



NEWPACK GENERATES A POSITIVE IMPACT BY PROVIDING DECENT FORMAL SECTOR JOBS AND BY PRODUCING PRODUCTS IN A RESOURCE EFFICIENT AND SUSTAINABLE MANNER

CASE STUDY NEWPACK

Location:	Madagascar
Sector:	Manufacturing
Investment year:	2018
Fund intermediary:	Adenia Capital IV
Fund manager:	Adenia Partners

In 2018, Adenia Capital Fund IV invested in Newpack, a packaging manufacturing company that produces over 20,000 tonnes of corrugated cardboard packaging materials per annum and distributes them in Madagascar and the Indian Ocean region.

Newpack primarily contributes to two of the United Nations Sustainable Development Goals (SDGs):

8 DECENT WORK AND ECONOMIC GROWTH



Newpack supports quality jobs¹ in a country characterised by widespread informality and poverty. Newpack offers terms and conditions of employment which exceed local norms for equivalent jobs, including substantially higher wages as well as additional benefits. The company has introduced training programmes and incentives in order to attract and retain talented workers on a permanent basis, thereby providing formalised jobs.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION



Newpack has adopted various initiatives to boost the sustainability of its resource use and is in the process of acquiring a FSC Chain of Custody Certification.² These practices include using nearly 100% recycled paper, decreasing waste in the cutting process, and selling cardboard waste to be recycled. Newpack also monitors its energy and water consumption against benchmarks and has achieved considerable savings in the use of these inputs through operational efficiencies during the past 12 years.

¹ These effects were identified by a consultant, Ergon, commissioned in 2019 by SIFEM to conduct a study on decent jobs that included Newpack.

² The finalization of certification process has been delayed because of COVID-19 restrictions.

THE COMPANY: NEWPACK

Founded in 1989 by a Malagasy entrepreneur, Newpack is the leading producer of corrugated cardboard in Madagascar. The company headquarters is located outside of the capital city, Antananarivo, in the Andranoabo Industrial Zone. The company also has a satellite facility in the northern coastal city of Antsiranana.

Newpack manufactures and distributes carton boxes and sheets (around 97% of revenues), paper waste, cutting dies, and printing plates. Newpack offers a wide range of corrugated cardboard products from basic American boxes to more developed products including pizza boxes, trays, shelf-ready packaging, and high-end products such as coated boxes and glossy-finish cardboards. The company already produces more than 300,000 different products and approximately 50 million packages a year. Newpack carries out the full production process in-house, including the transformation of paper and recycled materials into corrugated cardboard, cutting and shaping into boxes and printing. Over the past decade, Newpack's turnover has trebled, driven mainly by product improvements and the development of new markets. The company received an ISO 9001 certification in January 2002 and since then has instituted production improvement methodologies based on international quality standards. Newpack's R&D department allows it to customise corrugated cardboard products to meet client needs at an industrial scale, while reducing production errors and boosting value-for-money.

The client base is diverse and includes over 400 clients. The main products which are catered for include: fruits and vegetables; milk and drinks; fisheries; other food products; household goods and textiles/garments. Newpack sells its products to Malagasy clients who sell products for the local market, to Malagasy exporters, and to customers in neighbouring islands in the Indian Ocean (Mauritius, Seychelles, Réunion and Comoros). Customers in Madagascar and the Indian Ocean region benefit by gaining access to quality packaging products, obviating the need to rely on more costly imports from abroad.

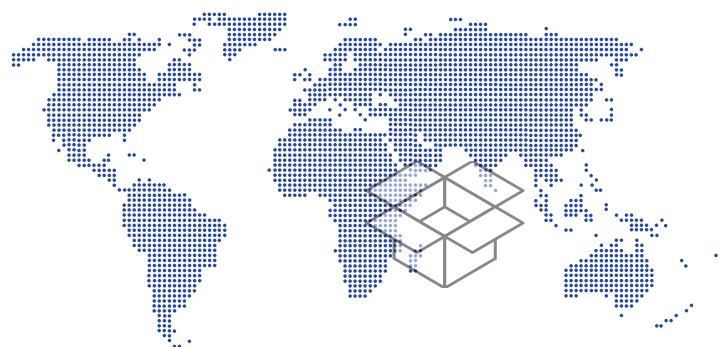
Newpack generates a positive impact by providing decent formal sector jobs in a country with widespread poverty and joblessness, and by producing products in a resource efficient and sustainable manner.

