

# Illovo Sugar Africa

Kilombero Sugar Company Socio-  
Economic Impact Assessment

Internal Management Report

October 2017

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# Executive Summary

Kilombero Sugar Company Limited (KSCL) is a significant contributor to Tanzania’s economy. It plays an important societal role, supporting significant direct and indirect employment in rural areas, providing financial support, technical assistance and capacity building to smallholder farmers, and supporting the Tanzanian government’s development agenda. KSCL is also continuing to reduce its environmental impacts.

This report, for the financial year to March 2017, is an update of a study carried out three years ago by Corporate Citizenship. It sets out key findings from an assessment of KSCL’s socio-economic impacts. The main findings are summarised in the table below. Forward-looking recommendations for the business are provided in a separate, consolidated report on the Illovo Africa group.

**In 2016/17, KSCL’s socio-economic impacts in Tanzania included:**

**Generating economic value**

- KSCL is the largest sugar and agro-industrial company in Tanzania, contributing 42% of national production of sugar. KSC also produces ethanol, and sales have grown over the last three years, with ethanol now accounting for 11% of revenues following completion of the company’s distillery in 2014.
- KSCL’s total economic impact – including direct, indirect and induced impacts – is estimated at ZAR 2.3 billion for 2016/17. This includes ZAR 628 million in direct impacts (gross value added), and the remainder through multiplier effects within the supply chain and wider economy.
- KSCL’s total direct tax payments in 2016/17 amounted to ZAR 93 million, while indirect taxes totalling ZAR 236 million were collected on behalf of the government. KSCL also made payments of ZAR 1,045 million to Tanzanian suppliers, paid ZAR 175 million in salaries, wages and benefits to employees, and made capital investments of ZAR 59 million.

**Creating employment opportunities**

- KSCL is estimated to support at least 4,440 jobs in Tanzania. For each of KSCL’s 2,087 direct employees, at least 1.1 jobs are estimated to be supported through outgrower communities and wider multiplier effects throughout the economy.
- KSCL paid ZAR 175 million in salaries, wages and benefits to employees in 2016/17. The company actively monitors remuneration against local and international benchmarks, with the lowest-paid employee earning 154% of the Tanzania’s sectoral minimum wage in 2016/17.
- We estimate that the direct jobs provided by KSCL contribute to supporting the livelihoods of nearly 9,000 people once families and dependents are taken into account. This is based on an average household size of 4.3 people in Tanzania’s Morogoro Region.

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**Supporting farmer livelihoods**

- KSCL’s supply chain includes 8,000 outgrower farmers, in total supplying about 500,000 tonnes of cane every year. 40% of the sugar cane used by KSCL is supplied by independent farmers; the remaining 60% comes from the company’s own land.
- KSCL is estimated to support 1,613 jobs through outgrower farmers. In addition, the company provides technical and capacity-building support to outgrowers, as well as investment in roads and other infrastructure.

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**Investing in communities**

- KSCL’s community investments totalled ZAR 111,125 in 2016/17. Over 90% of this was spent on education and the rest spent on healthcare initiatives.
- KSCL co-founded the Kilombero Community Charitable Trust, which invests in outgrower infrastructure, water, health and education.

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**Promoting environmental sustainability**

- KSCL manages all of its own farms according to the SusFarMS conservation guidelines, and promotes environmental best practice. Part of KSCL’s land is protected, and is in the process of being declared a national forest reserve.
  - 95% of KSCL’s energy consumption is provided from renewable sources, primarily bagasse. KSCL was responsible for only 6% of the Illovo group’s total carbon emissions in 2016/17, equating to 44,937 tCO<sub>2</sub>e.
  - Around 89% of water withdrawals in KSCL’s non-cane operations are recycled and returned to source. In response to water scarcity issues, KSCL is currently exploring the potential for installing drip irrigation.
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# Introduction

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Illovo Sugar Africa (Pty) Limited (Illovo), a wholly-owned subsidiary of Associated British Foods plc (ABF), is Africa's biggest sugar producer with extensive agricultural and manufacturing operations in six African countries: Malawi, Tanzania, Mozambique, Swaziland, Zambia and South Africa.

As a significant employer, producer of sugar distributed to largely domestic markets and purchaser of agricultural raw materials, Illovo has the opportunity to positively shape the socio-economic fabric of the economies and communities which it is part of.

## About this report

In 2014, ABF commissioned Corporate Citizenship, an independent sustainability consultancy, to undertake a socio-economic impact assessment of Illovo's operations to form a deeper understanding of its impacts. Management reports of the findings were published for all six countries as well as a group consolidated report. These reports are available on Illovo's [website](#).

This report, for the financial year to March 2017, is an update of the study carried out three years ago. It sets out key findings from Corporate Citizenship's assessment and focuses on Illovo's direct socio-economic impact in Tanzania, as well as its indirect and wider impacts through its value chain (outgrowers, suppliers and customers).

Reports for Illovo's operating countries and a group consolidated report have also been developed. Forward-looking recommendations to improve the company's local impacts have also been provided to Illovo's senior management.

## Methodology

Corporate Citizenship's process for this project involved analysing financial and management information provided by each Illovo country team. This was followed by site visits to South Africa, Malawi and Zambia, to visit the operations and their surrounding communities, as well as interview senior management and key stakeholders affected by the business. The stakeholders interviewed varied by country but included sugarcane farmers, small-holder association representatives, employees, trade union representatives, local suppliers, doctors, teachers and other beneficiaries of Illovo's social investment spend. Case studies are based on site visits and interviews.

Corporate Citizenship also conducted its own desk-based research and analysis, but did not visit Tanzania or speak to representatives of KSCL.

The data presented within this report is based on internal financial and management information provided by key personnel within Illovo and has not been audited by Corporate Citizenship.

A detailed methodological note on our approach to estimating total economic impact and employment is available separately (Appendix 1).

## Illovo in Tanzania

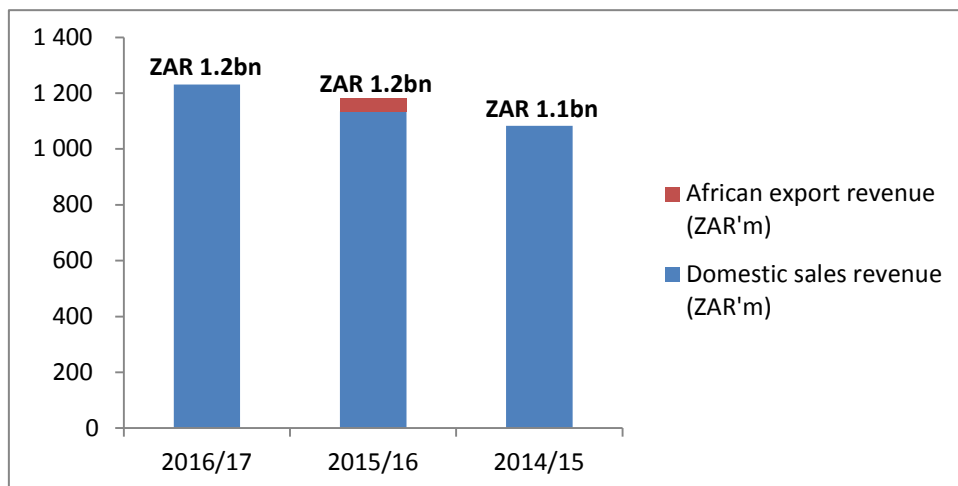
Illovo Sugar Africa operates in Tanzania through its subsidiary, Kilombero Sugar Company Limited (KSCL), the largest agro-industrial company in Tanzania. KSCL is one of four sugar producers in Tanzania, contributing 42% of national production.

