

## **Follow up on The Oakland Institute Report “Understanding Land Investment Deals in Africa. Country Report: South Sudan”. Published 2011**

Maris was extremely impressed by The Oakland Institute report published in 2011 titled “Understanding Land Investment Deals in Africa. Country Report: South Sudan”, and the many themes that it addresses. With the significant changes that have happened across South Sudan and within the timber industry specifically since 2011, Maris felt that it was time to update readers on a few salient points regarding Equatorial Teak Company (ETC) and its sister company Central Equatoria Teak (CETC) that were presented as a case study in The Oakland Institute report.

South Sudan has been plagued by conflict over many years but its natural resources, including timber, offer significant potential for the growth and re-development of the country. Maris is committed to facilitating the regeneration of the sustainable teak industry in South Sudan, and through this contributing to the rehabilitation of both South Sudan as a whole as well as the Western and Central Equatoria regions in which its businesses operate.

### **1: Ownership and Governance**

In 2006, the Commonwealth Development Corporation (CDC) and the Finnish Fund for Development Cooperation (Finnfund) obtained majority interest in ETC and CETC. The teak in the plantations was planted over 40 years ago. The total plantation area at ETC was 1,700 ha of planted areas and a further 18,000 ha. that were available for teak cultivation. CETC was granted 50,000 Ha of forest reserve of which 1,751 Ha was mature teak plantations. The concessions were granted for a period of 32 years from 2006 (equivalent to one full rotation of teak), with an option to extend for a further period of 32 years.

In the Oakland Institute Report it claims that the CDC and Finnfund obtained their interests without consulting the state governments or the affected populations living in the area. Whilst Maris cannot comment on the mechanisms for agreement of the original deals, the concessions were granted at the time by the Ministry of Agriculture and Forestry (Government of South Sudan) and approved by the Council of Ministers. The aims of the original deals were to provide a sustainable business model in Western and Central Equatoria to enable steady employment and increase economic benefit to the region, as well as contributing to the country as a whole, and were well within government regulations that limit foreign investment terms.

Unfortunately the Actis (who took over ownership of the CDC’s share of the businesses) and Finnfund could not make the businesses work due to operational challenges. The Oakland Institute Report claims that they sold their interests to Maris in a “non-transparent and non-inclusive” process, however Maris refutes this.

Firstly, Maris did not buy the plantations from Actis/CDC and Finnfund. Actis/CDC and Finnfund sold their interests to their local partners for \$1. Maris then partnered with these local partners and rehabilitated the operation. Secondly, as part of the due diligence process, Maris met with both the community and government. The community and government were highly engaged, and a settlement process was agreed which involved Maris settling unpaid liabilities from the former owners prior to being given consent to restart the business.

The report is correct in stating that prior to the concession agreements that were obtained by CDC and Finnfund, there was no simple way to transfer concession rights between private sector organisations. However, the implication of the report is that the Government of South Sudan allowed the CDC to enter into this agreement as it trusted them as “responsible investors”, but had not considered the consequence of subsequent sale of the concessions. Subsequent sale was always allowed in the original concession agreements, and so the Government of South Sudan would have been well aware of this possibility. While Maris cannot comment on what social obligations were performed by ETC and CETC when they were majority owned by CDC and Finnfund, it is clear that as the CDC and

Finnfund struggled to make the businesses work operationally, they struggled to deliver the social and economic benefits to the region that were expected. Sale of the concessions had the potential to deliver these benefits through a more successful business model. As mentioned above, there was no exchange of funds between Maris and the former owners Finnfund and Actis/CDC.

Since 2010 Maris has held majority ownership of ETC and CETC. Whilst Maris is an open and transparent organisation, shareholder confidentiality precludes Maris from releasing names and ownership, however Maris itself holds 83% of ETC and 77% of CETC, with the remainder of the companies being owned by Ugandan and South Sudanese shareholders. Since Maris has held majority ownership the main ownership challenges have come from illegal loggers, not national or regional government entities or communities. In addition, the only challenges regarding “Deny[ing] local populations access to land and natural resources” (as stated in the report), have come from illegal loggers. Illegal loggers contribute nothing formally to national or state revenues, have no formal mechanism of returning benefit to the community, and provide only sporadic employment for community members, defeating the aims of the original concession agreements. Going forwards, ETC and CETC will continue to work with both national and regional leaders as well as the communities in which they operate to ensure that the original aims of the agreements are met.

Strong corporate governance is essential in balancing the interests of a company's many stakeholders, such as shareholders, management, employees, customers, suppliers, financiers, governments and communities, to deliver long term success of a company and enable it to sustainably deliver benefits to all stakeholders. Both ETC and CETC operate within the Maris Group corporate governance structure. The Maris Group Board of Directors oversee the governance of ETC and CETC and their compliance with all regulations that govern them.

