



CASE STUDY AGRICULTURE

AFRICA SUSTAINABLE FORESTRY FUND





INVESTMENT OVERVIEW

AFRICA SUSTAINABLE FORESTRY FUND I

Region: Sub-Saharan Africa

Sector: Forestry

Fund management: GEF African Sustainable Forestry Partners (ASFP)

SIFEM investment into fund: USD 10 m

Total Fund size: USD 160 m

Portfolio: 8 companies in South Africa, Swaziland, Tanzania, Uganda and Gabon, including 102,000 hectares of sustainably managed plantation, 54,000 hectares set aside for biodiversity and conservation, and 568,000 hectares of natural forest concession where only 1 tree is harvested per hectare every 25 years.

Employment: 9 employees (fund manager)
2,765 direct employees (portfolio companies), with an additional
5,145 employed through dedicated contractors

> www.globalenvironmentfund.com



Africa Sustainable Forestry Fund (ASFF) I invests in sustainable forestry plantations and processing facilities with the aim to proactively lead the restructuring and development of African forestry and assist to fill the growing gap between the supply and demand of forestry products. The Fund holds a portfolio of innovative forest management projects in rural areas of Africa, bringing a wide range of environmental, social and economic benefits to the surrounding communities.

2011
Investment Year

USD 10 million
SIFEM Investment

7,919
Employees



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ABOUT THE FUND

Africa Sustainable Forestry Fund (ASFF) I is a USD 160 million private equity fund focused on the Sub-Saharan Africa forestry sector. The Fund is fully invested as of early 2016 with a total of seven investments in South Africa, Uganda, Tanzania, Swaziland and Gabon. The Fund's portfolio reaches across the whole forestry value chain: it manages approximately 680,000 hectares of productive timberland - including eucalyptus, pine, teak, and tropical timber - as well as sawmills and timber processing plants.

Leading operations according to best silviculture, environmental and social practices as well as fostering the inclusion of the surrounding communities is central to the strategy and value creation approach of the Fund. All of ASFF I's assets are managed according to Forest Stewardship Council (FSC) principles as well as the International Finance Corporation (IFC) Performance Standards in order to ensure sustainable management in every respect.

The Fund has put in place tailored value creation programmes to provide the support needed for its companies to be at the forefront of innovation and quality in terms of silviculture and forestry, fostering social and environmental best practices for the workers and the communities they are active in. A strong focus on environmental, social, and governance (ESG) principles is particularly relevant in a sector such as forestry and a continent like Africa, where short-term commercial interests are often prioritised over sustainable long-term solutions, taking a toll on the community and the environment.

The Fund Manager has undertaken extensive revenue and profit-driving value add interventions, and extensive targeted and relevant ESG actions across the investee companies of ASFF I. Revenue and profit driving value add interventions include: management changes/efficiencies, sale of non-core assets, expansion acquisitions, shareholder restructuring, and strategy and management practice changes.

ESG actions have focused on: maintaining Forest Stewardship Council Certification, a strong Health and Safety Focus, and strong Stakeholder Engagement and Community Partnerships.

MTO GROUP - A STRATEGIC ROLL UP

Where appropriate, the ASFF I portfolio will be consolidated in order to improve efficiency and economies of scale. One of the main considerations for this is knowledge-sharing and expertise-bridging across the different operations of the portfolio companies. Each company focuses on developing initiatives and building deep knowledge in a specific field; once proven to be successful, these initiatives can then potentially be rolled out to other ASFF I companies and thus benefit the entire portfolio.

The MTO Group will be a strategic roll up of the existing ASFF I forestry-related companies located in South Africa and Swaziland. The Manager of the Fund has been strategic in their investment selection for ASFF I, taking a long-term view to find individual but complementary assets for subsequent consolidation into the MTO Group. The process of the MTO Group establishment is underway. The consolidation of these companies will allow better environmental and social oversight, and increased interlinkages between the companies, allowing them to support and benefit from each other and reach further across the forestry value chain.

ABOUT THE FUND MANAGER

The Sponsor of the Fund, Global Environment Fund (GEF), has been carrying out environmental investments since 1990. GEF's mission and core business focuses on identifying and building businesses which have a positive environmental impact, and which reduce the consumption of energy and natural resources. In each of its funds, GEF takes an active approach to both mitigating environmental and social risks and promoting the positive impacts associated with its investment activity.

GEF was co-founded in 1990 by John Earhart and Jeff Leonard. Passionate about forestry, environment and community they had been working together for the World Wildlife Fund (WWF) on sustainable forest management. While taking forward different initiatives with the WWF, they became convinced that grant-making was not powerful enough to influence behaviour in a lasting way and therefore brought GEF and subsequently GEF African Sustainable Forestry Partners, the Fund Manager, into existence.

The management team is comprised of nine investment and forestry professionals with deep experience both in Africa and the forestry sector and extensive networks which are vital for advancing sustainable forestry management across the African markets. The Fund Manager engages in strengthening value creation in its portfolio across the entire forestry value chain. The aim is to identify the bottlenecks which continue to hinder access to high-value markets and better tailor the production to manufacturer demand. The Fund Manager addresses this by implementing best practice forest management standards, improving sawmilling and processing facilities, and finding innovative solutions for the use of biomass by-products for energy generation. Inherent to the Fund Manager's approach is compliance with highest ESG standards and active community engagement.