Illovo holds 55% of the issued share capital in KSCL while ED&F Man Group, a British commodities trading company owns 20%. The remaining 25% is owned by the Government of the United Republic of Tanzania.

The company operates two agricultural estates and sugar mills, located in the Kilombero Valley, part of the Morogoro region of Tanzania. KSCL’s primary business activities include growing sugarcane and manufacturing sugar and covers 26,000 hectares of sugarcane. Of this 10,000ha is owned and managed by the company and approximately 16,000 ha owned and managed by outgrowers.

Tanzania Country Data (2016 est.) <sup>1</sup>	
<b>Economic Indicators</b>	
GDP (purchasing power parity)	\$150.6 billion
GDP per capita (PPP)	\$3,100
Annual GDP growth rate	7.2%
<b>Labour Market Indicators</b>	
Population	52.5 million
Labour force	27.0 million
By occupation (2004)	Agriculture 67% Industry 6% Services 27%
Population location (2015)	Rural 31.6% Urban 68.4%
Unemployment rate <sup>2</sup>	2.6%
<b>Poverty Indicators</b>	
Population living below \$1.90 per day (2011 PPP) <sup>3</sup>	46.6%
Rural population living below national poverty line (2011) <sup>4</sup>	33.3%
Adult literacy rate	70.6%
Life expectancy at birth	62.2 years

### KSCL: breakdown of sales in the marketplace



KSCL produces brown sugar under the 'Bwana Sukari' brand name, which is marketed and distributed by the company. In 2016/17, KSCL sold sugar solely to consumer and

<sup>1</sup> [CIA World Factbook for Tanzania](#)

<sup>2</sup> World Bank (2016), [Unemployment, total \(% of total labor force\) \(modeled ILO estimate\)](#)

<sup>3</sup> World Bank (2011), [Poverty headcount ratio at \\$1.90 a day \(2011 PPP\) \(% of population\)](#)

<sup>4</sup> World Bank (2010), [Rural poverty headcount ratio at national poverty lines \(% of rural population\)](#)

industrial markets within Tanzania. The company also operates a 12 million litres per annum potable alcohol distillery, which supplies high quality product to local beverage manufacturers. In 2016/17, the company produced 12.5 million litres of ethanol, all of which was sold in Tanzania – accounting for 11% of revenues.

# Section 1: Generating economic value

## Headline messages:

- KSCL's total economic impact – including direct, indirect and induced impacts – is estimated at ZAR 2.3 billion for 2016/17. This includes ZAR 628 million in direct impacts (gross value added), and the remainder through multiplier effects within the supply chain and wider economy.
- KSCL is estimated to support at least 4,440 jobs in Tanzania. For each of KSCL's 2,087 direct employees, at least 1.1 jobs are estimated to be supported through outgrower communities and wider multiplier effects throughout the economy.
- KSCL's total direct tax payments in 2016/17 amounted to ZAR 93 million, while indirect taxes totalling ZAR 236 million were collected on behalf of the government. KSCL also made payments of ZAR 1,045 million to Tanzanian suppliers, paid ZAR 175 million in salaries, wages and benefits to employees, and made capital investments of ZAR 59 million.

## Overview

- KSCL makes a valuable contribution to Tanzania's economy. Due to the relative labour intensity of sugar production, compared to other agricultural crops, as well as the large number of smallholder farmers in the value chain, the economic multiplier effects are significant. Much of this is felt by the rural populations, who grow and harvest the sugar cane, as well as the supporting industries that supply to Illovo and small local businesses that have grown around the sugar estates (e.g. transportation, retail and food).
- KSCL produced 132,000 tonnes of sugar (9% of the group's total sugar production) in 2016/17. Sugar production has stayed relatively constant over the last three years, while production of ethanol has increased since completion of the distillery in 2014.
- Revenues have increased significantly over the last three years, and were ZAR 1.4 billion in 2016/17, compared to the ZAR 700 million for 2012/13 reported in our last study. KSCL is investing in future growth, and payments to Tanzanian suppliers and the government are increasing.
- KSCL's contribution to the economy of Tanzania has been estimated below in terms of gross value added. The company has impacts on a wide range of stakeholders in the local community and the wider economy, through three main channels:
  - **Direct** impacts, through KSCL's direct employment of workers on farms and in factories, as well as tax payments, interest spending, shareholder dividends, investments and other payments;
  - **Indirect** impacts in the value chain, through sourcing sugar cane from farmers and payments to suppliers and distributors, as well as impacts on those selling Illovo products or using them in their businesses;

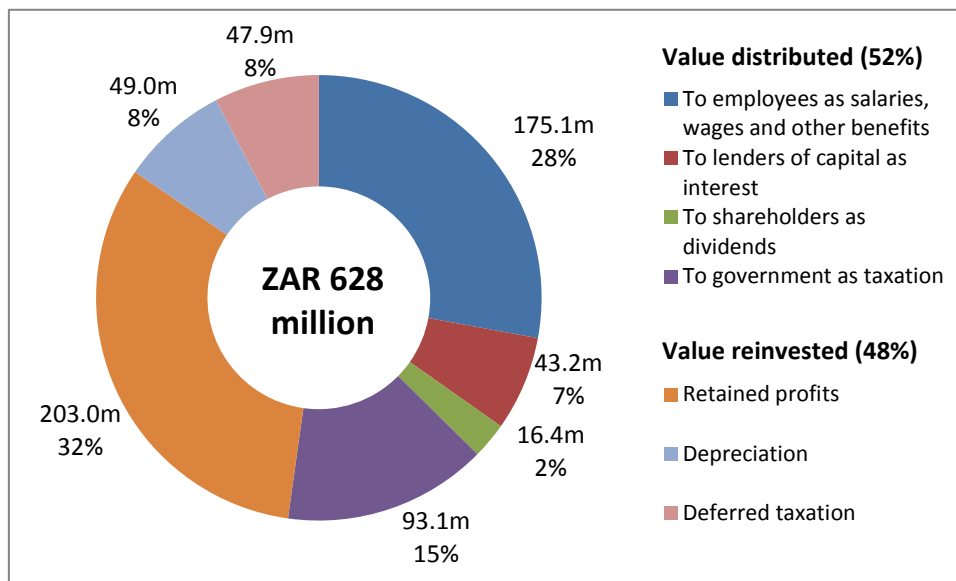


- o **Induced** impacts, through spending by direct and indirect employees, leading to increased consumption and employment elsewhere in the economy.
- Additional, secondary impacts that result from KSCL’s presence in Tanzania include the provision of infrastructure such as roads, water, schooling and healthcare. These are described in this report, but are not quantified financially.

## Creating economic value

- KSCL’s direct contribution to the economy of Tanzania, measured in terms of gross value added, was ZAR 628 million in 2016/17. This number is calculated as the difference between revenues and outgoings, and is a measure of the company’s contribution to GDP. 52% was distributed to stakeholders – including employees, government and other shareholders – while 48% was retained in the business.
- The sugar industry in southern Africa is noted in a number of studies for its large multiplier effects<sup>5</sup>. KSCL’s total economic impact – including direct, indirect and induced impacts – is estimated at ZAR 2.3 billion for 2016/17. This is the equivalent of about 0.4% of Tanzania’s GDP<sup>6</sup>, or about 1.6% of the size of Tanzania’s agricultural sector<sup>7</sup>.

