## Land Degradation Neutrality Fund Annual Review – 2023 Performance

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| **Title: The Land Degradation Neutrality (LDN) Fund** | | |
| **Programme Value £ (full life): £10m GBP ($13.2m USD)** | | **Review date: 2023** |
| **Programme Code:** [AMP ID#] | **AMP start date:** December 2019 | **AMP end date:** 2033 |

**Summary of Programme Performance**

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| Year | **2020** | **2021** | **2022** | **2023** |  |  |  |
| Overall Output Score | **A** | **A** | **A** | **A** |  |  |  |
| Risk Rating | **Moderate** | **Moderate** | **Low** | **Moderate** |  |  |  |

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| DevTracker Link to Business Case: |  |
| DevTracker Link to results framework: |  |

**A. SUMMARY AND OVERVIEW**

**Description of programme**

The Land Degradation Neutrality (LDN) Fund brings together public and private investors to fund triple bottom line (people, planet, profit) projects that contribute to land degradation neutrality, a major global challenge that was officially set as part of the United Nations Sustainable Development Goals (SDGs) in September 2015. The LDN Fund was initiated at UNCCD COP 13 in China in 2017, and began operations in 2018 for a limited period of 15 years.

The Fund focuses on supporting land rehabilitation and sustainable land use projects worldwide by providing financing opportunities that comply with high environmental and social standards, demonstrate additionality, and promise sustainable financial returns. The Fund does this through mobilising investment into large-scale profit generating sustainable land management projects.

After three years of preparatory work, the LDN Fund became fully operational in December 2018. The Fund Manager is Mirova, and as of end-year 2023 the key partners include:

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| **Public investors** | **Private investors** | **Other contributors** |
| * UK Government – Defra * Canadian Government * Government of Luxembourg * The French Development Agency * The European Investment Bank * The Global Environment Fund (TA investor) | * BNP Paribas Cardif * Fondaction * Natixis Assurances * Allianz * Fondation de France * Garance * L’Oréal * Concordia University Foundation * Bred Banque Populaire | **Co-promotors:**   * The United Nations Convention to Combat Desertification (UNCCD) * Mirova   **Sourcing and Impact**   * WWF   **Technical Assistance**   * IDH – The Sustainable Trade Initiative |

To date, LDN have invested in the following thirteen projects (\* indicates projects using a smallholder model in sourcing materials):

* \*Mountain Hazelnuts (Bhutan; key product: hazelnuts)
* \*Urapi Sustainable Land Use (Peru and Colombia; key product: coffee, cocoa, nuts)
* Miro Forestry (Ghana and Sierra Leone; key product: timber)
* \*Komaza (Kenya; key product: timber)
* Cacao Oro (Nicaragua; key product: cocoa)
* Burapha (Laos; key product: timber)
* Atlas Fruits (Morocco; key product: citrus)
* Aloe Agroforestal (Brazil; key product: timber)
* \*Kennemer (Philippines; key product: cocoa, bananas)
* \*Aqre Group (Madagascar; key product: Quinine, Centella, Artemisinin)
* \*Pamoja (Kenya and Tanzania; key product: macadamia nuts)
* \*Koa Impact (Ghana; key product: cocoa pulp)
* Terrasos (Colombia; key product: biodiversity credits)

The LDN portfolio reached capacity in 2023 with the addition of three final projects. LDN operates a thorough due diligence and pre-investment process which includes a Screening Committee, Investment Committee 1, and Investment Committee 2, with projects being removed at each level so that only the most promising investments are selected for funding.

**Summary supporting narrative for the overall score in this review**

In 2023 Mirova made progress on all the recommendations from the previous Annual Review (AR) particularly in providing greater detail on the work of the Fund to tackle poverty, land restoration, and biodiversity monitoring. Although only half of Outcome targets were met, strong progress was made across all Outcomes in 2023, which put the Programme in a strong position going into 2024. Output scores were mostly above target, or only slightly below, with particularly strong results in jobs supported and the gender ratio of end beneficiaries (53% female).

This is the fourth AR of the Fund and the fourth year where Logical Framework (logframe) results are reported. This is the second year where milestones were set in advance, though because the portfolio was only completed in 2023 some context is required when assessing progress and performance against milestones. Overall, progress across most Outcomes and Outputs has been in line with expectations, demonstrating good value for money in environmental outcomes for Defra’s programme. Consequently, a score of A has been agreed with Mirova for the Fund’s progress in 2023.

**Progress on 2023 recommendations from previous AR:**

1. Seek more detailed information on who the beneficiaries of the programme are and how supporting them addresses poverty, including to what extent benefits are sustained and equitable within local communities. (Complete).

*The programme’s 106,000 beneficiaries comprise the employees of the invested companies as well as the contracted farmers in outgrower schemes; in 2023 53% of beneficiaries were women. The number of indirect beneficiaries is not estimated, but would include all members of households where one or more adults are direct beneficiaries, and members of the wider communities where projects are based and wealth is being created. Most of the farmers supported by the seven projects that have a smallholder model are growing produce for sale on tiny areas of around one-three hectares each, which suggests that the Fund’s benefits are reaching some of the poorest households in the world, while other projects are creating secure jobs in poor, rural areas. All projects financed by the LDN Fund must identify and mitigate any risks to food security related to the project. Farmers receive training and income which increase the resilience of livelihoods facing climate and economic uncertainties, as detailed below:*

*• Climate-resilient farming methods*

*o Diversification of agricultural production to reduce climate risk (growing a mix of different crops and different varieties of each crop)*

*o Promotion of heat- and drought-resistant crops and water saving irrigation methods to withstand climate change*

*o Culture and distribution of climate-resilient seeds.*

*• Economical resilience*

*o Increase in smallholders' productivity and income*

*o Improvement of farmers’ capacity to adapt to ongoing climate change*

*o Facilitating market access.*

*The capacity building provided by the fund on developing strong agricultural practices and securing key certifications will allow for benefits to be sustained for at a minimum, the time of the investment. New access and integration within export markets will also allow for programme benefits to be continued forwards following programme end date.*

1. Defra should from 2022 onwards record progress against milestones each year for monitoring and transparency reasons, and keep those milestones under review to ensure they continue to be proportionate and effective when considering previous results and progress. As the Fund has not fully disbursed finances to all projects the baselines and some milestones will need to be recalculated for the 2023 ARs. (Complete).

*Milestones were initially agreed in late 2022 and are used in this AR. Having assessed the results provided for 2023, it has been agreed that the milestones as they stand are suitable. Milestones being exceeded show strong performance and do not need updating for future years unless significantly off/over expectation. Mirova expect to complete almost all disbursement by 2025, and with allocation of funding now complete milestones set until 2033 should remain relevant and stretching.*

1. Set out in more detail the benefits and limitations of reforestation efforts focused on plantations and commodity crops, and particularly their impact on biodiversity. (Indicator 1). (Complete).