« **OUR VISION IS TO PROACTIVELY LEAD THE RESTRUCTURING AND TRANSFORMATION OF THE AFRICAN FORESTRY SPACE** »

– Ole Sand, GEF African Sustainable
Forestry Partners –



GEF founders and GEF ASFP, the Fund's management team



ASFF I PORTFOLIO

MTO GROUP (A)

MTO Group (MTO) manages plantation forests and owns sawmilling and woodworking facilities as well as a timber trading business in the Eastern, Southern and Western Cape of South Africa.

On a land area of 90,000 hectares the Company grows predominantly pine and eucalyptus trees for final use as transmission, building, and fencing poles, mining timber, lumber, wood chips and pulp for paper production. Many innovation and pilot projects are led through MTO, which will ultimately be a roll-up platform for other companies of the Fund.

KILOMBERO VALLEY TEAK COMPANY (B)

Kilombero Valley Teak Company (KVTC) is a teak plantation company located 425 km southwest of Dar es Salaam in Tanzania.

KVTC cultivates teak on an area of 8,000 hectares, and manages and protects over 20,000 hectares of native forests and wetlands preserving a wide range of resident wildlife and flora. KVTC also owns a sawmill and a processing plant producing flooring and panels, bringing much-needed long-term employment and social development for one of the poorest areas of Tanzania. The Company directly employs approximately 310 workers, and an additional 350 jobs via local contractors.

PEAK TIMBERS LIMITED (C)

Peak Timbers Limited (Peak Timbers) is a timber plantation and sawmilling company located in Swaziland with a total of approximately 31,500 hectares.

Two-thirds of the property consists of pine and eucalyptus plantations while the remaining third is managed for conservation purposes. The Company is the largest employer in northern Swaziland with over 1,200 direct and indirect employees and it exports pulpwood, mining timbers and pine lumber primarily to South African markets. Peak Timbers will be rolled into the MTO Group.

IMVELO FORESTS (D)

Imvelo Forests (Imvelo) is a newly-formed forestry company located in Mpumalanga, South Africa, currently employing approximately 250 employees both directly and via contractors.

It was established to bring several previously neglected timber farms together and collectively improve and professionalise their operations. Imvelo includes approximately 3,500 hectares of eucalyptus plantations and conservation areas, as well as a pole treatment plant, and a small macadamia farm. At maturation the plantations will supply building, fencing, and transmission poles, mining timber and pulp logs to various local companies and private buyers. Imvelo will be rolled into the MTO Group.



RAMANAS FARMS (E)

Ramanas Farms is a plantation forest company located in the Mpumalanga province in South Africa.

The Company owns a total of approximately 8,300 hectares, comprising 4,600 hectares of eucalyptus, 1,400 hectares of pine, and 2,300 hectares marked for conservation. The plantation produces mainly transmission poles and mining timber. Ramanas will be rolled into the MTO Group.

GLOBAL WOODS AG (F)

Global Woods AG (Global Woods) operates a forestry concession in the Kikonda Forest Reserve in Uganda.

When planting is completed, 8,000 hectares of pine and eucalyptus plantations will supply the growing local and regional markets for building products such as utility poles and structural timber, but also biomass energy. An additional 4,000 hectares are managed for conservation purposes. Global Woods is currently one of the best managed plantations in Uganda, with quality nursery operations, planting, and silvicultural management, as well as best in class environmental, social and governance standards.

COMPAGNIE DES BOIS DU GABON (G)

Compagnie des Bois du Gabon (CBG) is a natural forest management company which operates one of the largest forestry concessions in Gabon with 568,000 hectares under management, and owns a sawmill in Port Gentil and a rotary peeling plant used in the plywood production.

The company currently employs around 635 people. CBG's people, planning, logistics and Reduced-Impact-Logging (RIL) approach all contribute to its very high standard for sustainable tropical forest management.



Imvelo Forests' pole treatment plant



FORESTRY AND CHALLENGES IN AFRICA

- **Forestry assets are an underserved asset class in Africa and suffer from inadequate provision of capital**, despite favourable conditions including optimal soil and weather conditions, and a readily available labour force. The region has seen very limited foreign investments in forestry assets; emerging markets account currently for less than 4% of timberland investments worldwide.
- **There is a growing imbalance between the need and the provision of forestry products in Africa.** Traditionally Africa has been supplying the world with raw materials including wood and wood products, most notably in the form of tropical hardwood logs and pulp. Africa is now beginning to experience a wood supply crisis, particularly near coastal population centres; the import of solid wood products into Sub-Saharan Africa has been growing at a compound annual growth rate of 14.4% since 2001 in order to cover its needs.
- **Approximately 80% of African households rely on wood and charcoal as their main sources of energy for basic needs such as heating and cooking.** As the population grows and urbanization progresses, the demand for these wood fuels in particular grows at a fast pace. Charcoal is lighter to transport than fuelwood and therefore often used in urban areas. However the process of producing it is highly energy inefficient, often requiring 10 tons of wood to create one ton of charcoal. Wood fuel in African countries is consumed up to 200 times faster than the annual growth rates of the trees.
- **This rising demand for wood fuel leads to rapid deforestation and land degradation**, as charcoal producers have to move farther and farther from cities and towns to find wood. Currently over 93% of Africa's wood consumption is sourced from natural forests and harvested in an unsustainable manner which causes persistent deforestation and forest degradation, increasing desertification, loss of biodiversity, and ultimately impairing harvests and increasing poverty and malnutrition.
- **Inadequate unsustainable forest management practices are commonplace and have caused serious environmental and socio-economic degradation in many African countries.** Indeed, a lack of best practice standards is still prevalent in this industry, both regarding productivity and the implementation of sustainable environmental and social standards. Careful silviculture intervention and sound harvesting practices is needed to ensure a forest is and remains a sustainable and renewable resource. Conservation areas need to be established to promote biodiversity and need proper maintenance and protection in order not to be overrun. On the social side, a robust approach to Health and Safety management is needed to ensure working conditions put the health and welfare of workers first, with adequate wages, proper equipment, and access to skills development and training.
- **Land adjoining forestry plantations is most often populated by small communities**, the inhabitants of which are generally dependent on subsistence agriculture and are using the proximate land for growing crops and letting their cattle graze. This proximity often leads to security issues and conflicts around land use, in some cases even to theft and property destruction.
- **Poverty in Africa is predominantly rural with more than 70% of the continent's poor living in rural areas with their livelihoods dependent on agriculture.** Despite some of the highest economic growth rates in the past ten years, Africa is still facing a myriad of problems like poverty and high unemployment rates, particularly in rural areas.