THE COUNTRY: MADAGASCAR

The island nation of Madagascar has a population of almost 27 million, with an annual population growth rate of 2.7%.³ One of the poorest countries in the world, Madagascar's Gross National Income (GNI) per capita was USD 520 in 2018 (or \$1660 in international purchasing power parity terms). This places it within the Least Developed Countries grouping. Agriculture accounts for a sizeable 23% share of GDP, while industry contributes 17%, and services 52%. Not surprisingly, given its underdeveloped status, Madagascar is characterised by significant socioeconomic challenges. About three-quarters of the population live below the international poverty line of \$1.90/day, according to the World Bank. The unemployment rate was estimated at just 1.8% in 2020, although 63% of the active labour force were employed in the agriculture sector and just 9% in industry.⁴ Informal employment was estimated at 84% of total non-agricultural employment in 2015, underscoring the lack of formal jobs in sectors like manufacturing. As of 2018, 42% of the population were undernourished.

In the environmental arena, Madagascar is well known as a global biodiversity hotspot, with over 90% of its wildlife found nowhere else on Earth. However, the country has long been suffering from deforestation and other forms of environmental degradation. Mining activities (including those near or in forest and protected areas, especially in High Conservation Value Areas), agricultural practices (including tavy practices, annual burning of grasslands, grazing, etc.), illegal logging, illegal/unsustainable harvest of wildlife (including bushmeat hunting and fishing), introduction of invasive species, pollution and the use of wood as a primary fuel, etc. have led to deforestation, degradation of natural areas (including forests, mangroves, coral reefs, etc.), land and coastal erosion, depletion of natural resources, loss of species, etc. Climate change impacts also threaten the wellbeing of both the country's biodiversity and her people.

The combination of these socioeconomic and environmental conditions makes plain the dire need in Madagascar for investments in modern industrial businesses that create and support quality jobs, while operating in an environmentally sustainable manner.



³ All data in this section are drawn from the World Bank's World Development Indicators.
⁴ International Labour Organisation (ILO) modelled estimate, as per WDI.



2020 UPDATE: FACING THE CHALLENGE OF COVID-19

As is the case worldwide, the COVID-19 pandemic has been a real challenge for the business operations of Newpack. During the pandemic, Newpack has continued its operations due to its status as an essential producer, as it manufactures cardboard packaging for staples such as water bottles, soap, food, and pharmaceutical products. The Malagasy Government frequently announced new measures, and it was often unclear if Newpack would have to close the factory. Potential orders from clients had to be anticipated which caused some weeks to be very busy.

The organisation of the shift work schedules, as well as the behaviour of the employees on site had to be adjusted to include working from home where possible, and where not, limiting employees' exposure to infection. This included wearing of masks, regular washing of hands, taking people's temperature, working from home when possible after equipping the staff with laptops and internet connections, and reorganizing working space to limit internal contamination. In this difficult period, Newpack has organised private transportation for its staff to and from work and regularly carried out COVID-19 testing for the entire staff. The company has also distributed aid packages to its employees, containing various staple products, assisting the employees to reduce their exposure risk to the virus by not having to go to crowded markets on the weekend.

DECENT JOBS

Employment

One of the main development impacts attributable to Newpack relates to SDG 8, in the form of more and better jobs. This is especially important in the context of widespread poverty and lack of formal sector jobs in Madagascar, as noted above. As of the end of 2019, there were 225 permanent full-time and part-time employees at Newpack. The workforce is composed of roughly 50% unskilled workers, 30% skilled workers, and 20% management. The number of employees has fluctuated in recent years in response to changes in production demand. For example, increased production demand in 2018 resulted in a recruitment drive and an increase in employment levels (approximately 9%), while reduced production demand in 2019 led to a decrease in overall employment levels (approximately 8%), achieved through the non-replacement of departing workers.

Newpack engages workers under three types of contracts: Undetermined Duration Agreements (CDI), Fixed Duration Agreements of one year (CDD) and temporary workers contracts. All workers have individual contracts. Temporary workers are paid the minimum wage and overtime (if worked) in cash on a weekly basis. While Malagasy law determines a minimum wage by professional category, Newpack's average base wage (excluding managers) was 75% above minimum wage in 2019. Bonuses are awarded according to KPIs (e.g., number of m2 produced). And, bonuses represent around three months' wages. Newpack operates in line with Malagasy regulation: temporary workers who work more than 20 days, on average, during 6 consecutive months, are to be hired on a permanent basis. Newpack maintains a tracking system to ensure compliance. At the same time, Newpack has developed a casual worker reduction plan.⁵

Some 65 of Newpack's 225 permanent employees are women (29%) and women make up a similar proportion of the senior management team. At present, none of Newpack's four board members are women. In relation to the types of jobs held by men and women, there is evidence of horizontal occupational segregation with women predominantly employed in back-office roles and in cutting/shaping boxes and providing quality control services. Women are not typically employed on production lines, in part due to restrictions on women carrying out night work under Malagasy labour law.