*Benefits of reforestation efforts on degraded lands include:*

* *Habitat restoration: Reforestation can help restore degraded habitats and provide important wildlife corridors, which can support the recovery of biodiversity.*
* *Soil and water conservation: Reforestation can help prevent soil erosion, improve water quality, and regulate water flow, creating better conditions for diverse plant and animal species.*
* *Carbon sequestration: Reforestation on degraded lands can help sequester carbon from the atmosphere, contributing to climate change mitigation.*
* *Biodiversity enhancement: Well-planned reforestation efforts can increase habitat complexity and diversity, providing suitable conditions for a wide range of plant and animal species.*

*However, there are also limitations to reforestation efforts on degraded lands, particularly in their impact on biodiversity:*

* *Invasive species: Reforestation efforts can inadvertently introduce invasive plant species, which can outcompete native vegetation and disrupt ecosystems.*
* *Genetic diversity: Reforestation projects may use a limited number of tree species, leading to a reduction in genetic diversity and potentially making the ecosystem more vulnerable to disease and environmental changes.*
* *Habitat quality: Reforestation efforts may not fully replicate the complexity and structure of natural ecosystems, potentially leading to reduced habitat quality for certain species.*
* *Wildlife disturbance: Reforestation activities can disturb wildlife and their habitats, particularly during the initial planting and establishment phases*

*The Fund is addressing these limitations through a revision of the biodiversity monitoring approach (detailed in recommendation 6 below) to try to better capture both quantitatively and qualitatively the positive impact of reforestation. Several innovative remote sensing and field data collection solutions are being tested.*

1. The 2023 AR should consider dissemination and use of knowledge products as well as the number of products published. (Output Indicator 1.5). (Complete).

*In terms of knowledge sharing with the wider project developer and investor community, a more continuous approach towards sharing operations and learnings of the LDN TAF has been created by launching the LDN insights website, www.ldninsights.org. Learning briefs and articles are incorporated on the website as well as information on new LDN TAF projects in the case studies section, which is updated on a regular basis. Project milestones, such as newly added or finalised projects, are regularly posted on the PMU’s and/or IDH social media accounts to create more visibility and attract traffic towards the webpage.*

1. The approach to biodiversity monitoring is under revision at Mirova's level and will be revised in 2023-4. Further explanation of rationale and methodology behind Indicator 2.1 should be included in 2023 AR, and moving it to Outcomes should be considered. Defra and Mirova have agreed that Indicator 2.3 can be disaggregated further into high level Agroforestry/forestry etc. categories, and that this indicator will be revisited as the methodology is updated – this recommendation should be acted on ahead of 2024’s annual review. (Recommendation to continue).

*Mirova has developed a framework for biodiversity monitoring for projects with a significant biodiversity impact potential. A detailed monitoring approach for LDN could be developed in line with Mirova’s guidelines for biodiversity monitoring which includes the following key principles:*

* *Monitoring must involve at least 5 indicators*
* *At least 1 of the indicators must reflect ecosystem structure*
* *Selection of indicators must reflect the nature and context of the project*
* *A clear methodology must be established prior to the baseline and remain unchanged*
* *In addition to a pre-project baseline, monitoring must occur at least every 5 years, but preferably every 3 years. More frequent monitoring may be applicable in some cases.*

*The impact on biodiversity varies depending on each project's specific nature. Biodiversity impact is primarily monitored using a high-level indicator, such as areas under natural vegetation and/or conservation. Specific qualitative field data and associated KPIs to qualify the state of biodiversity could be added to LDN reporting, according to the specific nature of the projects using the following:*

* *Remote sensing: use of satellite imagery to monitor and evaluate landscape-level changes over time, including land use change, primary productivity (Normalised Difference Vegetation Index (NDVI), Normalised Difference Moisture Index (NDMI), above-ground biomass stock, Shannon-Wiener plant diversity index, etc.*
* *eDNA: analysis of DNA from environmental samples (water, soil, insects, etc.)*
* *Acoustic monitoring: collection of data on the types of species present in a specific location, gathered by analysing sound recordings*
* *Field surveys: traditional observations on the ground by specialists.*

*Testing of remote sensing solutions has been explored by Mirova as well as piloting of field data collection (soil and pollen sampling and laboratory analysis).*

*The possible use of this data and suggested KPIs should be discussed with Mirova by March 2025 to ensure indicators accurately capture the protection of all nature/biodiversity, rather than just the habitats of protected species as current. In line with this, Indicator 2.1 has continued to be troublesome, and a meaningful reporting methodology has been hard to develop for this programme. As discussed further below, this Indicator’s value will be assessed ahead of 2024’s annual review.*

1. Consider further GESI disaggregation in future reporting and split livelihoods supported by employees and smallholders with clearer definitions. (Output Indicator 3.1-3.3). (Complete).

*Mirova has met this recommendation for gender, providing the data as displayed under output 3, but does not collect disaggregated data beyond gender.*

1. To better quantify the impact of Defra’s investments in sustainable agriculture and support the need for a scaling up of both public and private investment in nature an external evaluation of the programme’s success should be considered in future. (Recommendation in progress).

*By March 2025, Defra will explore with Mirova and other investors in the Fund the commissioning of an external review of the Fund, while staying cognisant of the very limited scope for changing the direction or operation of the Fund held by Defra at any point, or by the Manager now the portfolio has been completed. Considering that projects are all selected and funding mostly disbursed, a review is not likely to make a material difference to the operation of the Fund, so the timing of a review should be later in the Fund’s lifetime to better capture its overall impact. The main benefits of an external review for Defra will be in determining how to repurpose any remaining capital owing to Defra when the Fund winds down, and for future Spending Reviews to guide whether programmes should invest or reinvest in similar Impact Investment Funds.*

**GESI update**

In line with our primary GESI Action Plan action, the programme team continue to engage with Mirova on GESI reporting. Fund investees have developed gender assessments and action plans that seek to reduce the gender gap both internally and within their beneficiaries, to ensure that benefits are shared equitably within communities. The Fund carries out a tenure assessment on all projects to determine land ownership and use, including historical use and use by Indigenous People or Sub-Saharan African Historically Underserved Traditional Local Communities. LDN engages with affected people throughout the lifetime of a project, and establishes qualified teams to manage engagement and consultation with people with tenure rights. If a project involves significant changes to tenure rights, the Fund commits to ensuring there is a ‘witness NGO’ or other respected third party to ensure that processes are carried out transparently and fairly and that people affected are fully informed of and able to exercise their rights.

Overall GESI progress has been strong, particularly on gender equity, moving the programme from GESI unaware towards GESI empowering status. See further detail in Output and VfM sections.

**Recommendations arising from this AR:**

1. In 2024’s annual review, reporting should begin on the logframe’s Impact Indicators. Ahead of this review, Defra will discuss with Mirova how to ensure the indicators are relevant, measurable, proportionate and robust by reviewing their methodologies.