### KSCL: Direct economic impact, 2016/17 (distribution of gross value added)

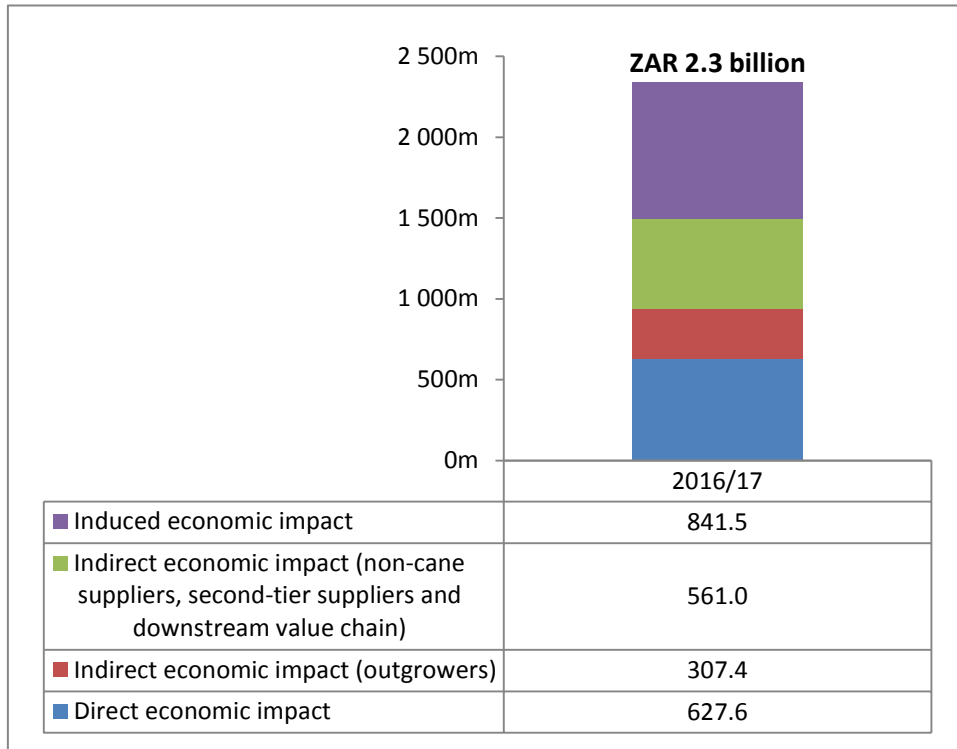


<sup>5</sup> This is due to the relative labour intensity of production as well as the large number of smallholder farmers in the value chain. Sugar cane must be milled as soon as possible after harvesting, meaning significant economic impacts are felt by rural populations. As well as consuming inputs such as fertiliser, fuel and mechanical equipment, sugar provides opportunities to sectors such as transport, retailing and hospitality, food and beverages. For further details, see Appendix 1.

<sup>6</sup> [IMF World Economic Outlook Database](#), South Africa gross domestic product, current prices, 2016

<sup>7</sup> [CIA World Factbook for Tanzania](#), GDP - composition, by sector of origin

**KSCL: Total economic impacts in Tanzania (estimated), 2016/17**

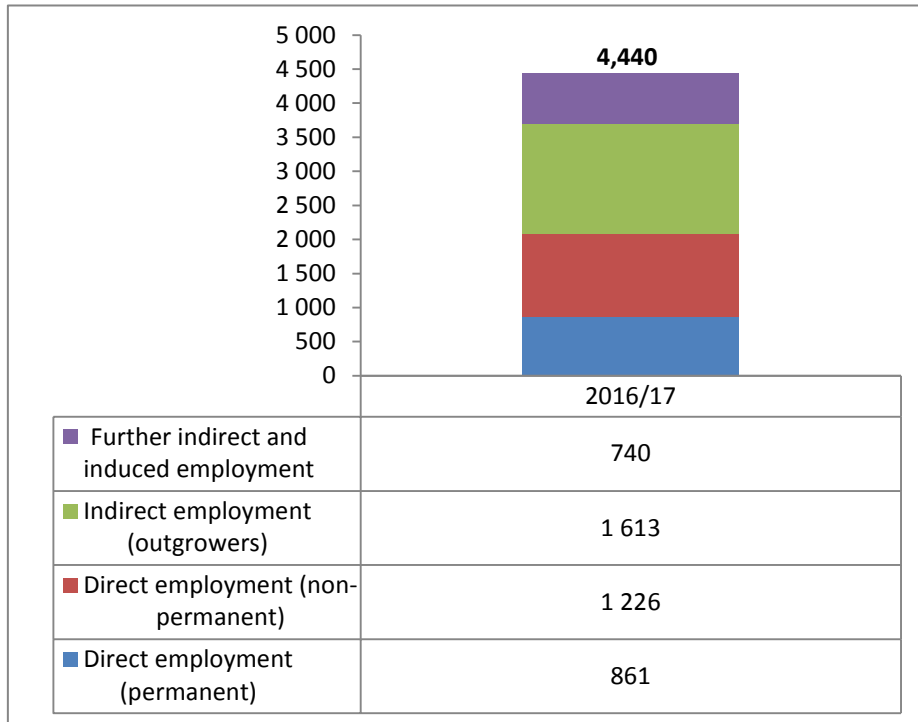


## Total employment impacts

- While KSCL’s direct employment impact is important, it also has a significant indirect employment impact, with many more jobs supported in the value chain.
- KSCL is estimated to support at least 4,440 jobs in Tanzania. This includes permanent employment of 861, non-permanent (including peak seasonal/fixed contract) employment of 1,226, and an estimated 1,613 people whose employment is supported through outgrower farms. In addition, indirect and induced employment, based on a conservative multiplier for the sugar industry, is estimated to be at least 740<sup>8</sup>.
- In other words, for every direct employee of KSCL, at least 1.1 workers are supported in the wider economy.
- Based on an average household size of 4.3 people in Tanzania’s Morogoro Region (see Appendix 1), KSCL is estimated to contribute to supporting the livelihoods of at least 8 people for every direct employee of the company. The amount to which Illovo supports livelihoods will vary between households – for some, such as direct employees and outgrowers, KSCL may well be the main contributor to household income, while in others KSCL’s support will be a factor among many.

<sup>8</sup> Multipliers sourced from Conningarth Economists (2013), *Growing the Sugar Industry in South Africa*, National Agricultural Marketing Council. See Appendix 1 for a further explanation.