DEVELOPMENT EFFECTS IN A NUTSHELL

- **ASFF I is the first dedicated forestry fund in Africa and relies on development finance institutions, like SIFEM, to take the risk of investing in an unproven business model.** Showcasing sustainably-managed forestry assets to be an attractive and profitable opportunity in Africa is of key importance to establish the asset class in the region, attract additional capital and generate the development effects associated with it.
- **ASFF I's portfolio contributes to the provision of raw materials needed to sustain the economic development of Africa.** The timber needs of the continent are increasing, development accelerates, and with it, the growth of housing and infrastructure needs. Electricity grids require utility poles, mining operations require timber supporting structures, the construction sector requires timber for housing infrastructure, and pallets and crates are needed for increasing transport needs.
- **ASFF I is proactively contributing to the restructuring and transforming of African forestry assets, and halting the cycle of deforestation and land degradation by demonstrating the value of sustainably-led operations** that if manages as a renewable resource will not only yield a one-off profit but repeated earnings over an indefinite period of time. Currently the ASFF I portfolio comprises 682,000 hectares of productive timberland. At the end of 2014 the GEF ASFF portfolio was the largest source of plantation wood for Africa with almost 1.6 million m³ of wood harvested, 97% of which was destined to African end markets (*page 10*).
- **ASFF I actively supports the implementation of best-practice silviculture, downstream sawmilling, and processing fit for markets and purpose. This increases efficiency and value-add for its forestry companies.** These practices allow a focus on the diverse end-market demands and support investee companies in product planning from an early stage, which is important for an industry with such a long-lead time for products (*page 12*).
- **Highest environmental and social standards are core to the operations of the GEF ASFF portfolio.** Best-practice and international standards are implemented across the portfolio's plantations and facilities. 99% of the plantations are Forest Stewardship Council (FSC) certified, which signifies a substantial collective engagement from the ASFF portfolio to set aside land for conservation and biodiversity, and to implement the highest health and safety requirements, employee benefits, and community engagement, to name a few (*page 12*).
- **Inherently ASFF I's projects are located in rural, remote areas, bringing a wide range of social, economic and environmental benefits to the surrounding communities.** In particular, forestry operations, sawmills, and associated processing facilities and business are a driver for economic growth and job creation in those rural regions where few other opportunities exist. By providing jobs, and also schooling, healthcare and other services to employees, ASFF I's investees support entire communities in a number of rural areas (*page 18*).
- **The Fund's investees collectively provide approximately 8,000 jobs** in regions with otherwise high unemployment, and where approximately 70% of the population is tied to subsistence farming. The employees benefit from good wages, training and skills development, nutritious meals, and high quality accommodation if they are working away from home (*page 20*).
- **ASFF I's investees place a high value on community engagement and inclusion.** Investee companies support the establishment of basic infrastructure and services for their employees and surrounding communities. This includes projects such as schools, health clinics, housing, or providing clean water and HIV prevention. Where possible the Fund Manager uses its international networks to facilitate further initiatives and develop partnerships with NGOs and potential additional funders of such projects (*page 23*).



TURNING CHALLENGES INTO OPPORTUNITIES

The implementation of good silviculture practices creates long-term value for Imvelo Forests

There is great potential for considerable positive environmental and social impact from investment in the forestry sector in Africa. If managed adequately it can help preserve biodiversity, protect against soil erosion and generate income from carbon trading and sequestration. The sector also provides employment and training opportunities in rural areas which are prone to high unemployment rates and lower education levels, and is thus a driver for the local economy. However this also comes with a wide variety of challenges inherent to the region and the sector: the required managerial skills are short in supply, land tenure issues are frequent, forest fires put people and forestry assets at risk, and the sensitive relationships with the community need careful attention. This is why SIFEM has very carefully chosen a Fund Manager

that has the skills, management systems and desire to face a variety of potential environmental and social challenges. A proactive, mindful and inclusive approach is required, to not only manage the risks, but also to turn them into opportunities that benefit the companies and all stakeholders and communities involved.

ENHANCING EFFICIENCY, MANAGEMENT AND VALUE

In Africa, the operating environment can be difficult and inefficient, and the markets and infrastructure for processing forest products are typically underdeveloped. The Fund has put in place a value creation program which will ensure the successful operation of forestry assets by implementing best practice forestry management, environmental and social standards. In a first step, the Fund establishes management teams with the experience and skill set to successfully build and run forestry businesses according to best practice standards. This includes reviewing and improving forest management practices as well as sawmilling activities, marketing and the use of waste for energy generation.