## **2: Economic, Social and Environmental Benefits**

The Oakland Institute report states that, in general in the case of external investment in South Sudan, companies rarely consult with residents in affected communities, rarely conduct environmental or social impact assessments, and do not feel an obligation to operate “good practice” social and environmental protections. It further asserts that companies’ social obligations tend to be vague and not formalised, leading to long delays or non-performance in the delivery of social benefits such as education, health services or road building and infrastructure. With respect to ETC specifically, it states that

“The relationship between Equatoria Teak, its employees, the state government and the local community has been very contentious in recent years”

Maris cannot comment on the relationship between ETC and CETC and their local communities during the period of Actis/CDC and Finnfund ownership, however it can confidently assert that all economic, social and environmental obligations have been met since Maris ownership commenced in 2010.

Since business operations began in 2013, ETC has contributed significantly to the economy of South Sudan. Between 2010 (when Maris acquired its controlling stake in ETC) and 2013, ETC had limited activity, due to political uncertainties in South Sudan before and after the referendum, and business changes that needed to be implemented under the new ownership. In 2013, ETC began teak exports. In that year, ETC’s total contributions to South Sudan’s economy amounted to nearly USD\$500,000. This could be broken down as follows

SME Procurement	USD\$75,000
Local Salaries	USD\$160,000
Royalties to County	USD\$16,000
Royalties to State	USD\$63,000

Duties and Taxes to State	USD\$10,000
Duties and Taxes to National Government	USD\$40,000
PIT/NSIF	USD\$7,000
Community Contributions	USD\$61,000

Over time, ETC's contributions have grown significantly. In 2017 alone, contributions totalled USD\$2.4m, broken down as follows

SME Procurement	USD\$172,000
Contractor Payments	USD\$914,000
Local Salaries	USD\$293,000
Royalties to County	USD\$77,000
Royalties to State	USD\$309,000
Duties and Taxes to State	USD\$52,000
Duties and Taxes to National Government	USD\$208,000
PIT/NSIF	USD\$26,000
Community Contributions	USD\$300,000

This has brought the total ETC contributions to South Sudan's economy over a 5 year period (2013-2017) to USD\$6.9m. This figure is projected to reach USD\$14.7m by 2020.

In accordance with the original concession agreement, ETC contributes \$105 per m<sup>3</sup> of teak exported to national and county government and community contributions. In total, \$80 per m<sup>3</sup> is given to the national government, \$20 per m<sup>3</sup> to the county government, and \$5 per m<sup>3</sup> to the community fund. Production, transport and royalty costs make ETC the most expensive teak to produce and transport in the world. Transport costs alone are \$200 per m<sup>3</sup> to transport the teak from South Sudan to Kampala, largely due to poor infrastructure across South Sudan. This excludes all royalty and production costs. This compares to the industry standard for total teak production and transport of \$200 m<sup>3</sup> elsewhere in the world.

The community contributions from ETC are largely controlled by the Nzara Social Fund, with membership from the local community. The total community contributions to date have been USD\$767,000. Through this, the fund has developed a secondary school in Nzara and is nearing completion on a primary school in Mborizanga. Outside the fund, ETC has donated generators to the Nzara Hospital, completed construction work on the facilities of the Comboni Sisters, Italian nuns who offer health and social services to the Nzara population, sponsored Independence Day celebrations in Nzara, introduced the Moringa plant into the nursery, Nzara Hospital and at the Rainbow Clinic (this plant has strong medicinal properties, which are known to alleviate the symptoms of HIV/AIDS sufferers), and assisted the local government of Nzara in repairing the county court house, the county administration block, main roads, the airstrip and digging pits for garbage disposal using ETC personnel, vehicles and equipment.

ETC has contributed extensively to the economic development of the region in which it operates and the relationship between ETC, its employees, the state government and the local community are extremely positive as a result.

ETC currently employs 660 staff, both directly and indirectly through the local subcontractor network, over 90% of who are from the local region. The company adheres to the IFC's good governance principals and international labour laws. The report erroneously suggests employees were very poorly paid and receiving \$2 day. ETC has no record of paying such salaries. The company does employ a number of local subcontractors and will audit them to ensure that they are paying wages and

employee benefits fairly. The company felt the allegation was unfounded, a point proved by its good reputation locally.

The report references physical abuse by company, however it states that the supervisor in question was fired by the CEO and there have been no reports of employee abuse since. During Maris's tenure, ETC has never employed a CEO. The former General Manager or his senior staff were never formally accused of abuse. What is not mentioned is that 2 former senior staff members were assaulted by local staff which was reported formally to the police.

ETC is committed to improving the economy of South Sudan as a whole, as well as improving the economic and social benefit of the business to the Western Equatoria/Gbudue State region in which it operates.