1. Defra should work with Mirova to plug any gaps in monitoring, particularly for biodiversity. Indicator 2.1 on threatened species in conservation areas has proved very difficult to report upon and provided inconsistent results, and work has been done by Mirova (discussed in recommendation 6 above) to amend the approach to biodiversity monitoring.
2. By March 2025, Defra should consider the benefits and optimum timing of an external evaluation of the programme, and explore with Mirova the possibility of a Fund-commissioned review as part of their quality assurance. See discussion in Recommendation 7 from previous recommendations above. Assumptions underpinning the programme’s Theory of Change and expected results to be tested during any evaluation.

## B: THEORY OF CHANGE AND PROGRESS TOWARDS OUTCOMES



The Theory of Change demonstrates how the fund’s activities are expected to lead to the above intended impact. It was constructed based on a causal analysis, drawing on available evidence, and is used to frame the fund’s impact measurement and management eﬀorts. The fund’s Theory of Change considers the following levels:

**Final impact:** This level contains the ﬁnal impacts at environmental and socio-economic level that the fund aims to contribute to.

**Outcomes:** This level includes long-lasting changes expected to be delivered by the fund.

**Outputs:** This level summarises the tangible results that the fund’s activities produce.

**Activities:** This level contains the fund’s diﬀerent activities. These processes are interlinked and reinforce each other to drive transformation and systemic change in the market.

Elements outlined in the Theory of Change are either directly under the control of the Fund (such as activities and outputs) or inﬂuenced by both the Fund and external factors (such as outcomes, ﬁnal impacts). Given the nature of the Fund’s work, the Fund does not attribute the absolute change happening at outcome and ﬁnal impact level solely to its contributions. Considering also the complex environments in which the Fund’s investees and stakeholders operate in, it may be possible to measure whether an intended outcome occurred, but it would be diﬃcult or inaccurate to attribute the change solely to the LDN Fund’s work. The Theory of Change, therefore, deﬁnes how the fund contributes to causing the observed outcomes and ﬁnal impacts. The final results of the Fund, along with any independent review of the Fund’s success, will help test the ToC’s assumptions about its impact. These assumptions are that:

1. Public investment has a catalytic effect for leveraging private finance;
2. Sustainable land management has a measurable impact on biodiversity net gain, carbon sequestration and reversing land degradation;
3. Technical Assistance improves commercial and ESG outcomes for projects;
4. Creation of jobs and improved livelihoods prevents degradation from being exported to other areas;

As the Fund is still in its early stages, it is currently operating within the outputs of the ToC. The fund closed in 2021 at $208.4m, split between $43.6m in commitments from Junior LPs (Limited Partners) (21%) and $164.8m in commitments from Senior LPs (79%). As a Junior LP, Defra’s investment was aimed at encouraging private investment by taking a smaller share of any profit and being first in line to lose money in the event of portfolio losses, thereby improving returns and reducing risk for private investors. This 79:21 split is close to the Fund’s Senior/Junior limit of 80:20 and demonstrates the success of the Fund in raising Senior capital from a smaller pool of Junior capital. 38.5% of the Fund’s commitments are from public investors, and 61.5% from private investors.

As of 31 December 2023, $165.4m had been committed to thirteen projects and $129.1m had been disbursed to projects. Examples of spend that projects have already carried out include operational costs, construction of processing factories to add value to raw materials and planting and reforesting of degraded land under sustainable agricultural and forestry practices.

At the Fund Level, the LDN Fund aims to measure each project’s contribution to Land Degradation Neutrality, in line with the [UNCCD LDN Scientific Conceptual Framework](https://www.unccd.int/publications/scientific-conceptual-framework-land-degradation-neutrality-report-science-policy). According to this framework, progress towards Land Degradation Neutrality is measured using three indicators that feed into Defra’s programme outcomes for reforestation, area contributing to land degradation neutrality, and carbon dioxide sequestration (see below):

1. Land cover (assessed as land cover change)
2. Land productivity (assessed as net primary productivity)
3. Carbon stocks (assessed as soil organic carbon)

The Technical Assistance Facility (TAF), managed by IDH – the Sustainable Trade Initiative - is supporting the Fund with the development of a harmonised approach towards monitoring, based on a methodological framework, in partnership with Conservation International and their Trends. Earth platform, and OpenGeoHub. The work has been undertaken in close consultation with the UNCCD scientific community. Based on a ‘one-out all-out' principle, a positive overall change indicates land increasing in productivity and health, and therefore land degradation being reversed. In terms of monitoring, most indicators are measured using remote sensing (satellite imagery), and in some cases complemented by field-level soil sampling. Alongside this, the TAF supports recipients of the LDN Fund in setting a baseline using the above methodology, while building capacity with project developers to integrate continuous monitoring of LDN into their operations, and (where relevant) aligning with national government target-setting units. This enables companies to report on progress and comply with environmental and social action plans, practice adaptive management, and, where possible, optimise positive environmental, social and financial returns resulting from restoring land.

The following four impact indicators have been selected for this programme. Due to their longer-term nature and wider scope, change is expected to be slow with many uncertainties involved in linking the impact of a single Fund to the global picture, but from next year Defra will aim to set a baseline for 2019 and begin reporting on indicators 2, 3 and 4:

1. ICF KPI 15: transformational change – scored 2 out of 5 which is defined as partial evidence that suggests transformational change is unlikely. This is expected to increase as the fund progresses.
2. Contribution to climate change, adaptation and relevant SDGs, including life on land, climate action, poverty, hunger, and gender equity (SDGs 1, 2, 5, 13, 15). This will be a predominantly qualitative and narrative indicator which evaluates the progress of the fund towards these objectives. This indicator is currently unscored.
3. Wider progress towards Land Degradation Neutrality – this will be the difference between land degradation levels from Year 0 of project, measured in hectares. This indicator is currently unscored.
4. Level of market-level private investment in SLM – this will be a cumulative result, measured in pounds sterling. This indicator is currently unscored.

**Annual outcome assessment**

The overall outcome indicator is defined as: The LDN Fund contributes to achieving Land Degradation Neutrality by increasing private investment in SLM, proving the concept of positive financial returns from sustainability projects, mainstreaming SLM practices in a number of industries and geographies, and sharing best practice with public and private partners across the developing world.

Initial results for all five outcome level indicators are now available and annual milestones have been set from 2022 to the end of the Fund. Defra will keep milestones under review as the Fund completes its portfolio and disburses funding to ensure they are set at an appropriate level and continue to reflect an ambitious but realistic level of delivery and performance.

