

Illovo Sugar Africa

Illovo Sugar (Malawi) plc Socio-Economic
Impact Assessment

Internal Management Report

October 2017

Contents

Executive Summary	1
Introduction.....	4
Section 1: Generating economic value.....	8
Section 2: Creating employment opportunities	14
Section 3: Supporting farmer livelihoods	20
Section 4: Investing in communities	26
Section 5: Promoting environmental sustainability.....	29
Section 6: Sugar in the marketplace	34
Recommendations and challenges	36

Executive Summary

Illovo Sugar (Malawi) plc (Illovo Malawi) is a significant contributor to Malawi’s economy. The company 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 Malawian government’s development agenda. Illovo Malawi is also a significant producer of renewable energy and continues to reduce its environmental impacts.

This report is an update of a study carried out three years ago by Corporate Citizenship. It sets out key findings from an assessment of Illovo Malawi’s socio-economic impacts, and provides forward-looking recommendations for the business. The main findings are summarised in the table below.

In 2016/17, Illovo Malawi’s socio-economic impacts in Malawi included:

Generating economic value	<ul style="list-style-type: none"> • Illovo Malawi is Malawi’s primary sugar producer. Over the last two years there has been an increasing proportion of sales into domestic and other African markets. • Illovo Malawi’s total economic impact – including direct, indirect and induced impacts – is estimated at ZAR 2.3 billion for 2016/17. This includes ZAR 0.7 billion in direct impacts (gross value added), and the remainder in indirect and induced impacts through multiplier effects within the supply chain and wider economy. • Illovo Malawi’s total direct tax payments in 2016/17 amounted to ZAR 8 million, while indirect taxes totalling ZAR 170 million were collected on behalf of the government. Illovo Malawi also made payments of ZAR 2.1 billion to Malawian suppliers, paid ZAR 423 million in salaries, wages and benefits to employees, and made capital investments of ZAR 101 million.
Creating employment opportunities	<ul style="list-style-type: none"> • Illovo Malawi is estimated to create and support at least 14,100 jobs in the country. For each of Illovo Malawi’s 9,427 direct employees, at least 0.5 jobs are estimated to be supported through outgrower communities and wider multiplier effects throughout the economy. • The company paid ZAR 423 million in salaries, wages and benefits to employees in 2016/17. It actively monitors remuneration against local and international benchmarks, with the lowest-paid employee earning 192% of the local minimum wage in 2016/17. • We estimate that the direct jobs provided by Illovo Malawi contribute to supporting the livelihoods of 42,422 people once families and dependents are taken into account. This is based on an average household size of 4.5 people in rural Malawi¹.
Supporting farmer livelihoods	<ul style="list-style-type: none"> • Illovo Malawi’s supply chain includes 2,746 outgrower farmers, in total supplying around 400,000 tonnes of cane every year. 17% of the sugar cane used by Illovo is supplied by independent farmers, the remaining 83% comes from the company’s own land. Illovo Malawi is unique among the six companies of the Illovo Group in that all of these

¹ See Appendix 1 for an explanation of the multipliers used.

