PROJECT DESCRIPTION: **Development investment proposal**

NAME OF CLIENT	EQUATORIA TEAK COMPANY ("ETC")
WEBSITE CLIENT	https://www.equatoriateak.com/
REGION	AFRICA
COUNTRY	SOUTH SUDAN
SECTOR	AGRO-FORESTRY
SIGNING DATE	30 DAYS FROM PUBLICATION AT WEBSITE
TOTAL FINANCING	€ 300.000
FUND	GRANT FUNDING (ORIGINATION FACILITY)

- **Who is our (prospective) client?**

  ETC is an existing company which has been operational since 2006.
  The company is owned 85% by Equatoria Teak Holdings (ETH) domiciled in Mauritius which in turn is wholly-owned by Agris Ltd, also incorporated in Mauritius, with the ultimate parent company being Maris Ltd headquartered in London. The other 15% of ETC's equity is held by Peter Skov, a Danish national and director of ETC (7%), Ian Paterson, the managing director (4%) and James Fandas, a South Sudanese national and director of ETC. He is also a lawyer for the UN, based in Juba (4%).

  Maris Ltd has operations in Angola, Kenya, Mozambique, Rwanda, South Sudan, Tanzania and Zimbabwe covering sectors such as Agriculture, Food and Forestry, Mining, Services, Renewables and Property.

  ETC is seeking and equity investment of Eur 5.0m of which Eur 2.5m is expected to be raised from FMO and the balance from FinnFund. The equity investment is anticipated to be made at the ETH level (85% shareholder).
  The equity injection is to be applied towards ETC's business revival and diversification involving,

  - Expansion of the existing teak plantation from 2,200 ha to 5,000 ha over the next 8 years;
  - Expansion of the vanilla plantation from 3 ha to 30 ha;

- Supporting a coffee venture expansion from 15ha in 2020 to 565ha by 2026 of primarily outgrower production. 65ha will be grown on ETC's forestry concession while 500ha will be on outgrower land. The coffee is targeted at export markets and will be intercropped with groundnuts, sesame, bananas and teak which will also generate revenue for the growers and ETC in both the short and long term.

- **What is the intended funding objective (type of activity)?**

Equatoria Teak Company (ETC) is seeking approval of grant funding amounting to EUR 300,000 from the DFCD to assist in financing several Origination Facility activities (OF) including market and value chain studies, ESG analysis, multi-stakeholder engagement, for better understanding of coffee, groundnuts, sesame and vanilla markets, intercropping project design for the expansion of its teak plantation, and its out-grower program in South Sudan. Origination activities are more detailed in the section below. ETC will contribute 46% (Eur 260,000) in cash while DFCD's grant constitutes 54% of the development costs.

Besides financial benefits accruing directly to ETC, the envisaged project will impact on 1,000 outgrowers that will be contracted by the company to grow various crops such as coffee, groundnuts and sesame as well as teak trees with the resultant improvement in diversified household incomes and climate change resilience and increased bio-diversity. The company will also embark on FSC certification and carbon credit programs once building blocks are put in place during Origination.

The grant will be used for:

a) Market & value chain studies: ETC intends to have an indepth study undertaken of the value chains and markets for coffee, groundnuts and sesame.

b) Teak and vanilla plantations, intercropping design and planning: to benefit from advisory services on how to intercrop vanilla, coffee, groundnut and sesame production for optimum yields and crop quality.

c) ESG Risk Assessment: Given the geographical area to be covered by the forestry plantations as well as outgrowers, there is need for a comprehensive environmental, social and governance risk appraisal to ensure best-practice mechanisms are built in for resilience and sustainability. The ESG assessment will include also security risk and a gender and social inclusion assessment as to fine tune risk mitigation plans and strengthen social inclusion issues in the final business investment plan.

d) Multi-stakeholder engagement: It is critical that the investor consults widely with all stakeholders in order to gain acceptance for the expansion by both the authorities and the communities in and around the project.

e) Readiness for FSC Certification and Carbon finance markets:

- A feasibility assessment will be made for the incorporation of FSC Certification and Carbon Finance markets in the business model.
- Technical assistance will be provided to review and strengthen essential systems, processes and capacity that will permit ETC to engage in FSC Certification and Carbon markets during the investment phase, with DFCD co-investment.

- **Why do we fund this project**?

  The OF DFCD grant funding is needed to de-risk and prove the concept of innovative solutions with scaling potential for economically sound and climate resilient agro-forestry on ETC's nucleus estate and among the 1,000 outgrowers to be contracted.

- **Environmental and social rationale**

  Environmental and Social Co-benefits:
  Preliminary screening of the suggests the ETC investment proposal may be considered as a Category B/Medium risk project.
  The project will contribute to the following SDGs:

  - SDG 1 No Poverty: The forestry plantations as well as the proposed coffee, vanilla, sesame and groundnuts outgrower schemes will provide livelihood/income earning opportunities for households/men and women in one of the poorest regions of Africa.
  - SDG 5 Gender Equality:
  - SDG 8 Decent Work: The forestry plantations around Nyaza and Yambio provide an important source of employment for local people. ETC pledges to provide formal employment opportunities to 1,000 local men and women with contracts and working conditions in accordance with the law of South Sudan.
  - 13 Climate Action: As above, the ETC investment deal will contribute to both climate adaptation and mitigation goals.
  - SDG 15 Life on Land

  The following environmental and social safeguards or IFC Performance Standard (IFC PS) elements are at least potentially triggered and should be assessed and evaluated in further detail:

  - PS2: There are Occupational Health and Safety (OHS), Safety and Working Conditions risks associated with forestry operations, indeed it is one of the most dangerous employment sectors globally. There are also potential supply chain issues, including child/forced labour in the forestry sector in Africa. Close attention should be paid to labour and working conditions in the develop stage ESG assessments to develop appropriate actions/measures to reduce these risks and ensure decent work for women and youth in particular.
  - PS3: The project involves both agriculture and forestry activities both of which involve the use of agro-chemicals and could lead to pollution or wastes. It will be necessary to assess resource use and pollution/waste issues as part of the ESG assessments.
  - PS4: There are potentially some community health, safety and security risks linked to the project as forestry operations often involve the use of workers from outside the community. Since the project involves mainly an outgrower scheme, these risks may be quite low (to be assessed and confirmed).
  - PS5: The project proposes to expand its plantation area within its existing concession and should not lead to any formal land acquisition or resettlement. There could

however be potential conflicts related to customary land tenure arrangements, particularly linked to tribes/ethnic groups – see also PS7 below.

- PS6: The project area is located in a concession within a forest reserve area. The biodiversity values of the project landscape are presently unclear although a significant negative impact is not foreseen.
- PS7: The project area is home to multiple tribes or ethnicities and hence ESG assessments should consider issues of exclusion and vulnerability and prepare an Indigenous Peoples Plan if necessary. Given that many of the ethnic groups of the region are nomadic/semi-nomadic there may be the potential for de jure/de facto conflict over customary lands and territories. There does appear to have been opposition in the past (2006-13) from communities who didn't feel there had been adequate consultation and that social fund payments had not been made in full and/or expectations regarding employment and benefits had not been met.
- PS8: Not expected to be a significant issue but should be confirmed.