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| **Outcome Indicator**  **(all figures are cumulative)** | **2022 (Fund level)** | **2023 targets** | **2023 (Fund level)** | **Defra attribution** |
| 1. Area of reforestation (ha) | 47,086 | 75,000 | 65,792 | Direct: 5,019  Leveraged: 3,460 |
| 2. CO2 emissions avoided (t) – KPI 6 | 1,075,000 | 2,000,000 | 1,687,122 | Direct: 109,138  Leveraged: 91,753 |
| 3. Private finance leveraged by the LDN Fund ($) – KPI 11   1. Fund level | 128,000,000 | n/a | 128,000,000 | Direct: 6,470,000  Leveraged: 4,094,000 |
| 1. Co-investment level ($) | 91,800,000 | 130,000,000 | 178,000,000 | Direct: 12,600,000  Leveraged: 9,272,000 |
| 4. Public finance leveraged by the LDN Fund ($) – KPI 12 | 85,600,000 | *n/a* | 85,600,000 | Direct: 2,790,000  Leveraged: 3,028,000 |
| 5. Land contributing towards Land Degradation Neutrality (ha) – KPI 17 | 133,301 | 150,000 | 138,445 | Direct: 9,733  Leveraged: 7,323 |

* **Outcome Indicator 1:** Reforestation for carbon sequestration and avoided desertification is achieved across the LDN portfolio by the planting of trees on degraded land, typically for timber, fruit or nut production. As this is land where the natural vegetation has previously been destroyed, the goal of this is not the restoration of native forest, but the creation of alternative carbon-negative and nature-friendly incomes based on sustainable use of natural resources, that in turn lowers resource pressures on any surviving natural forest. There are assumptions that a) deforestation and forest degradation prevented by the project is not generally displaced into nearby areas; and b) LDN-funded projects successfully prevent deforestation through SLM. It is recommended that these assumptions are further tested in 2024-25.
  + The area of reforestation across all projects in 2023 was 65,792 ha, an increase of 18,706 ha which represents a significant increase compared to expansion of 1,577 ha in 2022. The milestone was missed by over 9,000 ha, but as milestones were set on a linear basis up to an end target in 2030, it is to be expected that progress in the real world will vary year to year and be slower in the project development phase. The significant increase in reforestation also indicates strong progress following the limited progression in 2022.
  + A number of factors have affected reforestation rates, including the rate of development and expansion of projects, the time taken for all projects to be selected or disbursed, and also the type of projects entering the portfolio. While reforestation is lower than expected, good progress in 2023 brings confidence that the indicators will be met.
* **Outcome Indicator 2:** this was amended in 2022’s Annual Review to account for an expected curved line with slow initial increases while the Fund’s portfolio is built, and more acceleration towards the 25m tonne overall target later in the Fund’s lifetime as projects reach maturity. Indicator 2 was behind the revised milestone by over 300,000 tonnes of CO2 emissions avoided, but is expected to fall in line with milestones as the Fund progresses. It has been agreed that no milestone alteration is required here.
* **Outcome Indicator 3 and 4:** The mobilisation of both public and private investors was made possible by the creation of a blended finance structure that aggregates commitments from Junior LPs and Senior LPs. The final size of the fund since it closed in March 2021 is $208.4M, split between $43.6M in commitments from Junior LPs (21%) and $164.8M in commitments from Senior LPs (79%).
* While leverage of public and private finance ended when the Fund closed, co-investment (raising money for projects from other funders) continues as the Fund disburses money and approves new projects for investment. In 2023 an increase of $92m in co-investment was achieved. As expected in the 2022 Annual Review, this has brought milestones back on target. Some co-investors are public development banks, but because it is return-seeking finance for private sector activities this is counted as private finance.
  + Mirova facilitates co-investment by supporting projects in their fundraising process and by engaging actively with potential co-investors.
  + Co-investment significantly exceeded its target in 2023 with several companies supported by the LDN Fund securing additional financing with large investment rounds in some cases.
* **Outcome Indicator 5:** the results are cumulative and refer to the total hectares of land under sustainable management (defined as production or conservation/restoration). The assumption is that sustainable management of land will deliver positive environmental and non-financial benefits. This KPI is split into area under SLM (the total project area); area under certification, and area under conservation measures. The current baseline includes data from Urapi, Miro, Komaza, Cacao Oro and Burapha prior to LDN investment. This indicator is below 2023’s milestone due to several companies in the LDN portfolio having to slow down plantation expansion due to financial challenges – it is expected that this will recover in the coming years.
* Defra’s attribution is based on the percentage of the Fund which Defra represents directly as well as investment leveraged off Defra’s investment. The leverage of public and private finance is calculated from 2020 onwards, as this is when Defra’s investment will have started having an impact on other investors. Attribution of other impacts is calculated from 2019, as Defra’s initial payment represented a catch-up to cover investments in pre-existing projects. Direct attribution is calculated from the percentage of Defra’s share in the Fund each year (in 2023 this was 6.32%) and the increase in Fund level results, and added to the previous year’s attribution. Leveraged attribution is based on the impacts of additional finance and co-investment leveraged by Defra’s investment (5.6% of total Fund size in 2023) – see flowchart in VfM section.
* In previous annual reviews, an additionality rate of 50% was applied to Defra’s attributed figures due to perceived uncertainties in the additional impact of Defra’s investment beyond what might have been expected to occur anyway. Following discussion with Defra’s ODA Hub, continued confidence in LDN’s reporting methodologies, and in ensuring alignment with the approach of other ODA programming, it has been decided that this 50% reduction will be removed across Defra’s attributed figures from the 2023 annual review onwards. The size of the Fund was limited only by the availability of Junior Capital, so every pound invested by this programme was additional, and has allowed the Fund to raise more senior capital, and to make larger investments to more projects than would otherwise have been the case. At project level, the sustainable land use sector is far from saturation in seeking impact investment, so the additionality of LDN (and Defra’s) loans to projects is also 100%.

## C. DETAILED OUTPUT SCORING

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| **Output Title** | The LDN Fund provides finance and technical assistance to support successful SLM projects which provide financial returns for investors, sustained benefits for local communities and non-financial benefits on a local, national and global scale. | | | |
| Output number: | | 1 | Output Score: | A |
| Impact weighting (%): | | 40% | Weighting revised since last AR? | N/A |

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| **Output Indicator(s)**  (all cumulative) | **2020** | **2021** | **2022** | **2023 milestone** | **2023** |
| 1.1 Level of TA funding provided ($) | 996,313 | 1,384,435 | 2,058,692 | 2,200,000 | 2,400,000 |
| 1.2 Level of project investment provided ($) | 60.6 million | 74.5 million | 142.4 million | 180 million | 165.4 million |
| 1.3 Number of TA projects funded | 13 | 17 | 22 | 27 | 30 |
| 1.4 Number of countries TA is provided | 12 | 14 | 14 | 18 | 15 |
| 1.5 Number of knowledge products | 7 | 10 | 11 | 11 | 14 |
| 1.6 Overall return rate on LDN investments | n/a | n/a | n/a | n/a | Results from 2028 |

* Mirova identified and desk reviewed 113 projects in 2023. They presented one project to the Screening Committee, three projects to the Investment Committee 1 and four projects to the Investment Committee 2. Three new investments were closed in 2023 (Pamoja, Koa Impact and Terrasos). As allowed by the fund’s documentation, it was decided to set-aside some commitments for potential top-up investments in the portfolio in 2024 and 2025. This results in Indicator 1.2 being below its target for 2023 but this indicator is expected to be back on track by end 2025.
* **Output Indictor 1.3:** As of the end of 2023, the LDN Fund had supported 27 different projects for pre-investment preparation and post-investment support through the TAF. New projects added in 2023 are: BMF (Vietnam, wood bioenergy), Talmond (Ghana, tropical almond agroforestry), What If Foods (Ghana, Bambara beans with regenerative agriculture), Atlas Fruits Company (Morocco, sustainable citrus production) and SLB (Brazil, sustainable forestry).
* **Output Indicator 1.4:** The number of countries where TA is provided fell below the milestone set for 2023, but as with other linear targets, some variability on progress should be expected year-to-year as individual TA projects are approved/rejected/completed. The indication is that in 2024 this indicator will be back in line with targets.