	<p>outgrowers are smallholder farmers, as opposed to large, commercially-based outgrowers.</p> <ul style="list-style-type: none"> • Illovo Malawi is estimated to support nearly 2,400 jobs through outgrower farmers. In addition, the company provides significant technical, financial and capacity-building support to outgrowers worth over ZAR 100,000 per year. Illovo Malawi estimates that 1,500 outgrowers benefited from these services in 2016/17. • Illovo Malawi is one of the first companies to pilot the due diligence framework on land rights being developed by Illovo Sugar Africa in partnership with Landesa, a nonprofit organisation that partners with governments and local organisations to secure legal land rights for world’s poorest communities . Illovo Malawi is already applying the Illovo Land Guidelines to legacy land disputes in the local area, in order to find workable solutions.
<p>Investing in communities</p>	<ul style="list-style-type: none"> • Illovo Malawi’s community investments totalled ZAR 4.3 million in 2016/17. The majority of this investment went towards healthcare initiatives, supporting key programmes such as disease prevention and treatment. • Illovo Malawi is investing in initiatives that will benefit the community for a number of years to come. In 2016/17, the company built education facilities that supported outreach to 13,000 students, provided drinking water facilities as well as community policing services.
<p>Promoting environmental sustainability</p>	<ul style="list-style-type: none"> • Illovo Malawi manages all of its own land according to the SusFarmS environmental management system, which was pioneered by growers supplying sugarcane to Illovo South Africa’s Noodsberg mill, in partnership with WWF. • 91% of Illovo Malawi’s energy consumption is provided from renewable sources, primarily bagasse. • In 2016/17, at least 69% of water withdrawal by Illovo Malawi’s factories was recycled and returned to source. In response to recent droughts, Illovo Malawi is planning investments into drip irrigation, which aim to reduce the company’s water and energy demands.
<p>Responsible practices in the market place</p>	<ul style="list-style-type: none"> • Illovo Malawi spent ZAR 21 million on fortification last year leading to 110,126 tonnes of sugar fortified with Vitamin A, reaching an estimated 2 million people. • Illovo has a significant downstream economic impact, through the 20,000 small retailers who sell Illovo products within Malawi. The associated economic and employment impacts are captured within the multiplier estimates in Section 1. • Illovo Malawi supports small businesses selling its products through commission-based incentives for achieving monthly targets, in store promotions and advertising materials.

Our full recommendations for further enhancing Illovo's impacts are set out at the end of the report. These include a programme of focussed engagement amongst community stakeholders, particularly outgrower communities; a more structured approach to assessing and prioritising community needs; and exploring advocacy opportunities with the government and NGOs for shared value outcomes.

Introduction

Illovo Sugar Africa (Pty) Ltd (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 Malawi, as well as its indirect and wider impacts through its value chain (outgrowers, suppliers and customers). Recommendations for further enhancing Illovo Malawi's impacts are set out at the end of the report.

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. Corporate Citizenship also conducted its own desk-based research and analysis. Case studies are based on site visits and interviews.

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).

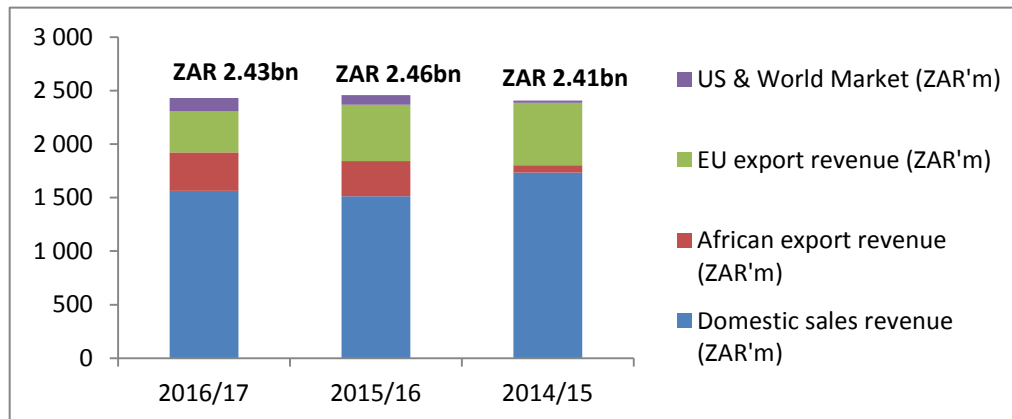
Illovo in Malawi

Illovo Sugar (Malawi) plc (Illovo Malawi) is the country's sole sugar producer and miller. The company's corporate office is based in Limbe. Illovo operates two sugar estates in Malawi: 13,300 ha at Dwangwa, in mid-central Malawi, and 20,925 ha at Nchalo, in the south, producing sugar cane and raw and refined sugar, together with speciality sugars at Nchalo.

52% of total sugar sales are to domestic consumers and industrial markets. The balance is exported to preferential markets in the EU and the USA, and the surrounding region.

Illovo Malawi is listed on the Malawi Stock Exchange with 76% of the issued share capital held by Illovo Africa and the balance by public and other institutional investors.