**KSCL: Total employment impacts in Tanzania (estimated), 2016/17**



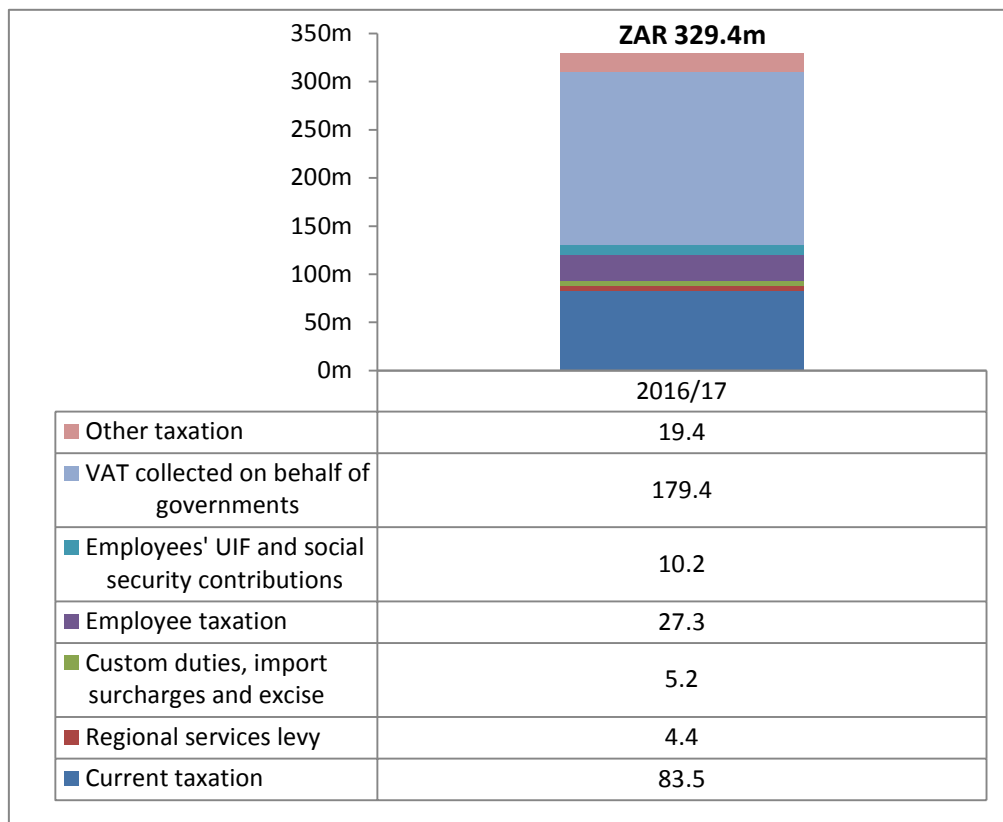
### Investing in the future

- KSCL’s last major investment was in its ZAR 350 million ethanol distillery, commissioned in 2013 and completed in 2014. Since then, KSCL’s capital expenditure has totalled ZAR 111 million. Currently, the company has no major investments in the pipeline.

## Contributing to public finances

- KSCL’s total direct tax payments in 2016/17 amounted to ZAR 93 million, while indirect taxes totalling ZAR 236 million were collected on behalf of the government. Indirect taxation includes sales tax (VAT) and employee taxes. The total represents a more than 400% increase on total tax payments just four years previously (as reported in our last study), reflecting growing revenues and profits.
- As a shareholder in KSCL, the government of Tanzania also receives dividends from KSCL through its 25% stake in the company (see above).

### KSCL tax payments, 2016/17

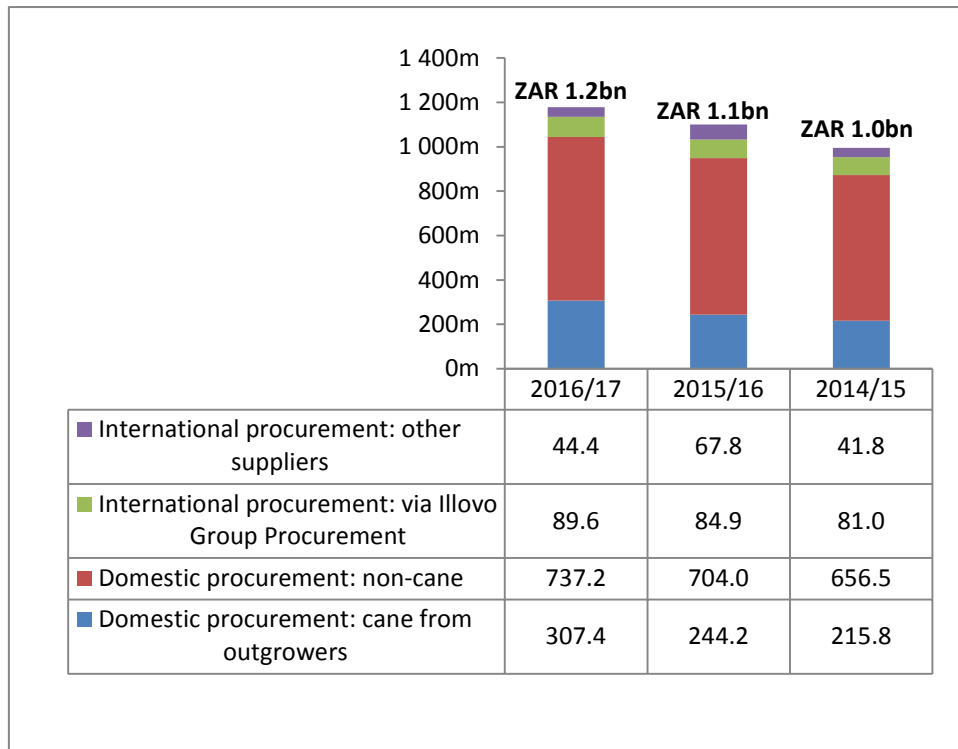


## Spending with suppliers

- In 2016/17, KSCL spent nearly ZAR 1.2 billion with suppliers. 89% of this was spent with suppliers in Tanzania. Supplier spending has grown significantly since our last study, reflecting the growth in the business. KSCL spent over twice as much with Tanzanian suppliers in 2016/17 than in 2012/13.
- Spending with Tanzanian suppliers includes ZAR 307 million (26%) on sugar cane from outgrower farmers (see Section 3), and ZAR 737 million (63%) with other Tanzanian (non-cane) suppliers. Some of the biggest categories of non-cane sourcing from Tanzanian suppliers include agricultural inputs, packaging and chemicals.

- KSC’s spending with Tanzanian suppliers includes 7 small-scale suppliers from villages immediately surrounding its estate. KSC promotes the purchasing of goods and services from local suppliers, where they offer more competitive prices, but no preferential terms are offered. The company’s policies to promote purchases from small-scale suppliers are currently under review.

**KSCL supplier spending, 2014/15 - 2016/17**



## Section 2: Creating employment opportunities

### Headline messages:

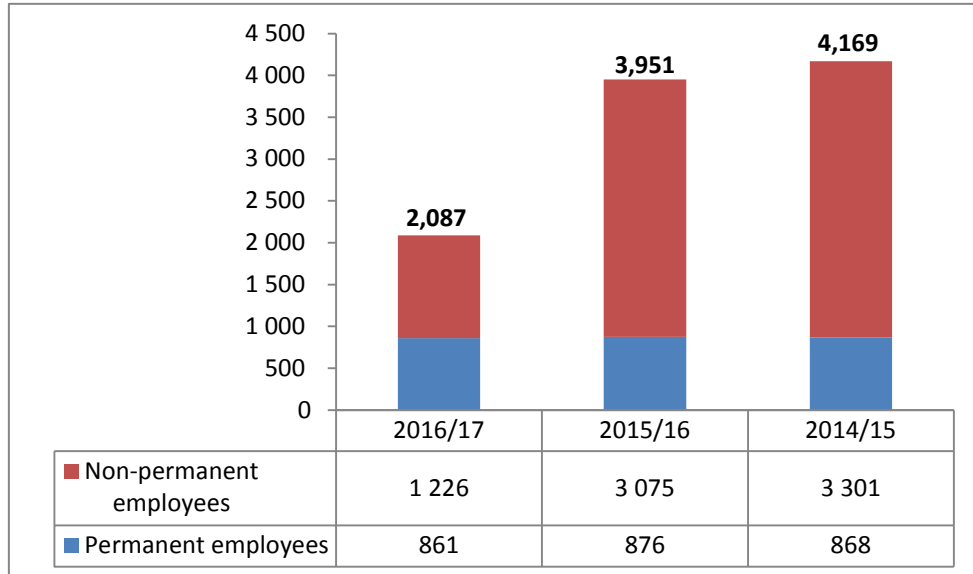
- KSCL employs 2,087 people directly in Tanzania, of which 861 are permanent and 1,226 are non-permanent. Based on average household sizes, we estimate that through this direct employment, KSCL contributes to supporting the livelihoods of nearly 9,000 employees and dependents.
- KSCL paid ZAR 175 million in salaries, wages and benefits to employees in 2016/17. The company actively monitors remuneration against local and international benchmarks, with the lowest-paid employee earning 154% of the Tanzania's sectoral minimum wage in 2016/17.
- KSCL provides healthcare and housing on its estate to employees and their dependents, and has made employee safety a major focus of training. The lost time injury rate has decreased over the last three years.