**Output Indicator 1.5:** LDN published five new knowledge products: BMF (Vietnam), Talmond (Ghana), What If Foods (Ghana), Atlas Fruits Company (Morocco) and SLB (Brazil). Knowledge sharing with the wider project developer and investor community uses the LDN insights website, www.ldninsights.org. Learning briefs and articles are incorporated on the website as well as information on new LDN TAF projects in the case studies section, which is updated on a regular basis. Project milestones, such as newly added or finalised projects, are regularly posted on the PMU’s and/or IDH social media accounts to create more visibility and attract traffic towards the webpage.

* **Output Indicator 1.6:** the LDN Fund team has developed innovative financing instruments adapted to SLM projects, including profit sharing loans which combine a reasonable interest rate with profit and/or carbon revenue sharing. Such instruments are very appealing to project developers and can provide LDN Fund’s investors with attractive returns, should underlying projects perform well.
  + Many of the successful scale-ups of projects supported through LDN investments are relatively new projects with inclusive approaches, such as engaging with farmers through outgrower schemes, or scaling agroforestry systems. These projects often have not yet reached the point of break-even and therefore require a long-term investor that can afford to wait until they are cash-flow positive. In addition to this, direct partnerships with smallholder farmers and local communities are made through the provision of technical, financial and market support to create business propositions that empower them.

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| **Output Title** | Projects supported by the LDN Fund to deliver positive environmental outputs on a local, national and global scale. | | | |
| Output number: | | 2 | Output Score: | B |
| Impact weighting (%): | | 25% | Weighting revised since last AR? | N/A |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Indicator(s)** | **2020** | **2021** | **2022** | **2023 *milestone*** | **2023** |
| 2.1 Number of threatened species (IUCN Red List) in conservation areas (annual) | 39 | 18 | 157 | n/a | 105 |
| 2.2 Number of sustainable certifications received by LDN-funded projects (cumulative) | 4 | 5 | 7 | 7 | 8 |
| 2.3 Area of land under sustainable management (ha) [KPI 17] (cumulative) | 40,753 | 98,155 | 133,301 | 150,000 | 138,445 |

* **Output Indicator 2.1:** the assumption is that the LDN project funding and funded projects have a positive impact on the targeted species. In 2023 there were 105 IUCN Red List species in the overall area of the projects funded at that time. The Fund does not actively target species protection, so no milestones are set, and this indicator primarily gives a sense of the habitat importance of the areas where LDN-supported projects are operating, and the potential they have to make a difference to threatened species through habitat restoration or reduced footprint in those areas. The significant reduction in this indicator is due to changes in methodology and surveying – which projects are surveyed in which year impacts the results for this indicator greatly. This indicator has proved extremely tricky to report on and provided inconsistent and unclear results. It is suggested that this indicator is removed from the logframe for 2024.
* **Output Indicator 2.2:** the results are cumulative and the assumption with using this metric is that sustainable certifications are a suitable proxy for SLM practices. During 2023 the sustainable certifications gained by LDN funded projects were:
  + Forest Stewardship Council (FSC): Miro Forestry, Aloe Agroforestal
  + Rainforest Alliance: Urapi, Cacao Oro, Kennemer
  + Organic: Urapi, Pamoja
  + Global Good Agricultural Practice (GAP): Atlas Fruits
  + Union for Ethical BioTrade (UEBT): Aqre
* **Output Indicator 2.3:** as discussed at Outcome Indicator 5. There is an expectation that high level disaggregation of this indicator by land use will be included in the 2024 AR.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Output Title** | The LDN Fund contributes to positive development outcomes in local communities/poor rural individuals in and around each of the project locations, with clear and sustained community engagement in each of the projects | | | |
| Output number: | | 3 | Output Score: | A+ |
| Impact weighting (%): | | 25% | Weighting revised since last AR? | N/A |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Indicator(s)** | **2020** | **2021** | **2022** | **2023 *milestone*** | **2023** |
| 3.1 Percentage of women employed by or with main livelihood supported by LDN Fund projects (annual) | 45% | 45% | 43% | 46% | 53%  (55,778 women) |
| 3.2 Number of community engagement events (attendance in brackets) (cumulative) | 749 | 1,403 | 2,189 | n/a | 3,696  (38,669) |
| 3.3 Jobs created/supported by LDN Fund (employees and smallholders supported; employees only in brackets) (cumulative) | 35,801  (2,714) | 31,995  (4,151) | 73,421  (5,581) | 75,000 | 106,299  (5,419) |

* **Output Indicator 3.1** the figure covers all people employed by or with a main livelihood supported by the LDN Fund (including direct project beneficiaries). It only considers direct beneficiaries, either female employees or female farmers contracted/supported by the projects, and not any indirect beneficiaries, household members or others. This metric assumes that an increased ratio of women will provide empowerment to women in affected communities and covers the whole portfolio at the end of the year.
* **Gender-disaggregated data** has been collected for employees supported and smallholders contracted separately with the 2023 figures as follows:
  + Employees: 5,419 including 1,584 women
  + Smallholders: 100,880 including 54,194 women

No other disaggregation of beneficiaries is possible at this stage.