Illovo Malawi: break down of sales of sugar in the marketplace



Total Illovo Malawi sugar sales have remained relatively stable during the past three years. The increasing proportion of sales to the African market since our last assessment reflects the change in Illovo's business strategy as it looks to sell more of its products within the African continent. This is in anticipation of a shrinking EU market following EU reforms to the Common Agricultural Policy (CAP).

Malawi Country Data (2016 est.) ²	
Economic Indicators	
GDP (purchasing power parity)	\$21.2 billion
GDP per capita (PPP)	\$1,100
Annual GDP growth rate	2.7%
Labour Market Indicators	
Population	18.6 million
Labour force	7 million (2013 est.)
By occupation (2013)	Agriculture 64.1% Industry 6.7% Services 29.2%
Population location (2013)	Rural 83.7% Urban 16.3%
Unemployment rate ³	6.74%
Poverty Indicators	
Population living below \$1.90 per day (2011 PPP) ⁴	70.9%
Rural population living below national poverty line (2010) ⁵	56.6%
Adult literacy rate	65.8%
Life expectancy at birth	61.2 years

² CIA World Factbook for Malawi

³ World Bank (2016), [Unemployment, total \(% of total labour force\) \(modeled ILO estimate\)](#)

⁴ World Bank (2011), [Poverty headcount ratio at \\$1.90 a day \(2011 PPP\) \(% of population\)](#)

⁵ World Bank (2010), [Rural poverty headcount ratio at national poverty lines \(% of rural population\)](#)

A unique operating context

As one of the world's Least Developed Countries, ranking 170 out of 188 countries and territories on the UN Human Development Index, Malawi faces significant challenges underpinned by wide-spread poverty and inequality, particularly in rural areas. Malawi's undiversified economy based on agriculture remains vulnerable to external shocks.

These challenges have been compounded by severe climate conditions that have affected the agricultural sector, which accounts for a third of the country's GDP. Over the last few years, Malawi has experienced bouts of drought and flooding, which has caused a decline in agricultural production.

Recent declining lake and river water levels and power shortages as the result of dry weather conditions, compounded by pest and disease infestations have resulted in lower irrigation and consequently, lower production of sugar cane. During our visit to Nchalo, Corporate Citizenship learned that there was an occasion where water scarcity created friction with some rural communities as they compete for access to water sources - the matter was resolved amicably through stakeholder engagement meetings. Land encroachment and sugar cane theft are also serious issues for the business, owing in large part to rural poverty.

The operating climate has also been challenging for the business. Illegal importation of sugar into the landlocked country has reduced Illovo's share of the domestic market by approximately 10,000 tonnes last year. At the same time world market prices of sugar have been in decline, also affecting the company's earnings. As with other Illovo subsidiaries, the shrinking EU market following EU reforms to the Common Agricultural Policy (CAP) is set to have an impact on high-sea sales.

Nevertheless, Illovo Malawi has stood firm in its commitment to the people and economy of Malawi. The company continues to be the largest single private-sector employer as well as one of the country's largest taxpayer. And despite the challenges it has faced in the last few years, Illovo Malawi has managed to avoid retrenching workers.

The company continues to explore ways to enhance livelihoods across its supply chain and local communities.

- Programmes are being developed for an Agricultural Community College, with curriculum that includes agronomic skills, life skills, entrepreneurial skills, and business skills amongst others.
- Illovo Malawi seeks to empower women and youth as managers for new distribution centres, which are being set up to reach rural areas where there were no key distributors.
- The company is also responding to the market demand for more accessible and affordable products by developing smaller, branded packs ensuring the high quality of sugar is maintained, and at the same time allowing smaller market retailers to participate in the supply chain.
- Illovo has invested ZAR1.1 million on fortifying sugar with Vitamin A to address national nutritional deficiencies.

As the company recovers from a difficult few years of economic and environmental shocks, Illovo Malawi is firmly committed to creating more opportunities for empowerment for its employees and the wider community.