IN PRACTICE



INTRODUCING INNOVATIVE PRODUCTS FOR BETTER VALUE

In cooperation with local partners Peak Timbers has established a mining timber mill right next to its plantations in Swaziland to make the best use of burnt timber (following forestry fires) from its own and other plantations. As wood gets burnt it changes its physical and structural properties and it cannot be used for its originally intended purpose anymore. Many times timber of inferior quality will go to waste or will be used as low-priced biomass. Peak Forest Products has developed a product range that can be manufactured from salvaged burnt timber: it produces underground supports for the South African mining industry (small mining timber, turned poles, and pencil props). The Company is thus providing forestry companies with a solution to derive better value and revenue from burnt timber and thus reduce the fire damage cost frequently encountered by forestry companies.

IN PRACTICE



STREAMLINING RESOURCE PLANNING AND REPORTING AS WELL AS RESOURCE EFFICIENCY

Since ASFF I's investment in 2010, MTO was able to double its revenue. The Fund Manager's support and direction on operational improvements such as better matching of the production to the market needs and optimising the use of sawmill residues, were important factors leading to this progression. The implementation of a fully-integrated enterprise resource planning (ERP) system, and monitoring of key metrics across the value chain assisted this process and allowed for better planning and quicker matching of the production to the market needs. The Fund Manager is also continuously working on expanding the use of waste biomass and finding innovative, more efficient industrial solutions for MTO, and also rolling out those measures to other companies in the South Africa and Swaziland portfolio

IN PRACTICE



USING SYNERGIES AND CREATING NEW MARKETS

Since ASFF I's investment in 2013, Ramanas was able to grow its revenues by more than 20%. This was made possible by the Fund Manager using the expertise of the forestry team of MTO and benefit from synergies in management, staff and infrastructure for this relatively small plantation. The Company shifted its original production of sawlogs to transmission poles and thus created new markets for its products.

IN PRACTICE



EXPLORING NEW LINKS IN THE LOCAL FORESTRY VALUE CHAIN

MTO acquired a plywood manufacturer in eastern South Africa in the vicinity of other MTO assets. Plywood is an important building material used in concrete formwork of the construction industry. MTO will aim to capitalise on the experience of this successful investment to establish new small-scale plants next to its other plantations across Africa and thus further develop the local forestry product value chain, and provide essential jobs and value-add to local communities associated with down-stream processing.

SUSTAINABLE FOREST MANAGEMENT AND FSC CERTIFICATION

According to the Food and Agriculture Organization of the United Nations (UN FAO), more than half of the world's forests have been altered, degraded, destroyed or converted into other land uses. Much of the remaining forests today suffer from illegal logging and otherwise poor management. The Forest Stewardship Council (FSC) was established as a response to these concerns. With 10 principles and 56 associated criteria, FSC offers a comprehensive set of universally applicable

requirements for responsible forest management.

At the heart of the FSC system is the principle of sustainable rotation, which entails that plantations and concessions will be planted and harvested on a continuous basis, ensuring a balance is maintained between what is removed and regrown. To gain certification a forestry management operation has also to fulfil requirements such as maintaining the ecological functions of the forest and its biodiversity, enhancing the economic viability, and respecting local land use and

indigenous peoples' rights; it also includes stringent specifications for implementation of environmental impact management plans and worker's health and safety.

GEF ASFF's aim is to achieve and maintain FSC Certification for each of the Fund's portfolio companies, with 99% of the plantations currently FSC certified. By aligning with these principles, the GEF ASFF portfolio is contributing to the best-practice international standards for sustainable forestry.




IN PRACTICE

IMPROVING SILVICULTURE PRACTICES

Imvelo has hired a specialist who has been instrumental in establishing and implementing good silviculture practices across all of its newly acquired assets. Previously poorly managed plantation areas were rehabilitated for a new species of trees specifically developed for Imvelo's soil and weather conditions. The Company has also obtained FSC certification for all five underlying farms. These interventions have contributed to the improved growth of the eucalyptus plantations, the proper maintenance of the conservation areas, and the optimisation of the commercial value of the forest which are conducive to the long-term success of Imvelo. Since ASFF's investment in 2014, Imvelo was able to almost double its revenues and become profitable in 2015.



A yellow logging machine, labeled '225A LOGGER' and 'L084', is lifting several large, long logs. The machine is positioned on a dirt clearing, and the logs are being hoisted into the air. In the background, there is a forested hillside and a body of water.

« WITH A VIEW TO PRESERVING
BIODIVERSITY IN AFRICA,
INCREASING THE AREA OF
FOREST PLANTATIONS IS OF
GREAT IMPORTANCE, SINCE
THIS CREATES CORRIDORS FOR
WILD LIFE.

IN ADDITION, PLANTING
FORESTS IS OF CRUCIAL
IMPORTANCE TO FIGHT
EROSION, DESERTIFICATION
AND CLIMATE CHANGE »

– Prof. Dr. Tineke Lambooy LL.M. (Professor Corporate
Law and Corporate Social Responsibility at Nyenrode
Business University, Netherlands –



ENVIRONMENTAL IMPACT

Forestry assets are inherently linked to land, directly influencing the environment while also being highly dependent on it. Putting in place sustainable silviculture practices and FSC management practises is core to the long-term development of the forestry sector and the preservation of forests in general.