### Overview

- Our assessment finds that KSCL continues to be an important direct and indirect employer in Tanzania. What is also important is the quality of jobs provided. For example, ensuring that employees receive a fair wage, have representation and collective bargaining rights, as well as access to training and development to help them progress in their careers.
- KSCL provided employment for 861 permanent employees and 1,226 seasonal agricultural workers at peak periods in 2016/17. Illovo Sugar Africa is committed to ensuring employees receive a fair wage and since our last assessment has started to conduct annual market salary surveys to ensure pay and benefits in each country are monitored. KSCL provides a comprehensive range of benefits, going above and beyond statutory requirements. Illovo values its seasonal workers and takes measures to ensure its labour standards and working conditions protect their human rights.

## Direct employment

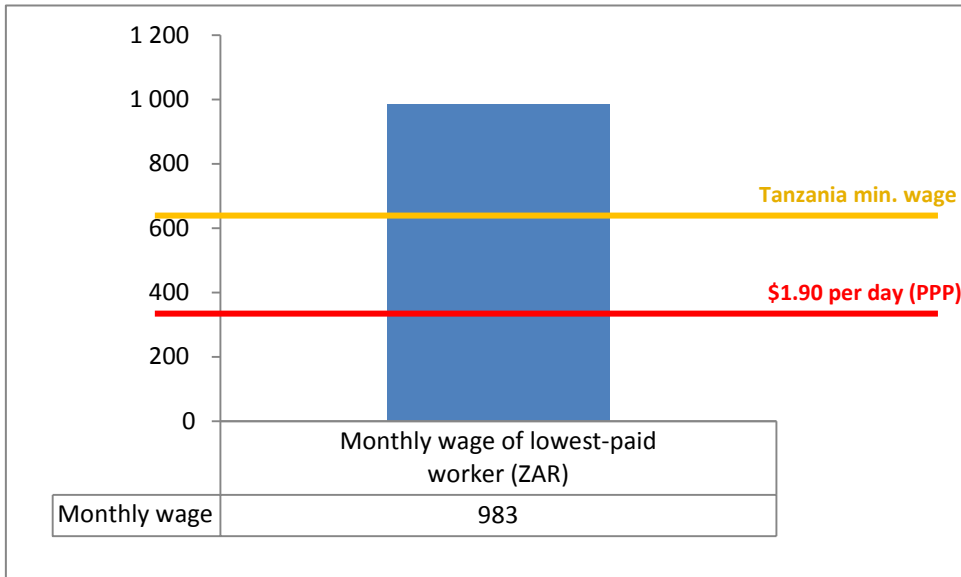
**KSCL: Direct employment, 2016/17**



- The 2,087 people directly employed by KSCL in 2016/17 includes 861 permanent employees, and 1,226 peak non-permanent/seasonal employees. Permanent employment by KSCL has remained constant over the past three years, while the number of non-permanent employees has fallen considerably.
- We estimate the direct jobs provided by KSCL contribute to supporting the livelihoods of nearly 9,000 people once families and dependents are taken into account. This is based on an average household size of 4.3 people in Tanzania’s Morogoro Region <sup>9</sup>.
- KSCL paid a total ZAR 175 million to employees in 2016/17, which is spread across direct salaries and wages and other benefits. All employees are compensated above the standard minimum wage, with the entry wage standing at 154% of Tanzania’s sectoral minimum wage for agricultural last year, and significantly higher than the World Bank poverty line of \$1.90 dollars per day.
- KSCL has a collective bargaining agreement in place with its workers’ trade union, and wages are bargained annually.

<sup>9</sup> See Appendix 1 for an explanation of the multipliers used.

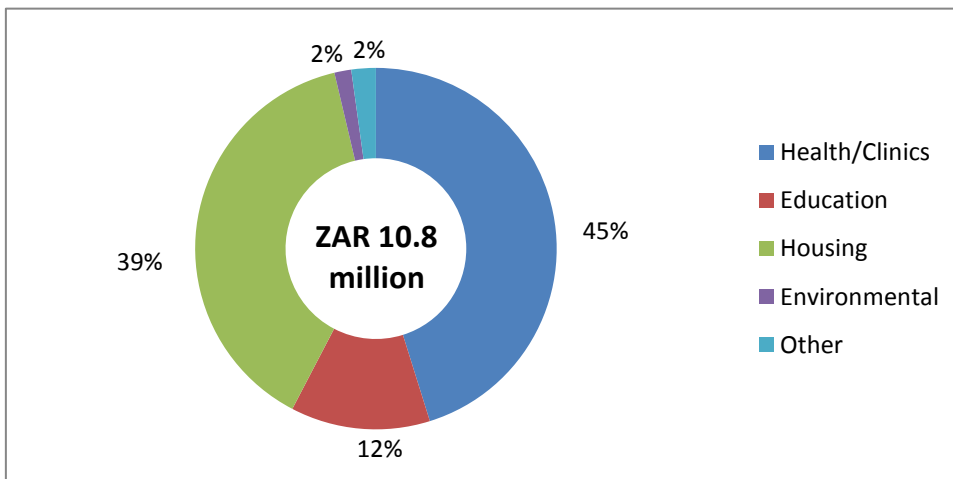
**KSCL: Monthly minimum wages, 2016/17**



**Employee livelihoods**

- KSCL employees are entitled to a number of different benefits in addition to their salaries. There is a hospital on KSCL’s estate, and a doctor who conducts meetings with employees and annual medical examinations. The hospital benefited 406 employees and 345 dependents in 2016/17, as well as 35,229 paying community members. KSCL provides awareness and voluntary counselling programmes for HIV/AIDS, and also runs a Malaria prevention intervention programme through mosquito spray campaigns.
- KSCL also provides housing on the company estate, which benefited 1,864 employees, 5,750 dependents and 724 non-employees in 2016/17.
- In total, the benefits provided to employees in Tanzania in 2016/17 sum to ZAR 10.8 million.