Section 1: Generating economic value

Headline messages:

- Illovo Malawi’s total economic impact – including direct, indirect and induced impacts – is estimated at ZAR 2.3 billion for 2016/17. This includes ZAR 0.7 billion in direct impacts (gross value added), and the remainder through multiplier effects within the supply chain and wider economy.
- Illovo Malawi is estimated to create and support at least 14,100 jobs in Malawi. For each of Illovo Malawi’s 9,400 direct employees, at least 0.5 jobs are estimated to be supported through outgrower communities and wider multiplier effects throughout the economy.
- Illovo Malawi’s total direct tax payments in 2016/17 amounted to ZAR 8 million, while indirect taxes totalling ZAR 150 million were collected on behalf of the government. Illovo also made payments of ZAR 2.1 billion to Malawian suppliers, paid ZAR 423 million in salaries, wages and benefits to employees, and made capital investments of ZAR 101 million.

Overview

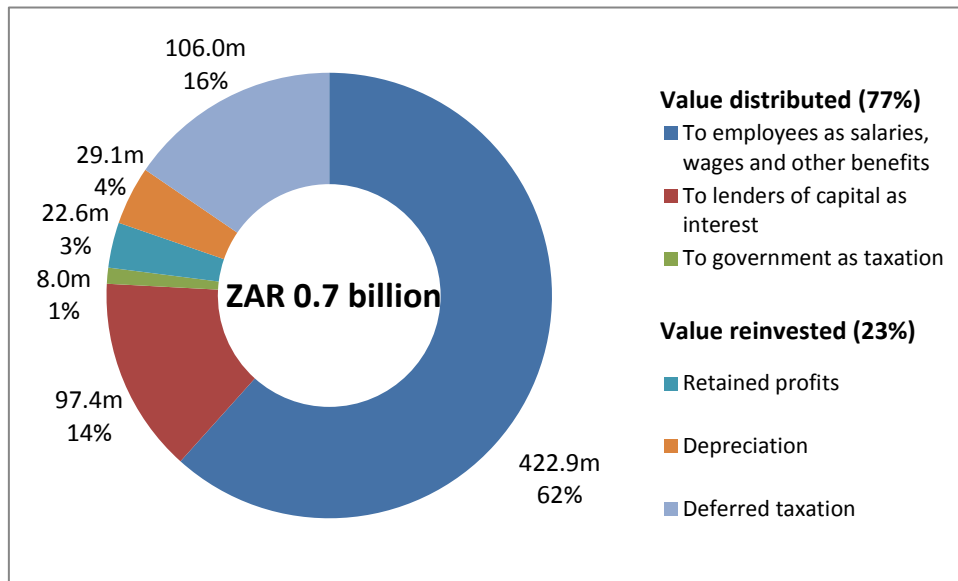
- Illovo Malawi makes a valuable contribution to Malawi’s economy. Due to the relative labour intensity of sugarcane growing and sugar production, compared to other agricultural crops, as well as the large number of smallholder farmers in the value chain, the economic multiplier effects are significant. 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, sugarcane harvesting and weeding, security services, retail and food).
- Illovo Malawi is Illovo’s third-largest country of operations, producing 240,000 tonnes of sugar (16% of the company’s total sugar production) in 2016/17.
- Revenues in 2016 were over ZAR 2.4 billion – up from ZAR 1.8 billion reported in our previous study in 2013. Illovo Malawi is making significant investments in future growth.
- Illovo Malawi’s contribution to the economy of Malawi 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 Illovo Malawi’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 Illovo Malawi’s presence in Malawi 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

- Illovo Malawi’s direct contribution to the economy of Malawi, measured in terms of gross value added, was ZAR 0.7 billion 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. 77% was distributed to stakeholders – including employees and the government – while 23% was retained in the business.
- The sugar industry in southern Africa is noted in a number of studies for its large multiplier effects⁶. Illovo Malawi’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 3.6% of Malawi’s GDP⁷, or about 11% of the size of Malawi’s agricultural sector⁸.