* + The ambition of the LDN Fund to address gender equality in the land-use sector has been reinforced by the integration of specific gender equality objectives and milestones in the Fund’s ESG Policy Annex. The ambition of the LDN Fund is to further address gender-related issues at portfolio level and promote investment opportunities that contribute to gender equality.
  + LDN looks specifically for proposals for projects with strong gender equality ambitions and core activities combating land degradation. Through the LDN Fund’s TAF, the LDN Fund aims to assist entrepreneurs, companies, green and social business, young or mature, with strong gender equality ambitions that are looking to scale up and strengthen their business model.
  + In September 2022, Mirova became a member of the 2X Collaborative initiative. Launched at the UN Generation Equality Forum 2021 in partnership with GenderSmart and the Investor Leadership Network (ILN), the 2X Collaborative is a leading industry body for gender lens investing. Its mission is to convene and equip investors to increase the volume and impact of capital flowing towards women’s economic empowerment.
  + Mirova’s membership of 2X Collaborative gives access to peer learning networks, knowledge, co-investment platforms, partnership and training opportunities, and innovative investment tools. These benefits help Mirova apply a gender lens to its investing framework and investments, especially for the LDN Fund.
  + All LDN’s portfolio projects are intended to generate positive impact in terms of gender equality. Currently seven projects in the LDN Fund portfolio (Urapi, Atlas Fruits, Aloe Forestal, Terrasos, Cacao Oro, Kennemer and Aqre Group) are meeting the 2X criteria on leadership, qualifying the LDN Fund for the initiative’s 5th criterion. In 2022, the Komaza and Mountain Hazelnut projects were reported as meeting the 2X criteria. However, for 2023, detailed figures have not been received for Komaza, and Mountain Hazelnuts has seen a reduction in the share of women in senior management positions, meaning they no longer meet the 2X criteria.
* **Output Indicator 3.2:** Community engagement through events continues to be strong. Community engagement is conducted at project level as part of specific stakeholder engagement plans. The events usually consist of regular project updates and collection of potential grievances with nearby residents, but could also be focused on capacity building for farmers or celebration events with local communities.
* **Output Indicator 3.3:** The total number of jobs supported has increased substantially year on year since 2021, including both direct employees of projects funded and smallholders benefitting indirectly. Looking only at direct employees, this figure has increased to 5,419 from 4,151 in 2021.Most of the farmers supported by the seven projects that have a smallholder model are growing produce for sale on tiny areas of around one-three hectares each, which suggests that the Fund’s benefits are reaching some of the poorest households in the world, while other projects are creating secure jobs with decent living wages in poor, rural areas, following LDN’s ESG guidance.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Output Title** | The LDN Fund shares best practice with public and private actors focused on a) expanding SLM practices in developing countries, or b) utilising the impact investment fund approach to contribute to meeting SDG, climate change or environmental targets | | | |
| Output number: | | 4 | Output Score: | A+ |
| Impact weighting (%): | | 10% | Weighting revised since last AR? | N/A |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Indicator(s)**  (all cumulative) | **2020** | **2021** | **2022** | **2023 *milestone*** | **2023** |
| 4.1 Reports on LDN Fund results shared in public domain | 3 | 5 | 6 | 7 | 7 |
| 4.2 Number of external events hosted by LDN Fund, LDN Facility and project partners. | 4 | 6 | 8 | 10 | 10 |

* As in previous years, the LDN Fund team were involved in several initiatives, conferences, and publications with a view to raising awareness and sharing experience on investment in sustainable land use throughout 2023.
* **Output Indicator 4.1:** for 2023 the report was the Fund’s 2022 Impact report.
* **Output Indicator 4.2:** events are seen as opportunities to share knowledge and spread best-practices based on the experience of the Fund, and to demonstrate its leadership in the sector. In 2023 the events comprised the organisation of two learning hubs for LDN Fund portfolio companies, the “LDNF Investee Knowledge Exchange Sessions”, in collaboration with the TAF:
  + The first one was dedicated to gender equality, in partnership with the 2X Challenge (April 2023)
  + The second one was dedicated to sustainable certification and offtake agreements, with a focus on how EU regulation on deforestation and certifications can help optimise sales (December 2023)

The main goal of those exchanges is to bring together portfolio companies and allow them to share their various experiences and expertise.

**D: RISK**

**Overview of risk management**

Project identification / Risk assessment: the Fund Manager Mirova has developed an investment process to screen projects and assess the corresponding risks and opportunities. Specifically, Mirova has developed a risk rating tool, specific to SLM and land restoration projects. The rating is used at Investment Committee level before the investment is made, but also after the investment is made for the valuation of the corresponding investment. Discussions took place with the fund auditors (PwC) to refine the parameters. The Fund itself assesses each potential investment project against ESG risk and minimal performance criteria. ESG assessments are based on the [Mirova Natural Capital ESG Policy](https://www.mirova.com/sites/default/files/2020-08/MNC-ESG-Policy.pdf) and the [LDN Fund ESG Annex](https://www.mirova.com/sites/default/files/2020-08/LDN%20Initiative%20-Summary%20of%20ESG%20Policy.pdf) that state the Fund’s commitments in terms of ESG performance. More information on the selection and investment process of the Fund can be found [here](https://www.mirova.com/sites/default/files/2020-08/Guidance%20for%20project%20developers.pdf). These policies state that all projects should comply with [IFC Performance Standards](https://www.ifc.org/wps/wcm/connect/c02c2e86-e6cd-4b55-95a2-b3395d204279/IFC_Performance_Standards.pdf?MOD=AJPERES&CVID=kTjHBzk), as well as achieving E&S certifications when relevant, and some complementary requirements including a safeguarding policy and compliance mechanism. An exclusion list also clarifies the activities that will not be supported by the LDN Fund.

Ongoing risks for the Fund after project approval are also managed by Mirova, who have a strong team and processes in place to identify, assess and mitigate risks following these policies. We can therefore consider that risk management of the programme is essentially outsourced to Mirova, including the financial success of the Fund, GESI, fraud, safe-guarding and impact (see examples of these risks and Mirova’s mitigations included in the table below).

However, some residual risks remain for Defra, mainly the risk of the programme overall not delivering the impact projected in the Business Case, and the risk of a breakdown in the relationship with Mirova. It is still early in the Fund’s life to assess overall impact delivery, but as this Annual Review demonstrates, across most targets progress has been good, making this risk Low, with good oversight provided by Defra’s role on the Fund’s Advisory Committee. The relationship with Mirova has continued to be good despite some changes in the Defra team. **No Defra-level risks were raised or required management in 2023**.

Following a revision of what to consider in setting the Risk Rating for the programme since 2022, it is therefore assessed at ‘Medium’ for 2023, as the programme is continuing to show early results for climate and nature impacts, following the successful raising and investment of private and public capital for the portfolio overall. However, the Fund is still early in its impact journey, with much still to be achieved and risks to the success of individual projects. This rating is also influenced by the high confidence we have in Mirova, to whom fund (and risk) management is outsourced, and who are themselves an independently certified B-Corp.

Examples of Fund-level risks managed by Mirova:

|  |  |
| --- | --- |
| **Description of risk** | **Mitigation activities** |
| Political and economic risk in target countries.  Some less developed countries have higher risk factors for political and economic instability, for example foreign debts, loss of currency value, wealth inequality and less established systems for the democratic transfer of power. | * LDN has a maximum investment size of 15% of the Fund in any single country, limiting country exposure through portfolio diversification. There are currently no countries with more than one project, and some projects are spread across multiple countries. There is also a regional split across Africa (41%), Latin America (36%) and Asia (23%). * The Investment Team works with Natixis’s Country Risk department, which is consulted for every investment appraisal. Political risk insurance policies can be purchased if deemed necessary. * Financing in local currencies is limited. The Fund limits its currency exposure to 15% in unhedged positions in currencies other than USD and EUR. |
| Difficulties associated with measuring and verifying impacts | * LDN are working to secure increasingly robust data to underpin results assessment. * The LDN team within Mirova make regular site visits to existing and potential investment projects for assurance that projects are operating and creating impacts in line with their reporting. |
| Lack of recorded impact specifically on biodiversity | * LDN are working towards expanding Outcome monitoring to cover biodiversity. * LDN are piloting new biodiversity monitoring methods such as pollen sampling. Capacity for monitoring through remote sensing is also being enhanced. |
| Risk of poor Gender Equality and Social Inclusion (GESI).  For example, Atlas Fruits in Morocco is based in a very unequal gender context. | * All projects are assessed before investment and then annually against the [2X criteria](https://www.2xchallenge.org/criteria). Currently, seven projects are meeting the 2x criteria on leadership, which is a promising start, but means there is room for the remaining projects to improve on that criteria, and all projects to attain other 2x criteria beyond leadership. * A gender assessment and action plan (GAP) are requested to be developed by all projects, with the support of the TAF if needed, such as for Kennemer, Atlas Fruits and SLB, leading for example to a pilot of women contracted for harvesting in Morocco. * Defra has been engaging with the Fund on gender equity and emphasising its importance to our ODA programmes, and will step up this engagement in 2024. |
| Risk of safe-guarding issues. | * Safeguarding is managed by Mirova, which has a safe-guarding policy for LDN and a dedicated reporting mechanism. Defra’s programme team has no involvement in any areas where there might be safeguarding risks. * Safeguarding is part of all Environmental and Social Due Diligence (ESDD) and if any gap in LDN policy is identified, a corrective action is added in the project’s Environmental and Social Action Plan (ESAP). * The Fund maintains good oversight over all projects, with positions on most Boards or equivalents, and is therefore well-placed to monitor and mitigate such risks. |
| Risk of Fraud | * Fraud risks are managed by Mirova, who have robust internal investment controls, and carry out extensive due diligence on their investors and investees. No fraud cases have been reported to the Fund’s Advisory Committee. |
| Concentration of investments by sector, making the portfolio vulnerable to global commodity markets. | * LDN aims to invest into projects which generate revenues that are decorrelated from main-stream commodity markets. * Timber is the biggest investment sector for LDN, with four of 13 projects in planted forests (30%). This has come down from four of seven in late 2021, making the portfolio more diverse and resilient. |
| Risk of projects failing or defaulting on loans, particularly in less regulated environments.  LDN’s investment in Mountain Hazelnuts in Bhutan has stalled due to issues with the financial viability of the project. | * Maintaining a diversified portfolio and carrying out thorough and regular due diligence on projects. Limiting loan size to any one project. * LDN has governance roles in all the projects it invests in through seats (active or observer) on the Boards or other forms of control and influence, and is able to stay up to date and guide decision making. * The Fund makes an overall commitment, but only releases capital gradually, subject to successful implementation of the project, allowing them to reduce risk following commitment as well as during due diligence before. |

**E: PROGRAMME MANAGEMENT: DELIVERY, COMMERCIAL & FINANCIAL PERFORMANCE**

**E2. Assess the VfM of this output compared to the proposition in the Business Case, based on performance over the past year**

A VfM assessment identifies whether the costs of the programme are proportional to the benefits achieved in terms of reaching the programme’s desired outcomes and objectives derived from the business case. The assessment uses the FCDO’s recommended structure which consists of the 5Es approach. These are economy, efficiency, effectiveness, equity and cost-effectiveness and are described below.

***Economy -*** Are we (or our agents) buying inputs of the appropriate quality at the right price?

***Efficiency -*** How well are we (or our agents) converting inputs into outputs? (‘Spending well’)

***Effectiveness -*** How well are the outputs produced by an intervention having the intended effect? (‘Spending wisely’)

***Equity -*** How fairly are the benefits distributed? To what extent will we reach marginalised groups? (“spending fairly”)

***Cost-effectiveness -*** What is the intervention’s ultimate impact on the long-term transformational change, relative to the inputs that our agents or we invest in it?

As a source of finance for adaptation and mitigation in more vulnerable countries, this programme is aligned with the Paris Agreement to pursue efforts to limit warming to 1.5°C by the end of this century.

**Economy**

As defined in the Theory of Change, the inputs into the fund consist of:

* Public finance to catalyse the fund’s operational size by mobilising private investors.
* Complementary grant finance for TA to support SLM business models.
* Learning and knowledge sharing activities.

Whilst costs for each of the inputs cannot be individually calculated, the overall size of Defra’s investment has been £10m. The inputs which DEFRA invest in have been designed so that they can have the maximum effect on the long-term outcomes to increase investment of SLM and sustainable supply chains, reduce GHG emissions, improve biodiversity and environmental conditions, and improve livelihoods of local communities.

The LDNF was designed by the UN Global Mechanism with the delivery partner Mirova selected competitively to manage the fund. Mirova are B-Corp certified, meaning they meet high standards of social and environmental performance, transparency and accountability. The uptake of investment and consequent projects generated using Defra’s funding through this multilateral fund, compared to if Defra were to lead bilateral projects working directly with a few countries is likely higher and achieved at lower cost. While Defra’s investment has been limited to £10m, this has helped catalyse significant wider investment (Outcomes 3 & 4, Section B), which substantially scale up the potential for larger scale outcomes and impacts that drive transformational change, at no additional cost to Defra.

As set out in Section A, LDN has a strict governance process in place to ensure only quality projects are invested in. LDN operates a thorough due diligence and pre-investment process and each project must pass through three scrutiny committee stages, with only those that best demonstrate value for money and impact progressing to investment.

Management fees and organisational expenses are within the requirements for ODA funding.

**Efficiency**

As the fund disperses loans to several different projects, the way in which the investment is being spent will differ significantly across projects. Similarly, each project will spend the money at different rates, therefore making it difficult to calculate standalone rates of efficiency for this year. However, projects receive loans in staggered stages (usually annually or quarterly) and are required to have spent (or nearly spent) their current loan in order to receive the next disbursement. It can therefore be assumed that the majority of the investment for this year has been spent and is likely that inputs have efficiently been converted into outputs, as, of the $165.4m that has been committed up to the end of 2023, $129.1m has been disbursed to projects, and most outcome and output indicators are meeting or close to target.

Table 1 sets out two metrics summarising the ratio of external finance mobilised as a result of ICF support. While these will not change now the fund has closed, the extent of leveraged external finance from Defra inputs also indicates efficient use of funding to maximise outputs.

Table 1 – Ratio of public and private finance mobilised as a result of Defra’s investment

|  |  |  |
| --- | --- | --- |
| **VfM Metric** | **Result (direct)** | **Result incl. compound leverage** |
| Ratio of **private** finance mobilised as a result of every £ of ICF support | 0.49 | 0.80 |
| Ratio of **public** finance mobilised as a result of every £ of ICF support | 0.21 | 0.44 |

*Note: the calculations for finance mobilised are based on growth in the fund following Defra’s investment, multiplied by Defra’s percentage share of the fund in each year.*

Compound leverage includes the mobilisation due directly to Defra’s investment (first column), as well as subsequent leverage from that direct mobilisation, capturing the ‘snowball effect’ of driving early growth in the Fund. As a visualisation of how investment leverages further investment, which leverages further investment in turn, this chart shows how Defra’s original investment scales up in the Fund and in co-investment, leading to greater impact overall:

A black and white diagram of a graph

Description automatically generated

When looking at the ratio of private finance leveraged through co-investment (third party lenders investing in projects already supported by LDN), the ratio is 0.96 compared to a ratio of 0.62 in 2022 (and the compound leverage ratio for co-investment is 1.66), showing a significant increase in the ratio of co-investment over the last year. By mobilising greater co-investment, it shows that both public and private businesses are willing to invest, consequently, suggesting that the programme is operating efficiently. Please note that the significant increases to the 2022 annual review are partly due to the removal of the 50% additionality reduction as previously mentioned – as set out in the Outcomes section, the Fund’s growth was limited only by availability of Junior capital, so every pound of Defra’s investment was additional, and at project level there is a huge investment gap for the sustainable land use sector, so every investment and co-investment is additional.