REDUCING DEFORESTATION

In 2015, Africa's total forest cover was estimated at 624 million hectares, representing around a fifth of the continent's land area and 15% of the world's forest cover. However, the forests are continuously threatened by agricultural expansions, increased wood fuel collection, unsustainable management regimes, livestock grazing, urbanization and industrialization, and climate change. Weak oversight of forest managers and a lack of awareness have exacerbated the problem. Since 1990, over 3 million hectares (the equivalent to 80% of Switzerland) of forest have been lost annually on the African continent alone, representing over 10% of loss in 25 years. Most countries continue to rely mainly on clearcutting natural forests of tropical hardwood logs, and the resulting environmental degradation is prevalent and devastating.

INVESTEES FOCUS

Between 1991 and 2013, 31% of the forest cover around KVTC's plantation blocks in Ulanga district was lost. In contrast, the conservation areas of KVTC's 28,000 hectare lease have remained largely intact and in some cases have improved.



High deforestation rates drive climate change as soils which are not protected by a sun-blocking canopy will quickly dry out and the water cycle perpetuated by trees returning water to the atmosphere which will then release it as rain again is disrupted. Thus groundwater supplies crucial for drinking, agriculture and other uses are not replenished and the soil is prone to erosion and landslides. Overall this impacts people's livelihoods and threatens a wide range of plant and animal species.

The quickest solution to deforestation would be to simply stop cutting down trees, but this is unrealistic in light of the economic and financial realities. Parts of the landscape will need to be reshaped and altered as populations grow and change—but this can be balanced through sustainable forest management, reforestation efforts and maintaining the integrity of protected areas such as ASFF I's companies are doing. Replanting enough young trees to replace the older felled ones is one of the backbones of the FSC principles. Establishing efficient and well-managed forestry assets to meet the demand for forestry goods is essential to help reduce the pressure on natural forests.

CLIMATE CHANGE AND CO₂ EMISSION REDUCTION

Forests play a critical role in mitigating climate change because they act as a carbon sink—soaking up carbon dioxide that would otherwise be free in the atmosphere and contribute to ongoing changes in climate patterns. Deforestation undermines this important carbon sink function. It is estimated that 15% of all greenhouse gas emissions are the result of deforestation.

The ASFF I companies provide a significant carbon sink, sequestering approximately 2.5 million tons of CO₂ per year in new tree growth, before accounting for emissions associated with harvesting, transport, and manufacturing of wood products, which themselves store carbon on a long term basis. An estimated 15 million tonnes of CO₂ are stored in standing trees across ASFF I's plantations, in addition to an estimated 142 million tonnes of CO₂ stored in Compagnie des bois du Gabon's natural forests.



Imvelo Forests

ENVIRONMENTAL IMPACT

PROACTIVE MEASURES TAKEN BY THE GEF ASFF PORTFOLIO

PRESERVING CONSERVATION AREAS AND SUPPORTING BIODIVERSITY

Securing forest ecosystems in conservation areas can help to preserve valuable plant and animal biodiversity for future generations. All of ASFF I's investees manage conservation areas, preventing illegal logging, rehabilitating damaged forest land and making sure that forest set aside for conservation is not destroyed or used in a detrimental way. All ASFF I investees also establish networks of wildlife corridors in order to link conserved habitat areas enabling animals to move according to their natural patterns.

INVESTEE FOCUS

KVTC operates in a very remote area, in proximity of one of the largest faunal reserves of the world, the Selous Game Reserve in Tanzania. Its lease agreement with the government includes care and protection of 20,000 hectares of Miombo woodland. The Miombo woodlands form a broad belt across south-central Africa, running from Angola in the west to Tanzania in the east. These woodlands are not only home to a large diversity of plants and animals but are also important to the livelihoods of many rural people, who depend on the resources available from the woodlands. The wide variety of plant species provides an array of non-timber forest products (NTFP) such as fruits, honey, animal feed for livestock, as well as wood fuel. KVTC does not allow any hunting or unauthorised logging on company property, however community members are allowed to collect firewood and NTFPs such as nuts, berries, and forage for personal use.



« KVTC IS
COMMITTED
TO MAINTAIN A
HIGH LEVEL OF
BIODIVERSITY
WITHIN ITS
LANDHOLDING AND
BELIEVES THIS
REPRESENTS A
VALUE BOTH TO THE
BUSINESS AND TO
THE COMMUNITIES
SURROUNDING THE
PROJECT »

– Hans Lemm, General
Manager KVTC –

ENHANCING RESOURCE EFFICIENCY AND PROMOTING SUSTAINABLE BIOENERGY

The forestry business can be very wasteful. Astonishingly on average only 10-20% of wood fibre harvested from natural forests, and 30-40% of wood fibre harvested from plantation forests ends up in final wood products. Wood fibre is wasted during both harvesting and processing. While it is difficult and uneconomical to capture waste that is spread out over large and distant areas during harvesting, failing to capture waste wood (in the form of wood chips, bark or sawdust) generated during processing is a missed opportunity. In emerging markets processing waste can be as much as 50% of the material that is delivered to the mill. Many sawmill and processing operations saw the timber and then dry it in ovens before delivering it to markets, activities which require a huge amount of energy. Waste fibre could be used as a reliable energy source to run the mill or drying activities, and any excess sold or donated to local communities. Harnessing biomass energy to drive down operating costs and add value to assets is a significant strategy of the Fund and aligned to its environmental objectives.