Illovo Malawi: Direct economic impact, 2016/17 (distribution of gross value added)

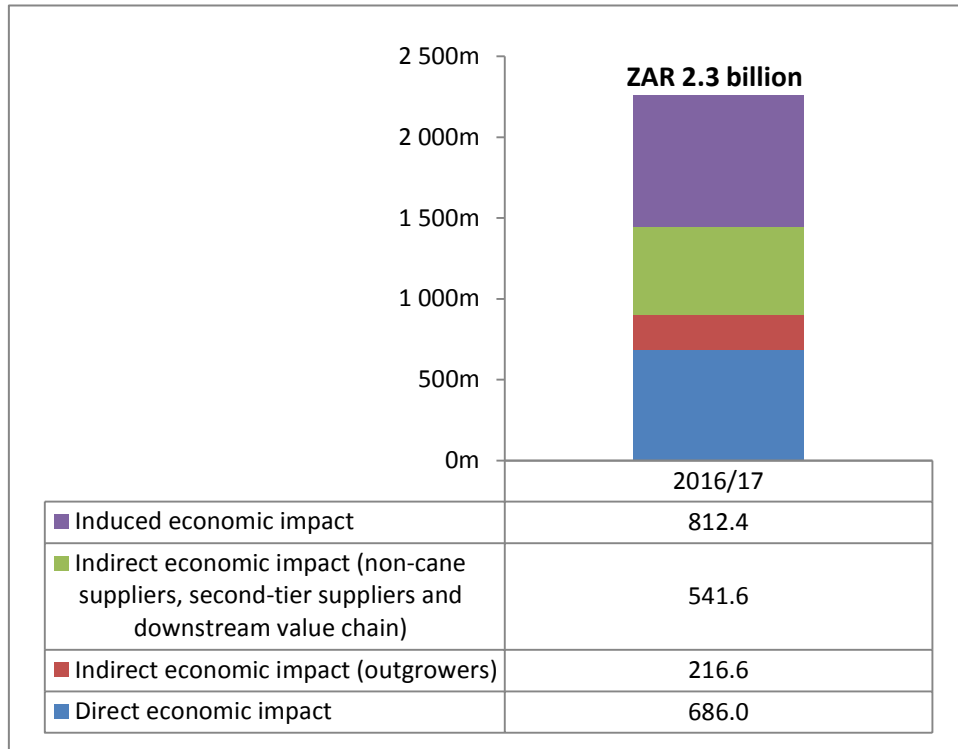


⁶ This is due to the relative labour intensity of production as well as the large number of smallholder farmers in the value chain. Sugar cane must be milled as soon as possible after harvesting, meaning significant economic impacts are felt by rural populations. As well as consuming inputs such as fertiliser, fuel and mechanical equipment, sugar provides opportunities to sectors such as transport, retailing and hospitality, food and beverages. For further details, see Appendix 1.

⁷ [IMF World Economic Outlook Database](#), Malawi gross domestic product, current prices, 2016