ETC also has a comprehensive environmental management system in place to monitor the effects of its operations on the environment and address any issues should they arise. ETC complies with local and international regulations, including the IFC Performance Standards on measuring, mitigating and reporting its environmental impact.

### **3: Conservation of the Forest Reserve**

On a positive note, the report states that

“the company's investment has helped to develop the government's forest reserve. The reserve has been in a poor state of repair due to decades of neglect and illicit trade in teak during the war. The company has built a sawmill, offices and accommodation for several of its staff, and planted an estimated 200 ha of tea. According to an official in the Ministry of Agriculture, the company's presence also reduced the illicit timber trade in the area”

Under the ownership of Maris, ETC and CETC continue to build on this strong basis of forest preservation. The companies have developed South Sudan's most advanced nursery and replanting scheme.

ETC has planted and coppiced over 1 million trees. Over 400 Ha's of newly planted trees have been established and over 750 Ha's of coppices have been rehabilitated.

### **4: Relocation of residents on the forest reserves**

In the report it acknowledges that whilst there are no reports of people being displaced from the forest reserves within the ETC and CETC concessions, government officials have expressed a desire to relocate people living on the reserves to reduce the pressure on the forests. Whilst this is clearly a government obligation within the concession agreement, the government has been completely silent on the subject and the company has chosen not to relocate any individuals at all.

## **Conclusion**

Maris hopes that this update addresses some of the concerns outlined in the report by The Oakland Institute (“Understanding Land Investment Deals in Africa. Country Report: South Sudan” published in 2011), and its case study on ETC and CETC, and continues to extend its welcome to any concerned individuals to visit ETC and CETC to gain a greater understanding of their operations in South Sudan. A recent USAID report on forestry in South Sudan (“Forestry and prospects for stability, livelihoods and peace building in the Equatorial States of South Sudan” by Bryan Adkins. Published by USAID in June 2015) stated the following about ETC

"Beyond the creation of a substantial number of jobs, ETC has demonstrated the role that a vibrant forestry industry can play in South Sudan. In addition to their operations, they have also built the only

functional secondary school in Nzara County. Other corporate social responsibility emphases have included a comprehensive health package for their staff, an employment insurance scheme, a vegetable production centre for local HIV treatment facilities, and an active capacity building/skills transfer program." USAID Report 2015

Maris remains extremely proud of what the teams at ETC and CETC continue to achieve in a challenging environment and the contributions they are making to improve the economic and social state of the regions in which they operate, as well as South Sudan as a whole as it recovers from a challenging period in its history.

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### **About Maris**

Maris is an investment holding company that is diversified across eight African countries and actively invests in four key strategic domains; Property Services, Business Services, Mining, and Agriculture and Forestry. Maris currently has 20 holdings in which it has a controlling interest. The group brings distinctive capabilities with a Management Team and Board with extensive operational and management experience in emerging and frontier markets, widespread networks both globally and within key markets, and a rigorous investment approach developed through decades of global investment experience.

Maris has a strong focus on social responsibility in each of the areas in which it operates. Maris believes that one of the most critical ways of protecting an investment for the long term is through building a very close association with the local community, particularly in very remote areas. Maris adheres to the IFC performance standards throughout its businesses and through its people, community and environmental programmes it works to maximise the environmental and social benefit of its investments, alongside returns to shareholders.

Maris Limited is headquartered in Mauritius. Its companies are supported from the office in Nairobi that is home to its investment, operations, finance, procurement, and human resource functions, and additional offices in Maputo and London.

<http://marisafrika.com/>

### **About Equatoria Teak Company (ETC)**

Equatoria Teak Company (ETC) is South Sudan's leading sustainable forestry company. ETC was founded in 2006, and currently manages five teak concessions in in Gbudue State (formerly Western Equatoria State) totalling 1,700 ha. of planted teak and over 18,000 ha. of concession area. The company plants and sustainably harvests *Tectona Grandis*, the highest quality plantation teak outside Myanmar. The average tree age at harvesting is 50 years, producing a fine grain, high density, well coloured timber suitable for all applications. The teak is sold both regionally and internationally for indoor and outdoor applications.

ETC is passionate about the sustainability of forest lands in the region and has developed South Sudan's most advanced nursery and replanting scheme. The company is actively coppicing existing plantations and expanding new planted areas that will come to maturity within 20-25 years.

The company has developed a close association with the local community and invests heavily in its development. Over 90% of the workforce is drawn from the local Nzara community, who receive significant investment in employee training programmes. Beyond this, the company has formed a unique community fund programme to fund projects to directly benefit the local community.

ETC is managed by Ian Paterson and has been majority owned by Maris Limited since 2010.

<http://equatoriateak.com/>