INVESTEE FOCUS

Always in search of ways to optimise its resources, including solutions to minimise and enhance the use of sawmill residues, **MTO** reached an agreement with a local dairy to both construct a biomass boiler on the dairy's premises and supply sufficient biomass fuel from one of its sawmills. This will displace approximately 90 percent of the current heavy fuel oil derived steam supply (4,500 tons) with sustainably produced biomass fuel, and prevent nearly 13,000 tons of carbon dioxide emissions annually.



FIRE AND PREVENTIVE MEASURES

One of the biggest challenges forestry plantations face is the threat of fire. For example, prior to ASFF I's first investment in 2012, fire ripped through Peak Timbers' plantation and destroyed 90% of the plantation areas. Since ASFF I's investment, many changes such as regular ground clearance, construction of fire breaks, and more rigorous patrols, have been implemented to ensure fire cannot damage the plantation to such an extent again. In addition community engagement programmes are in place to ensure local communities are incentivised and aligned to protect the forest from fire and provide early warning.

Illegal Honey Harvesting

One of the main causes of plantation fires is the illegal collection of wild beehives, as fires can break out when farmers smoke out wild hives to gather honey. Illegal honey collection is a time-consuming and often dangerous way for people to make a living. Fires started by illegal honey collection can quickly spread through the forest, destroying not only the trees, but also the wildlife and surrounding communities. To counter this, ASFF I portfolio companies are implementing programs to support the beekeepers in applying more sustainable practices.

When community members find and report wild hives within the plantations, they receive a small reward payment from the company, who will safely remove the hives, and provide timber to build portable cases for the hives and alternative land for the bees to be kept. In this way, the bees can be moved to locations within the plantation where they are also needed for pollination.



Portable hives are part of the sustainable beekeeping programs being implemented by GEF ASFF portfolio companies.

INVESTEE FOCUS

Peak Timbers has established a toll-free number to allow the community to contact the company at any time. As well as acting as a grievance mechanism, it allows the community to report fires, bee hives or timber theft. The opening of this communication line has also increased community ownership of the plantation in general.



SOCIAL IMPACT

**« FORESTS PLAY A
FUNDAMENTAL ROLE
IN COMBATING RURAL
POVERTY, ENSURING
FOOD SECURITY AND
PROVIDING PEOPLE
WITH LIVELIHOODS. »**

–José Graziano da Silva, UN FAO

Director-General–

Common social issues in the forestry sector can include health and safety of employees on the job, employee benefits, land issues and relationships with local communities, and the sharing of forest facilities in order to create benefits for previously underserved populations. A forestry company which successfully deals with these challenges in an appropriate and proactive way will have a variety of positive impacts by providing quality jobs, supporting the local economy, generating tax revenues for the local authorities and globally improving the lives of the surrounding communities.

LOCAL ECONOMIC IMPACT

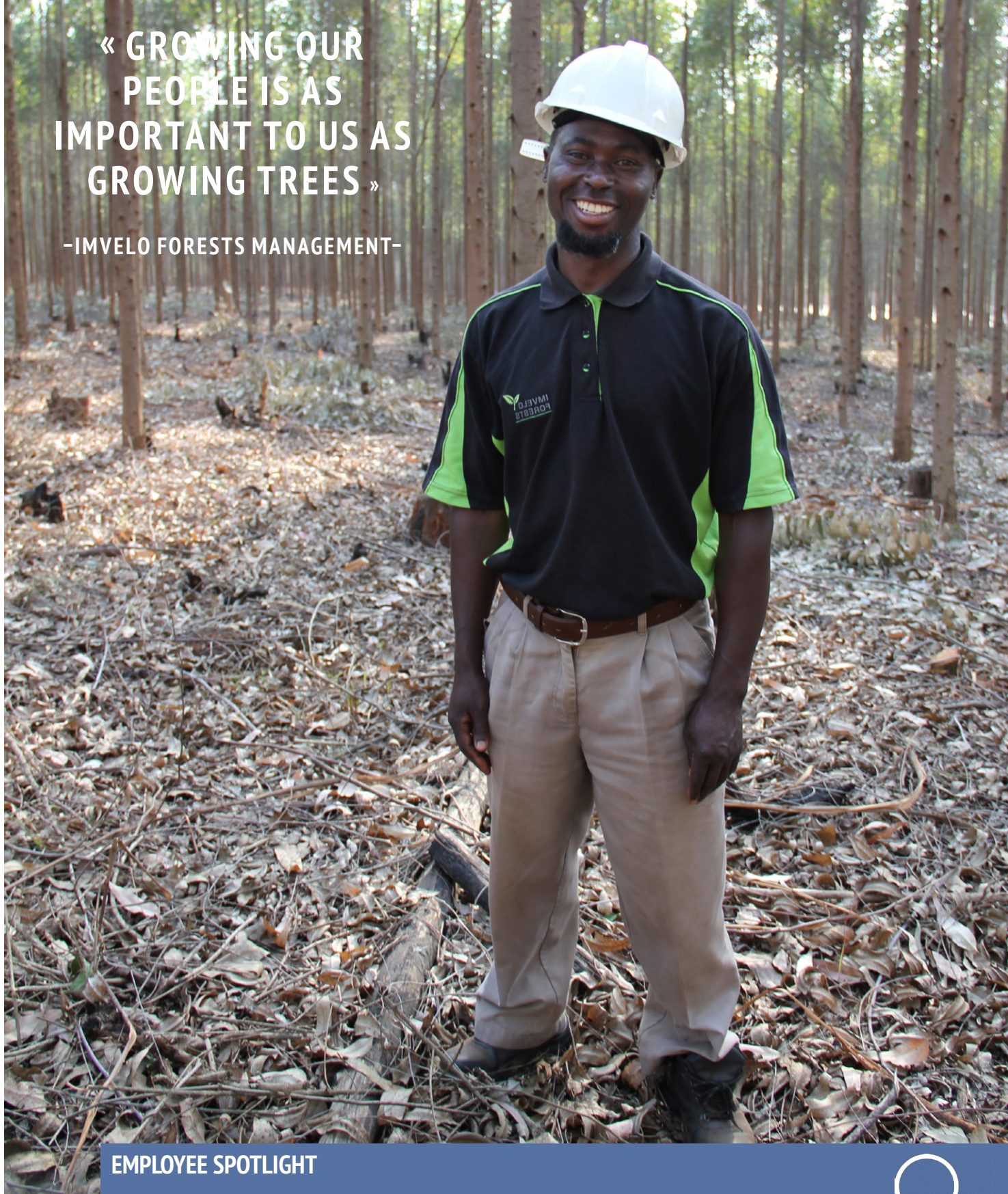
According to the UN FAO the forest sector contributes about USD 600 billion annually to global GDP and provides employment to over 50 million people. At the end of 2015 an estimated 7,910 people were employed by ASFF I's portfolio companies and dedicated contractors, and over USD 50 million of goods and services were procured from SMEs. In addition, ASFF I's portfolio companies have generated almost USD 8 million in tax revenues for the respective local governments, a welcome contribution for strained public finances.