⁸ [CIA World Factbook for Malawi](#), GDP - composition, by sector of origin

Illovo Malawi: Total economic impacts in Malawi (estimated), 2016/17



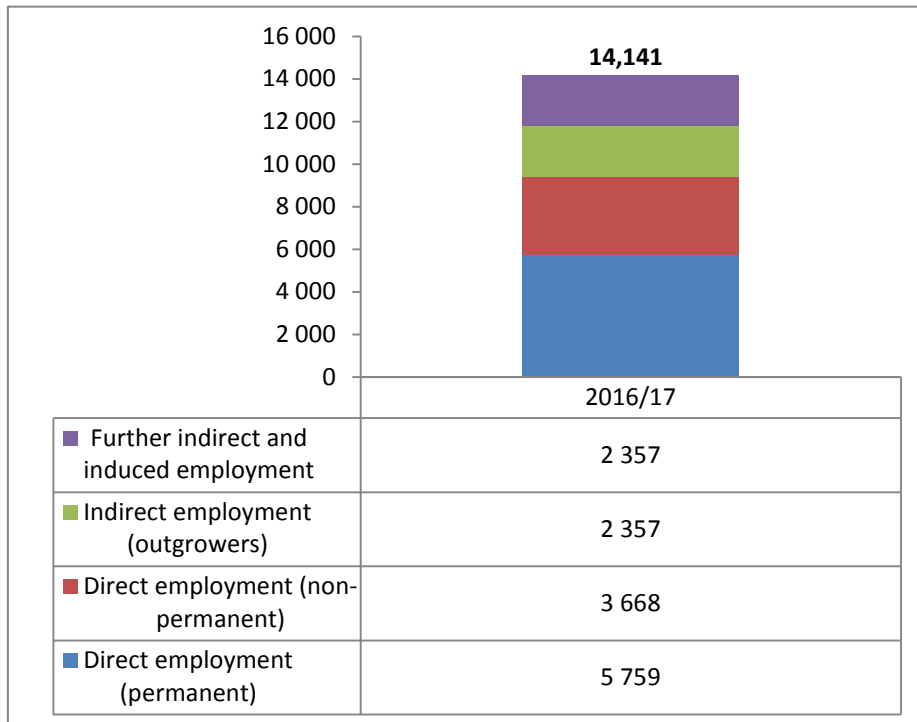
Total employment impacts

- While Illovo Malawi’s direct employment impact is important, it also has a significant indirect employment impact, with thousands more jobs supported in the value chain.
- Illovo Malawi is estimated to support at least 14,100 jobs in Malawi. This includes permanent employment of 5,759, non-permanent (including peak seasonal/fixed contract) employment of 3,668, and an estimated 2,357 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 2,357⁹.
- In other words, for every direct employee of Illovo Malawi, at least 0.5 workers are supported through outgrower communities and in the wider economy. This is at the lower end of estimates for companies within the Illovo Africa stable, due mainly to the fact that most cane processed by Illovo Malawi is grown on company leased land, rather than by outgrowers.
- Based on an average household size of 4.5 people in rural Malawi (see Appendix 1), Illovo is estimated to contribute to supporting the livelihoods of at least 6 people for every direct employee of the company. The amount to which the company supports livelihoods will vary between households – for some, such as direct

⁹ Multipliers sourced from Conningarth Economists (2013), *Growing the Sugar Industry in South Africa*, National Agricultural Marketing Council. See Appendix 1 for a further explanation.

employees and outgrowers, Illovo Malawi may well be the main contributor to household income, while in others Illovo Malawi’s support will be a factor among many.

Illovo Malawi: Total employment impacts in Malawi (estimated), 2016/17



Investing in the future

- Since the last assessment, Illovo Malawi has spent ZAR 342 million on capital investments. This is an increase on the ZAR 214 million invested between 2010 and 2013, covered in our last study.
- This includes a significant investment (ZAR 130 million) in a sugar warehouse, as well as investments in projects designed to reduce the company’s environmental footprint and increase water efficiency. The company has made significant investments in irrigation infrastructure over the last two years, and has committed ZAR 31 million to the first phase of a project to convert existing irrigation systems to drip irrigation, which is more effective and efficient in terms of water use.
- Looking ahead, Illovo Malawi is currently exploring the potential for a small-scale co-generation project at Dwangwa mill, which would reduce dependence on the national grid and potentially provide an additional stream of revenue.