**KSCL: Employee benefits 2016/17**





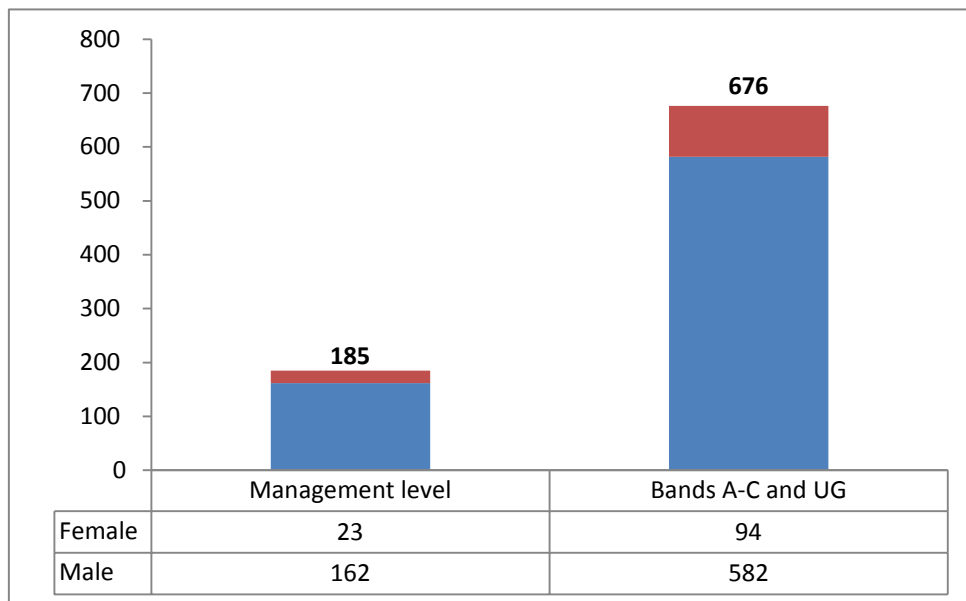
## Human rights and labour standards

- Through established collective bargaining agreements with unions and in house country dispute resolution mechanisms, employees are able to raise grievances through formal means. 78% of KSCL’s employees are covered by collective bargaining agreements.
- Monthly consultative meetings are held between union representatives and KSCL, to discuss business and employee matters.
- KSCL has made employee safety a major focus, and invested ZAR 552,000 in safety training in 2016/17. The lost time injury frequency rate has decreased from 0.10 LTIs per 200,000 hours worked in 2014/15 to 0.07 in 2016/17, which is well below the target of 0.15 set by the group.
- All new employees of KSCL are trained on child labour, forced labour and other human rights issues as part of their induction. New managers are also required to sign a compliance form, in line with Illovo Group’s Code of Conduct and Business Ethics.

## Gender diversity

- KSCL has 117 permanent female employees, representing only 14% of the total permanent employee base, and 12% of management positions.
- KSCL aims to encourage women to apply for all open positions, but struggles to recruit them. Those who join the company and show potential to grow are fast-tracked for training and development. The company is currently exploring plans to improve women’s empowerment in the business.

**KSCL: Permanent workforce by role and gender, 2016/17**



## Training and development

- KSCL invested ZAR 4 million in training and development in 2016/17, engaging 3,719 trainees, with most employees being involved in more than one course.. The company has made major investments in courses for superintendents and agricultural supervisors, as well as offering courses in sugarcane agriculture by the South African Sugarcane Research Institute (SASRI) to managers.
- KSCL offers a Management in Training programme, as well as other courses aimed at increasing managerial skills.
- The company also provides apprenticeship programmes, with six apprentices currently including mechanics, electricals and millwrights. KSCL also sponsors students through continuation of studies programmes in engineering and other related subjects.

## Section 3: Supporting farmer livelihoods

### Headline messages:

- KSCL's supply chain includes 8,000 outgrower farmers, in total supplying about 500,000 tonnes of cane every year. 40% of the sugar cane used by KSCL is supplied by independent farmers; the remaining 60% comes from the company's own land.
- KSCL is estimated to support 1,613 jobs through outgrower farmers. In addition, the company provides technical and capacity-building support to outgrowers, as well as investment in roads and other infrastructure.

### Overview

- Some of KSCL's most significant economic and social impacts are made through the agricultural supply chain. KSCL's purchases of sugar cane support employment and incomes in rural areas, where 33% of the Tanzanian population lives below the national poverty line<sup>10</sup>.
- 40% of the sugar cane used by KSCL is supplied by independent farmers from the areas surrounding the company's mills – the remaining 60% comes from the company's own land. Investments in factory capacity and outgrower development – including donor-funded roadbuilding – have enabled KSCL to more than triple the amount of cane delivered by outgrowers since 1999.
- Since our last report, Illovo has increased its strategic focus on outgrowers through a new "optimise outgrowers" scheme. Each country is developing a strategic action plan on outgrower development. While this is still in its early stages, the initiative will help Illovo to develop a longer-term approach to securing its future supply of cane and improving outgrower livelihoods.

### Outgrower sourcing

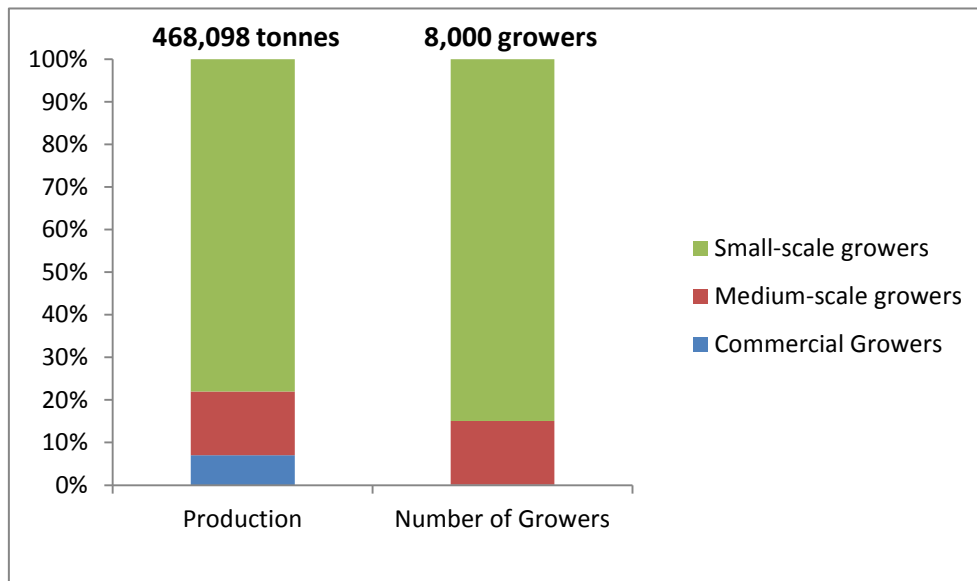
- KSCL sources from over 8,000 registered growers in the local region, in total supplying around 500,000 tonnes of cane every year. This includes 6,792 small-scale farmers (occupying less than 20 hectares of land each), distributed among 17 registered associations.
- Together, smallholders account for 78% of outgrower production. An additional 15% is supplied by medium-scale growers (occupying between 20 and 40.5 hectares of land), with the remaining 7% supplied by large-scale commercial farms.
- The high proportion of cane supplied by smallholders is almost unique among companies within the Illovo Sugar Africa. Other than Illovo Malawi, where all

<sup>10</sup> World Bank (2010), [Rural poverty headcount ratio at national poverty lines \(% of rural population\)](#)

outgrower cane is supplied by smallholders, KSCL is the only company in the Group where commercial farms account for the minority of outgrower supply.

- KSCL has mobilised donor funding in order to build and rehabilitate a total of 150km of roads, enhancing outgrowers’ cane production and supply. Combined with investments in factory capacity, which have provided a more reliable market for cane growers, this has led to outgrower supply more than tripling from 140,000 tonnes of cane in 1999.

**KSCL: Outgrower sourcing, 2016/17**



## Supporting outgrower employment

- KSCL supports significant indirect employment through outgrower farmers. The number of jobs has been estimated, using employment on Illovo’s own farms as a proxy, at 1,613<sup>11</sup>.
- Based on an average household size of 4.3 people in Tanzania’s Morogoro Region (see Appendix 1), Illovo is estimated to contribute to supporting the livelihoods of 6,937 people through its sourcing of sugar cane from outgrowers in Tanzania.
- In general, sugar is noted for its contribution to female employment<sup>12</sup>. In KSCL’s case, the company estimates that 31% of outgrower employees are women. This compares to a proportion of just 11% for KSCL’s own agricultural employees. A number of NGOs work with local outgrower associations to promote awareness of gender issues.

<sup>11</sup> Combining KSCL’s permanent agricultural employment of 322 with peak seasonal agricultural employment of approximately 886 gives an estimate of 0.13 jobs per hectare harvested. This is slightly below estimates by the South African sugar industry and Conningarth Economists (see Appendix 1) of between 0.17 and 0.23 jobs per hectare, so may be considered a conservative estimate.

