia.com/wp-content/uploads/2018/04/Althelia-WhitePaper-RoleOfPrivateCapital-62.pdf) for further info on that. Blended structure on project level but also fund level are very important elements of the de-risking.