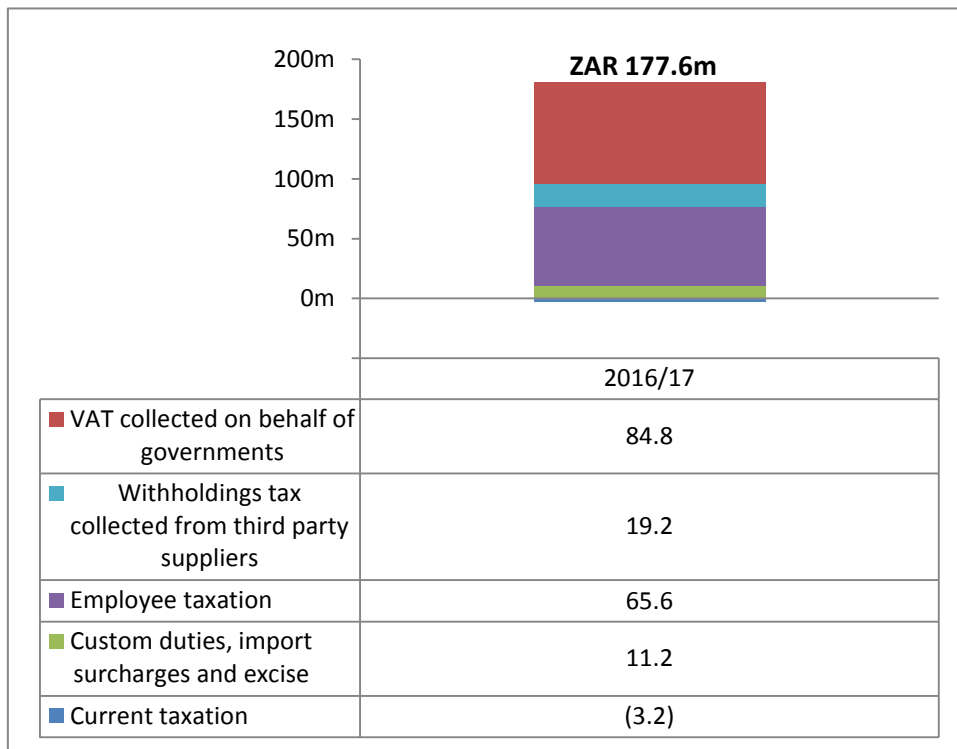
Contributing to public finances

- Illovo Malawi’s total direct tax payments in 2016/17 amounted to ZAR 8 million, while indirect taxes totalling ZAR 170 million were collected on behalf of the government. Indirect taxation includes sales tax (VAT) and employee taxes. While indirect tax

payments increased compared to our previous study, the total figure represents a decrease, due to a corporate tax loss to March 2017.

- The Malawi Revenue Authority (MRA) continues to acknowledge the contribution made by Illovo Malawi. The MRA has previously recognised the company as Malawi’s “number one compliant taxpayer” and again acknowledged the company in 2016 for exercising good governance through being transparent about its tax affairs.