<sup>12</sup> Levin and Mhamba (2007) – see Appendix 1.

## Payments to outgrowers

- KSCL pays outgrowers according to the sucrose content of their delivered cane. The division of proceeds from the milled sugar is negotiated through a Cane Supply Agreement for each season between KSCL and the outgrower associations. In 2016/17, outgrowers received an average of ZAR 597 per tonne of sugarcane.
- KSCL estimates that workers on outgrower farms receive a salary of ZAR 765 per month – above the monthly minimum wage for the industry of ZAR 676.

## Supporting smallholder farmers

- KSCL provides cane supply support and extension services to smallholders, at an annual cost of about ZAR 2 million. In addition, KSCL has invested ZAR 5.6 million in infrastructure, benefiting all 8,000 outgrowers, and provides organisational capacity-building support to the leaders of outgrower associations and groups.
- Outgrowers also benefit from KSCL's investments in health and education. About 3,500 outgrower employees are estimated to benefit from KSCL's healthcare provision, including the hospital on the company's estate, and 1,600 benefit from investments in education.
- KSCL has obtained support from international NGO network Solidaridad for two particular projects to support smallholders' productivity. The first is the development of a mobile application to be used for capacity building with growers. The second is a detailed soil survey of outgrower areas.
- KSCL was the co-founder of the Kilombero Community Charitable Trust (see Section 4), which mobilises donor funding for outgrower capacity-building programmes, including technical and business understanding programmes, as well as social services. KSCL also contributes to the sugar industry development fund which finances the Sugar Research and Training Institute in Tanzania. The Institute conducts research, training and technological transfer aimed at small scale farmers.

## Human rights and labour standards

- The seasonal nature of the agricultural industry means a heightened risk of labour abuses such as low wages or dangerous working conditions. KSCL estimates that about 37% of outgrower workers are seasonal or migrant labourers. In order to mitigate human rights risks, all Illovo cane procurement staff have been trained on the Illovo Code of Conduct, land rights and human rights. This is applied in grower engagements, and grower union leadership have been specifically informed of Illovo's policies.
- Illovo's Code of Conduct and Business Ethics is written in line with the UN Guiding Principles on Business and Human Rights, the International Bill of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. It commits Illovo to supporting and respecting human rights, and requires all suppliers to do the same.

## Land rights

- Since our last assessment, the issue of land rights has continued to rise in importance, both globally and in southern Africa in particular. Illovo has responded by developing a more formalised approach through the development of its [Guidelines on Land and Land Rights](#), which commit Illovo to a zero tolerance approach to land grabs, and require that all suppliers do likewise.
- Illovo has brought in external stakeholders as part of a Land Policy Roundtable committee. Illovo is working in partnership with NGO experts, such as Landesa, a non-profit organisation that partners with governments and local organisations to secure legal land rights for the world's poorest communities and Malawi's LandNet, a network of local organisations and international NGOs which deals with land issues, to establish leading practices on land rights.
- A new project launched in 2016 in partnership with Landesa, the Commitment to Practice project (C2P), aims to enhance and pilot the Grow Africa Analytical Framework for Land Based Investments, a due diligence framework for land rights assessments on Illovo's estates and supply chain in Mozambique, Malawi and Tanzania.
- KSCL does not do business with any grower involved in land disputes, until the dispute has been settled. The implementation of the new land rights assessment framework, in partnership with Landesa, will be done in line with the Tanzanian government's land reform programme. KSCL is encouraging all growers on village lands to participate in the programme and obtain a Certificate of Customary Right of Occupancy.

## Section 4: Investing in communities

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**Headline messages:**

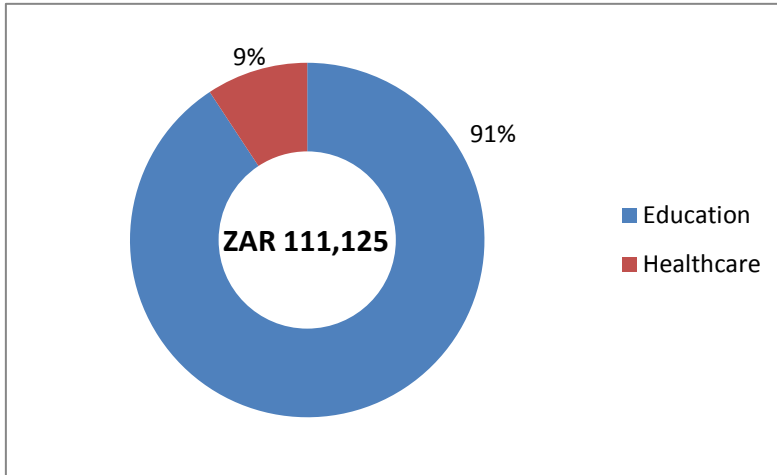
- KSCL’s community investments totalled ZAR 111,125 in 2016/17. Over 90% of this was spent on education and the rest spent on healthcare initiatives.
- KSCL co-founded the Kilombero Community Charitable Trust, which invests in outgrower infrastructure, water, health and education.

### Overview

- KSCL invested over ZAR 111,125 in supporting the local communities in and around its operations in 2016/17. The majority of this is spent on education projects and a small proportion on health. Employee-related benefits (Section 2) and outgrower development spending (Section 3) are excluded from this total.
- Stakeholders have raised a number of key issues faced by the communities in and around KSCL’s operations. A key issue is community access to formal land rights. This would provide collateral for communities to access bank credit facilities for poverty alleviation initiatives.
- KSCL’s community investment is largely directed at outgrowers, although much of the support provided benefits wider communities. In 2003, in partnership with Unitrans Tanzania, KSCL co-founded the Kilombero Community Trust to uplift and empower its local communities. In 2012 the Trust was re-registered as Kilombero Community Charitable Trust, a non-governmental, non-profit organisation. The Trust mobilises donor funding for the construction of classrooms, dormitories and toilets in addition to capacity building programmes for outgrowers.

## Community citizenship & social investment

### Illovo Tanzania: Total investment in the community, 2016/17



- KSCL supplies and maintains electrical and building materials for five local primary schools, three day care centres and two secondary schools. In addition the company provides 14 Primary schools and six secondary schools with books and other educational materials for students.
- KSCL provides potable water, electricity and other municipal services to over 1,800 housing units accommodating some 10,000 people. Services include a chlorination plant for supply of clean and safe water, two water stabilization ponds catering for sewage.
- Other investments include two health clinics, a 90 bed hospital, two police stations and two primary court buildings in the townships surrounding KSCL's two sugar factories. This infrastructure benefits communities of about 10,000 people inside estate community and another 10,000 people outside estate community.



## Section 5: Promoting environmental sustainability

### Headline messages:

- KSCL manages all of its own farms according to the SusFarMS conservation guidelines, and promotes environmental best practice. Part of KSCL's land is protected and is in the process of being declared a national forest reserve.
- 95% of KSCL's energy consumption is provided from renewable sources, primarily bagasse. KSCL was responsible for only 6% of the group's total carbon emissions in 2016/17, equating to 44,937 tCO<sub>2</sub>e.
- Around 89% of water withdrawals in KSCL's non-cane operations are recycled and returned to source. In response to water scarcity issues, KSCL is currently exploring the potential for installing drip irrigation.