Decent work

Newpack's approach to employment conditions during the period of Adenia's first investment (from 2008) was focused on achieving compliance with local legislation and working towards compliance with international best practices, such as the IFC Performance Standards, particularly IFC Performance Standard 2 – Labour and Working Conditions. Prior to its second investment in Newpack in 2018, Adenia engaged a qualified third-

party consultant to perform an Environmental and Social Due Diligence. The consultant identified gaps between Newpack's practices and local legislation and international best practices. At the time of Adenia's investment, the Fund Manager and Newpack agreed upon an Environmental and Social Action Plan (ESAP) to remediate these gaps within acceptable timelines and as of today, all but one ESAP item have been completed. In the current investment period employment issues are looked at through the lens of achieving excellence.

“The best companies don't focus on compliance or reaching minimum standards, they focus on achieving excellence.”

– Bart Willems, Newpack Managing Director

Newpack recognises that it is not just the number of staff employed that counts, but also the quality of jobs – in terms of working conditions, wages and benefits, and labour rights. Newpack offers terms and conditions of employment which exceed local norms for equivalent jobs. This includes wages which are 30% higher than in comparable companies and providing all workers (including those on fixed-term contracts) with a package of benefits including school enrolment fees, private health insurance for workers and their families and the bulk-buying of basic necessities, which are then resold to workers, on a voluntary basis, at below market price. Other benefits include: maternity leave, litchi season bonus, productivity bonus, transportation, access to interest-free loans, school fees and subsidised meals. Newpack operates 12-hour production shifts in peak season and 8 hours in low season, 6 days a week. The legal work week is 40 hours in Madagascar. While Newpack's management of overtime is in compliance with local legislation, Newpack developed an overtime reduction plan.

There are established forms of workplace representation at Newpack, including a trade union and a separate Works' Council (Comité d'entreprise), which was required by Adenia as an ESAP item. The trade union has a membership of around 60 workers and meets with management every two months to discuss requests from workers, for example relating to salaries, changes to production processes and working hours. There is no collective agreement but the official "Règlement Intérieur" (from 2011), which is a legal requirement that contains all of the company's written procedures, was approved by the trade union and cannot be amended without its approval. Newpack developed a grievance mechanism (for employees and other stakeholders) in 2018.

⁵ The implementation of this plan has been delayed due to uncertainties of the COVID-19 operating environment, however it remains the intention of Newpack to carry this out

Job creation and retention

Adenia and Newpack both recognise that there is limited scope for increasing the number of jobs with current production output (and seasonal variations in output) as staffing levels already far exceed those of comparable facilities elsewhere. It is expected that any production expansion during the investment period can be supported by increased productivity and operational improvements, for example through measures to increase the paper ratio and reduce waste, and investments in worker training. At the same time, job destruction is also seen as an unlikely prospect, given what the company sees as the optimal mix of machinery and largely low-skilled labour.

Newpack's biggest challenge with respect to labour is to further reduce its reliance on temporary workers and its use of overtime, especially during peak seasons, (i.e., contribute to the formalisation of quality jobs), while remaining competitive. This is a sensitive issue. While the use of overtime is expensive, Newpack needs to have more experienced and integrated people. In addition, many of Newpack's employees rely on the extra income from overtime work. And, according to the company, overtime work has not been excessive. At the same time, temporary workers receive training and have access to Personal Protective Equipment (PPE). Adenia will continue to support Newpack in finding a balance between temporary and permanent workers. However, to the extent this is not possible, its further contribution to decent work will come from slight increases in compensation and training.

“There is no business case for full scale automation at Newpack – labour costs are competitive and there is nobody here with the skills or know-how to maintain complex machinery. Using manual labour also provides us with greater flexibility to adapt our products to customer's needs and results in higher quality boxes.”

– Patrick Maugé, Newpack Production Director

Investing in staff: Training, wages and skill retention

Newpack's leadership recognises that continued investment is required to maintain the company's position as a leading employer in Madagascar and to enhance its ability to recruit and retain skilled staff. In practical terms, this has entailed keeping on top of regulatory and market developments and adapting to changing circumstances.

For example, the Malagasy government announced a 19% increase to the monthly minimum wage in May 2019. Although wages at Newpack already met the new minimum standard and no adjustments would be necessary to achieve compliance, management recognised that the regulatory change would lead to higher wages in other local companies, and that some adjustment may be needed to ensure wages remained in excess of local norms and competitive against other companies. HR therefore launched a benchmarking process to compare wages and benefits at Newpack against 10 comparable mid-sized companies and reorganised wages accordingly. The main outcomes of this process were an increase to workers' basic wages and a streamlining of the bonus system.