Reporting against output indicators for 2023 demonstrates relatively strong conversion of inputs into outputs, with 73% of indicators, meeting or exceeding their targets for 2023. Outputs 3 and 4 have met or exceeded both of the two indicators reported against for each, demonstrating strong progress on social and knowledge sharing outputs, with 106,299 jobs created or supported through the LDN fund – a notable overachievement at this stage.

Output 1 met three of the five indicators reported against (60%) and output 2 one of the two (50%), demonstrating slightly lower performance with regards to financing and technical assistance and environmental targets. However, two of the underperforming indicators are only 8% below target, with the other (number of countries TA is provided in) 18% below its 2023 target. Overall these figures suggest efficiency is broadly on track, with room for slight improvement across a handful of output indicators.

Table 2 - Summary table of programme performance against 2023 indicator targets[[1]](#footnote-2)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Output Indicators** | **Outcome indicators** | **Total** |
| Number of indicators met or exceeded | 8 | 2 | 10 |
| Number of indicators not delivered | 3 | 3 | 6 |
| **Total** | **11** | **5** | **16** |

**Effectiveness**

While clear progress has been made at an output level, due to the lag that occurs between investment, project-spend and natural processes of restoration, measuring the full environmental and social outcomes of the investment can only be determined at the end of the fund’s lifetime.

In 2023, both finance outcome targets were met, regarding public and private finance leveraged by the programme. Environmental outcome targets were not met, ranging from 8-16% below target. These include total area of reforestation, tonnes of CO2e emissions avoided and hectares of land contribution towards Land Degradation Neutrality. However, compared to 2022, the area of reforestation increased by 40% to 65,792 hectares (targeted 20% increase in 2023) demonstrating substantial progress following relative underperformance in 2022. The area of land under sustainable management (KPI 17) increased by 3.9% and tonnes of CO2e emissions avoided (KPI 6) increased by 57% to 1,687,122 tonnes, both below targeted growth levels.

*Graphs showing progress made on outcome indicators between 2019 and 2023*

A comparison of a graph

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Overall, the programme is demonstrating relatively robust progress towards its targeted outcomes. Whilst progress needs to be made on the outcome indicators not currently reaching their targets to ensure complete effectiveness, they miss their targets only by a small percentage that does not differ significantly to the proposition in the business case.

**Equity**

Progress continues to be made when looking at equity across the LDN fund. Using the metric of ‘Gender ratio of people employed by or with main livelihood supported by LDN Fund projects’, the table below shows that 53% of women are employed or supported by LDN funded projects, up from 43% in 2022.

Previously, results for this metric have remained constant at 45% since the 2019 baseline. However, last year the milestones were altered so that this metric would increase by 1% each year, meaning the milestone for 2023 was 46%. As this has been exceeded, the milestones implemented from 2022 appear to have demonstrated a positive impact on this metric. The Fund has made gender equity a greater focus of its engagement with investees, in line with its Gender Policy Annex and 2X Challenge commitment. Many of the projects have either developed or are still developing a gender assessment and action plan, following the request for all projects to create them, which could be part of the reason for the increase of the equity metric.

All projects are assessed before investment and then annually against the 2X criteria to ensure compatibility with the gender equity standards for the fund, with further detail set out under Output 3 (Section C). There are now seven projects in the portfolio that are currently meeting 2X criteria on leadership, which qualifies the Fund for 2X status, increasing from six in 2022 but still leaving room for improvement in equity impact.

As set out earlier in the review, over 100,000 of the Fund’s beneficiaries are small scale farmers growing produce for sale on tiny areas of around one-three hectares each, which suggests that the Fund’s benefits are reaching some of the poorest households in the world, while projects have also created 5,419 secure jobs with decent living wages in poor, rural areas, in line with LDN’s ESG guidance. Proportionally, the total number of livelihoods being supported by Defra’s contribution (direct and leveraged) is 13,268, at a cost of £754 per livelihood against Defra’s total investment; the cost per job should come down over time.

Overall, it is apparent that the LDN fund is actively encouraging projects to place GESI at the forefront of their priorities, evidenced through an increase in the percentage of women employed by or with main livelihood supported by LDN Fund projects and through an additional project meeting the 2X Challenge eligibility criteria, all without additional funding.

**Cost Effectiveness**

The intended long-term impact of the scheme is to drive transformational change, by facilitating and maximising the flow of finance towards sustainable land management projects and practices, to contribute to minimising climate change and wider environmental impacts. Key environmental outcomes include land contributing towards land degradation neutrality, reforestation and tonnes of CO2e emissions avoided. All of these outcomes contribute to value for money. While a full cost-benefit analysis has not been conducted and this therefore does not account for risks such as additionality and leakage, an indication of the value of benefits can be shown using the value of the reductions in CO2e emissions as an example. A reduction of 201,000t CO2e is attributed to Defra’s investment (109,000t direct impact, 92,000t from leveraged finance), which, using the 2024 estimated CO2e value of £256/tonne, results in a benefit of more than £50m so far with many projects not yet complete. This greatly exceeds Defra funding of £10m.

Cost effectiveness may be slightly below initial expectations in the business case as a result of underperformance against key environmental outcome indicators, although areas of overperformance also exist in areas such as job creation. However, while private funding has exceeded targets, there is limited evidence to date that this is driving greater environmental outcomes and impacts. This suggests impacts at a slightly lower level per pound invested by Defra and partners than targeted, or signs of diminishing returns, as with greater funding catalysed, the programme may be expected to deliver greater results. Not all funding has yet been disbursed to projects so any additional impacts as a result of greater funding may become more apparent in the latter years of the programme.

**Value for money summary**

At present there is no evidence that the economic arguments for funding LDNF have changed significantly since Business Case approval, with current results indicating that Defra’s funding of LDNF represents value for money. There has also not been any significant change to the design of the programme which will prevent the programme from delivering value for money in future. However, in order for the fund to develop a greater BCR, there need to be improvements made to efficiency. These include developing better ways to measure the quality of inputs Defra has invested in and ensuring that all outcome indicators meet or exceed their targets.

1. *Note the indicators assessed in this table are those that have both a planned target and achieved figure in the log frame; other indicators that do not contain both pieces of information are excluded from the table.* [↑](#footnote-ref-2)