QUALITY JOBS

While the forestry sector is labour-intensive and can provide a number of jobs, oftentimes working conditions in agricultural sectors are poor, with inadequate health and safety standards. The Fund Manager ensures workers in its companies are formally employed and earn fair wages, securing their livelihood with a combination of stable income and additional benefits. ASFF I companies also provide a safe work environment and regular training to enhance their workers' skills and enable them to further their professional development.

« GROWING OUR
PEOPLE IS AS
IMPORTANT TO US AS
GROWING TREES »

—IMVELO FORESTS MANAGEMENT—



EMPLOYEE SPOTLIGHT

Thomas works at Paradise Falls, a Eucalyptus farm in White River, South Africa, which was bought by Imvelo Forests in 2012. Beginning as a labourer over 20 years ago, Thomas is now the harvesting manager of the farm and manages 20 tree felling supervisors including their teams. His wife Sophie began working for Paradise Falls as the housekeeper and cleaner, and is now the accountant for Imvelo. Together they live in a house next to the Imvelo office, where they have raised their family.

Both have undergone regular training during their employment, and have worked and trained their way up to their current positions. Their reliability and trustworthiness is an example to other employees and has been instrumental in the management changeover at Imvelo Forests.



HEALTH AND SAFETY

The forestry industry is one of the most hazardous industries for workers. Employees need to manage moving equipment, heavy machinery and falling trees in difficult conditions. All of ASFF I's portfolio companies make certain to provide a safe environment for their workers and minimise associated hazards; this involves extensive safety trainings, improved safety policies and equipment, and improved communication and emergency response systems. A strong focus is made on the safety of labour transport, both for direct employees and for contractors. Vehicles are regularly inspected and drivers are tested and trained.

The health and safety of workers is not only highly regarded on the companies' premises, the general health of workers and their families is also very important to ASFF portfolio companies. As they operate in rural and underprivileged areas, topics such as healthy nutrition and disease prevention are essential.

In 2013, the Fund Manager initiated a worker nutrition program which provides free supplementary nutrition to all MTO and Ramanas employed forestry workers at an annual cost of USD 130,000. The program is very successful and is well received by workers, who report to be less tired and generally in better health. The companies participating in the program have also noticed less absenteeism. ASFF now plans to roll out the program in other portfolio companies.

Additional health support is also being provided through company wellness programs. For example, MTO supported voluntary testing for HIV/AIDS, tuberculosis, diabetes and blood pressure. In addition informational sessions on nutrition, male circumcision and substance abuse and addiction are arranged which include follow up treatments and counselling.

TRAINING

Training is key for an efficient and well-organised workforce to know best practise health and safety procedures and provides opportunities for personal and professional development. Training is highly valued by ASFF I's companies and is provided

both for direct employees as well as contractors, and is organised both in-house, and with accredited training providers.

CONTRACTOR DEVELOPMENT AND CAPACITY BUILDING

The safety and performance of contractors and their employees is a recurring issue in the forest industry, as work is often outsourced to independent contractors. In many cases, the contractors lack the skills or finance to operate efficiently, effectively, and profitably. In late 2015, MTO, with the help of the Fund Manager, recruited a dedicated person to establish a new capacity building program for its contractors including elements of business skills training and mentorship for contractors as well as access to finance for safer and more efficient equipment. Should it prove to be successful the program will be rolled out to other ASFF I investee companies.

INVESTEES FOCUS



MTO has an in-house training centre to provide basic health and safety and environmental training, as well as specialist on-the-job and machinery training to forestry staff and contractors. During 2015 a total number of 5,846 people were trained, utilising 8,865 man-days. A total of 1,765 contractor employees totaling 2,492 man-days also received sponsored training in 2015. This training includes fire prevention, health and safety, environmental awareness and managerial, supervisor and administration training.