Secondly, with increasing competition in Madagascar, Newpack has recognised that adapting to these new market dynamics will require a significant investment in training to improve workers' commercial skills and client focus

Thirdly, Newpack undertook an upgrading of its HR systems. A particular focus will be on developing more robust performance management systems that support the identification of internal talent and can form the basis of tailored training plans for workers and enable the bonus system to be more explicitly linked to performance.



OCCUPATIONAL HEALTH AND SAFETY

Newpack has a Health, Safety and Environment (HSE) manual which includes HSE policies, routines and checklists. The company also has an Emergency Response Plan which covers a range of emergency scenarios and the plan is tested yearly. Newpack has a qualified, dedicated HSE Manager who is supported by a dedicated HSE assistant. The HSE manager also acts as the company's community liaison officer. The company has a cultivated a strong HSE culture. Newpack has developed an annual HSE employee training program and the HSE Manager holds daily pre-shift meetings with all production departments. Workers receive annual health checks. Newpack prides itself on its good housekeeping. Areas of its facility are well demarcated and there is adequate signage. There is a good availability of fire extinguishers and other firefighting equipment at the facility. Workers are provided with and use appropriate PPE. While the company's HSE risks have been adequately managed and it has not had any fatalities in the past seven years, Adenia worked with the company to install machine guarding to reduce the risks of accidents. It also worked with Newpack to improve the ventilation in the workshops where hazardous materials (perchloroethylene (PCE) and borax) are used.

ENVIRONMENTAL SUSTAINABILITY

At the time of acquisition by Adenia, Newpack already had an Environmental and Social Management System (ESMS) in place. The HSE Manager serves as the ESMS Officer. Newpack monitors its water and electricity consumption annually. It also monitors its CO₂ emissions and wastewater effluents (COD, BOD, SS and PH) from its treatment plant. While this monitoring is a regulatory requirement and the company complies with local regulations and international standards, monitoring also allows the company to prioritise corporate sustainability objectives and identify additional ways to generate cost savings and additional revenue through sustainability initiatives.

Newpack's sustainability initiatives have resulted in significant reductions in resource consumption, including decreases in electricity, water and starch usage. The significant reductions were achieved more than 10 years ago. In 2019 the company increased its share of sustainable paper (FSC Chain of Custody) used to nearly 100%, while recycling its paper waste. Through such resource efficiency and the recycling and sales of paper waste, Newpack has generated substantial savings and additional income. The company's reliance on imported paper as its primary input, together with recycling, ensures that it does not impact negatively on Madagascar's biodiversity through local deforestation. However, there are environmental impacts from the transport of the paper and finished products, as well as the transport of the recycled paper to India. With regard to IFC Performance Standard 3 (Pollution Prevention and Abatement), Newpack has improved its storage and disposal of PCE.



THE FUND: ADENIA CAPITAL IV

Adenia Capital IV is a EUR 230 million multi-sector private equity fund managed by Adenia Partners, a private equity firm focused on Sub-Saharan Africa. Adenia Fund IV makes equity investments of EUR 10-15m in small and medium enterprises (SMEs) in Francophone and Anglophone Africa and the Indian Ocean. The Fund has a distinct and focused strategy of transformative majority investments in well-established SMEs that can benefit from interventions by a hands-on value-add investor. The Fund predominantly invests in agribusiness, consumer goods, information technology and communications, financial services, business services, hospitality, healthcare and education sectors.

In April 2018, Adenia IV acquired a 100% stake in Newpack. Adenia's Fund II invested in Newpack in 2008, also with a 100% stake, and exited in 2015 through a management buyout. Adenia identified the key driver for the second investment as Newpack's growth potential, given that it has a significant market share in a country with a rapidly growing population and economy and that there is still scope for further expansion into neighbouring island countries. At the outset of the investment, Adenia hired new leadership personnel, including a new CFO in October 2018, a new Managing Director in March 2019, and a new HR director, in 2020, all of whom have been instrumental in driving subsequent improvements. The executive committee has expanded to include additional

local and female members. According to Newpack's CFO, Martin Gertz, while the first round of private equity investment was used to transform Newpack, the second round is focused on "providing stewardship", through offering guidance and mentorship to help Newpack maintain and consolidate its position. As noted above, this approach has included bolstering the company's Human Resource management function to put in place more sophisticated talent development and performance management systems.

Adenia's current investment in Newpack offers an instructive example of how PE investment can facilitate job quality gains even in investees which already meet compliance standards and provide terms and conditions of employment in excess of local norms. In particular, it demonstrates the potential for funds to go 'beyond compliance' to develop strategic human resources management as a value-driver.

"Even though Newpack is already one of Madagascar's best employers, it's important not to get complacent, we know that even maintaining this position means continuous investment."

– Koloina Razafindratsita,
Investment Manager at Adenia



Photos for case study supplied by Ergon and Adenia IV