### Overview

- Since our last assessment, Illovo has continued to focus on embedding high standards of environmental sustainability into the business, underpinned by a culture of continuous improvement. Promoting environmental best practice is closely linked with KSCL's social and economic impacts. Environmental issues have a direct impact on the quality and productivity of land, and affect the livelihoods of farmers, workers and the wider community.
- Sugar cane cultivation is associated with a number of environmental impacts, in particular water, a resource that must be carefully managed. KSCL has experienced significant differences in rainfall and river levels in different years. This has an impact not only on KSCL's ability to irrigate crops, but on outgrowers, whose crops are solely rain-fed. KSCL is currently exploring the potential for installing drip irrigation, which is more effective and efficient in terms of water and electricity use.
- Sugar cane offers excellent opportunities for the production and use of renewable energy, generated using bagasse – the renewable fibrous residue that remains after sugar cane crushing – and other biomass. By producing its own renewable energy, KSCL can cut costs and reduce reliance on the national grid, while helping to mitigate the impacts of climate change.

### Land & biodiversity

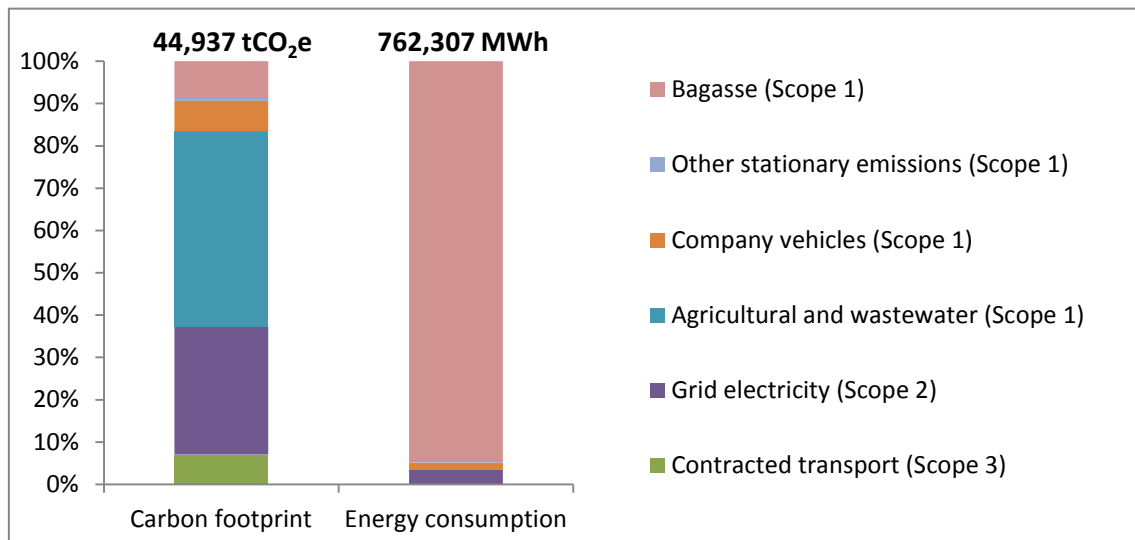
- KSCL manages all of its own land according to the SusFarMS conservation guidelines. SusFarMS was pioneered by the growers association that supports Illovo South Africa's Noodsberg mill, in partnership with WWF. The Group Agricultural Operational Support Function conducts follow-up SusFarMS audits as part of internal agricultural reviews.

- KSCL owns 14,921 hectares of land, of which 10,000 hectares is under cane. 1,260 hectares has been preserved as pristine natural forest, and is in the process of being declared a national forest reserve.

## Energy and climate change

- A number of studies have predicted positive impacts of climate change on sugarcane yields in southern Africa. However, these also note the uncertainty of predicting future rainfall patterns, such as more intense rainfall with longer dry spells<sup>13</sup>. For KSCL, there are significant benefits in the short- and medium-term from improving the energy and water security of company operations and suppliers.
- The opportunities for renewable energy generation afforded by the sugar production process allow KSCL to minimise its carbon footprint. Energy use primarily takes place during the cane-crushing season, meaning that the company has a ready supply of renewable fuel. 95% of KSCL’s energy consumption is provided from renewable sources – primarily bagasse (376,000 tonnes in 2016/17), supplemented by a very small amount of wood.
- KSCL was responsible for only 6% of the Illovo Africa’s total carbon emissions in 2016/17, due to its high level of self-sufficiency in renewable power generation from bagasse. The company is also actively managing its fleet emissions and monitors bagasse moisture to ensure that it burns cleanly.

### KSCL: Carbon footprint and energy consumption, 2016/17

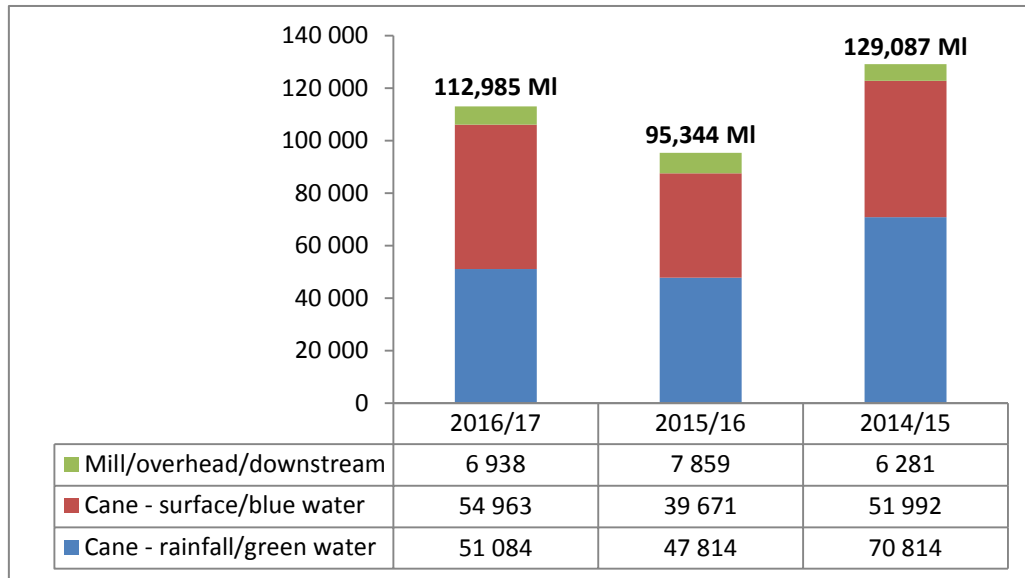


<sup>13</sup> See Jones MR and Singels A (2014), *A preliminary assessment of mid-century climate change impacts on sugarcane production in South Africa*.

## Water and waste

- Water is a vital resource both for Illovo’s operations and surrounding communities, meaning that responsible management is a business imperative. Total water consumption has stayed relatively constant over the last three years<sup>14</sup>.

**KSCL: water consumption (megalitres), 2014/15 - 2016/17**



- In addition to the water used in KSCL’s own operations, the company supplies water to the two villages close to its sugar factories. Water is provided to about 10,000, and services include a chlorination plant for supply of clean and safe water, and two water stabilisation ponds catering for sewage.
- The water consumption footprint of Illovo’s factories is generally neutral, with most water requirements for the sugar manufacturing process sourced from the cane itself. Much of the additional water is recycled and used for irrigation, in order to reduce the requirement for water abstraction. In 2016/17, KSCL’s mills and other non-cane operations withdrew 60,576 megalitres of water. Of this, approximately 89% was recycled and returned to source.
- KSCL has implemented procedures for waste management and segregation of waste. Plastic and cardboard are recycled, while scrap steel is sold to local businesses for recycling.

<sup>14</sup> It is important to note that while all of the water used on KSCL’s farms is accounted for as water “consumption”, in reality much of it is returned to the same catchment. This therefore reflects a level of over-reporting on water consumption, as noted in Illovo’s environmental assurance statements.

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