MTO goes even one step further to encourage skill training of previously disadvantaged communities. The Company has initiated a pilot training program in 2015: 27 unemployed people between the ages of 18 to 35, both male and female, were selected for a 3-month training course. All participants received personal protective clothing, weekly stipend and meals. The training was very successful, with almost half of the participants absorbed into various industries by the beginning of 2016. The program will be expanded to an intake of 50 persons in 2016.



SOCIAL IMPACT

STAKEHOLDER ENGAGEMENT

Forestry plantations are often in close proximity to populated villages, and consequently strong mutual relationships with the community are vital for the well-being of the forest and the success of the company. Local communities play a significant role in a forestry plantation's production, development and conservation, and the forest plantation is simultaneously a source of livelihood and employment for the local communities. Worldwide more than 1.6 billion people rely on forests products for all or part of their livelihoods.

**« WHEN OUR SUCCESS IS SO CENTRED
ON OUR STAKEHOLDERS, WE NEED TO
STAND UP AND NOT SIT DOWN »**

–Nhlanhla Nxumalo, Peak Timbers' Environment & Community
Manager –





IN PRACTICE

STAKEHOLDER ENGAGEMENT



Peak Timbers is an ASFF portfolio investee, with a 30,000 hectare eucalyptus plantation and sawmilling business located outside a village of approximately 6,000 inhabitants. Peak Timbers is the largest employer in northern Swaziland with over 1,200 employees. Almost immediately after ASFF I's investment, Peak Timbers hired a dedicated environment and community manager, Nhlanhla Nxumalo. A Swazi national, N. Nxumalo has placed a great deal of importance on connecting with the community to gain their support for Peak's activities and to establish a mutually-beneficial community-company relationship. By strategically reaching out to the community, N. Nxumalo has been able to offer practical services and forestry products, in a more meaningful way than the average Corporate Social Responsibility project would do. In doing so, a sense of ownership from the community towards Peak Timbers and its products has been generated.

Identifying Key Stakeholders and Establishing a Dialog

N. Nxumalo first reached out to the village chiefs. There are 13 villages surrounding Peak Timbers that are closely interlinked with the success of the company. Each village is led by a chief who is the key gatekeeper for gaining the support of the rest of the village. The initial feedback from the chiefs in 2012 highlighted a lack of consultation or communication between Peak and the villages: the community members felt they had no voice in an industry which impacted a great deal of their lives. N. Nxumalo began to arrange regular community forums on behalf of Peak Timbers, inviting the village chiefs to these meetings, as well as the police, firemen and other strategic local community members. Since then, the feedback from the village chiefs in particular has been very positive, as these meetings serve to both consult and inform all concerned parties, as well as encourage discussion regarding existing issues.

In addition to the forums, N. Nxumalo runs programs to reach each stakeholder group of the surrounding communities, for example, presentations and fire safety curriculum for school children, soccer team sponsorship for youths, toolbox talks for contractor employers and informal community meetings for farmers.

Sharing Resources

As a way to support the surrounding communities, Peak Timbers offers products from its plantation free of charge to community members, as well as giving away recyclable waste forestry products. N. Nxumalo has set up a simple centralised permit process to allow the community members to access the plantations to collect forestry products safely and fairly. With these permits, they can obtain firewood, grass for cattle, and/or wood for community projects.

With a permit, community farmers can also graze their cattle on Peak Timbers' plantations on a rotating basis, the practice of which is managed by N. Nxumalo. This ensures grazing occurs at the right point of the plantation's lifecycle. It has been a challenge to educate the farmers of the need for and subsequent benefits of proper land use, but the provision of permits has been helpful in the implementation of these best-practice standards. This mutually beneficial relationship means the plantation can also benefit from the cattle grazing, for example, it increases the nutrients in the soil, and helps with undergrowth vegetation management.

Providing Health Facilities

Amongst many others health challenges, HIV represents a serious public health issue in African countries. For instance more than 19% and 27% of the adult population in South Africa and Swaziland respectively, are HIV positive. This not only detrimentally affects their own health and ability to provide for their families, but affects the general working population's capabilities in the country.

Peak Timbers has teamed up with an NGO to build and run a health clinic in Pigg's Peak, the largest village in the region of Peak Timber's plantations. The clinic provides HIV treatment for the community, and operational health facilities for Peak Timber's employees and the general community, as well as mobile health services.

ABOUT OBVIAM

Obviam is an independent investment advisor specialised in long-term investments in emerging and frontier markets. Obviam advises public, institutional, and private clients, including the Swiss Investment Fund for Emerging Markets (SIFEM), the Development Finance Institution (DFI) of the Swiss Confederation. Obviam offers investors an opportunity to capture attractive returns and generate sustainable positive impact in emerging and frontier markets, via a proven and responsible investment approach.

ABOUT SIFEM

The Swiss Investment Fund for Emerging Markets (SIFEM) is the Swiss Development Finance Institution. It provides long-term finance to private equity funds and financial institutions in emerging markets. SIFEM's primary focus is on institutions investing in the small and medium enterprise (SME) sector. On a selective basis, SIFEM also invests in microfinance. SIFEM's investment philosophy is guided by the belief that investing in commercially viable emerging market SMEs can provide investors risk adjusted returns, as well as generate sustainable, long-term development effects in local communities. SIFEM is fully owned by the Swiss Confederation and managed by Obviam, a privately owned management advisory group.

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