Illovo Malawi tax payments, 2016/17

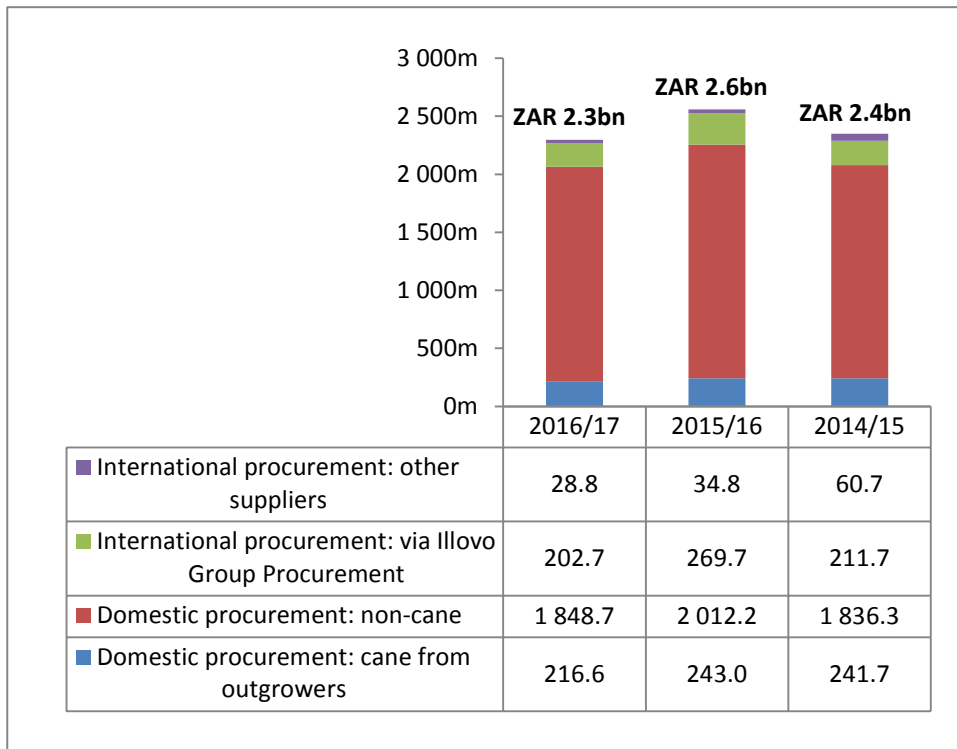


Spending with suppliers

- In 2016/17, Illovo Malawi spent about ZAR 2.3 billion with suppliers. 89% of this was spent with suppliers in Malawi. Supplier spending has grown significantly since our last study, reflecting the growth in the business. Illovo Malawi spent over four times as much with Malawian suppliers in 2016/17 than in 2012/13.
- Spending with Malawian suppliers includes ZAR 217 million (9%) on sugar cane from outgrower farmers (see Section 3), and ZAR 1.8 billion (80%) with other Malawian (non-cane) suppliers. Some of the biggest categories of non-cane sourcing from Malawian suppliers include packaging, office supplies, chemicals and building materials.
- Illovo Malawi notes that it sources sugarcane from 439 small-scale suppliers in Malawi. The company encourages the purchase of goods from local suppliers, where these suppliers are able to meet Illovo’s high standards, and is investing in “shared value” projects to provide support to and build the capacity of local entrepreneurs.

- One project, a container depot aimed at “outreach markets”, employs vulnerable women and young people, in order to provide them with a source of income while also better enabling Illovo Malawi to serve the lower end of the direct consumption market.
- In addition, Illovo Malawi employs local communities in providing security services, improving their economic livelihoods while also increasing the security of the company’s cane and equipment. Cane cutting and weeding services also provide employment opportunities to the community.

Illovo Malawi supplier spending, 2014/15 - 2016/17



Section 2: Creating employment opportunities

Headline messages:

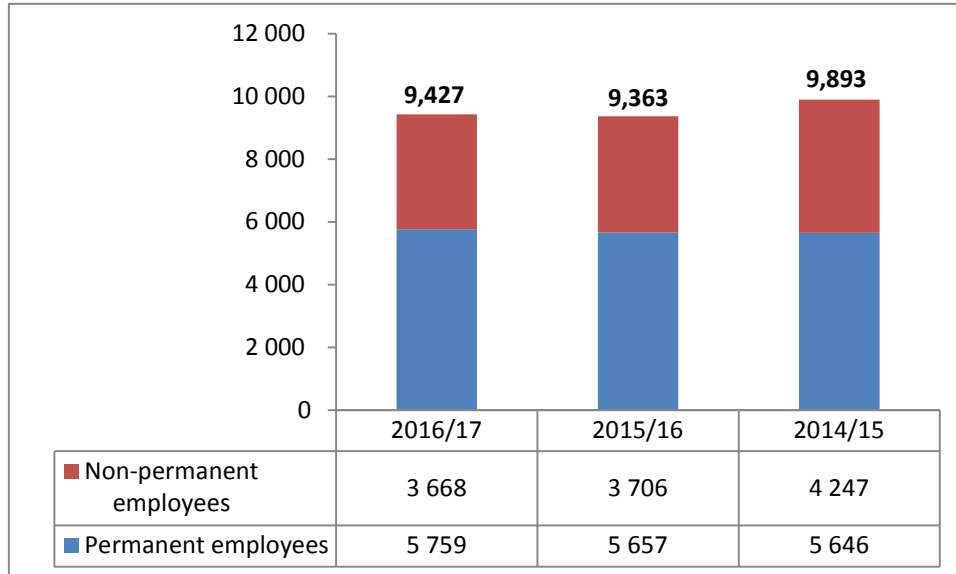
- Illovo employs 9,427 people directly in Malawi, of which 5,759 are permanent and 3,668 are non-permanent. Based on average household sizes, we estimate that through this direct employment, Illovo contributes to supporting the livelihoods of approximately 42,422 employees and dependents.
- Illovo Malawi paid ZAR 423 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 192% of the local minimum wage in 2016/17.
- Illovo Malawi has 289 permanent female employees, representing only 5% of the total permanent employee base. Women currently represent around 13.8% of total management positions. According to Illovo Malawi, culture and capacity have in the past made it challenging for women to operate in a manufacturing environment. Going forward, Illovo Malawi should explore how to increase gender diversity at all levels of its workforce.

Overview

- Our assessment finds that Illovo Malawi continues to be an important direct and indirect employer in the region, particularly as unemployment remains a significant challenge for Malawi. Illovo Malawi is one of the biggest employers in the country and has been recognised as an Employer of Choice by Employers Consultative Association of Malawi (ECAM) Top Employers awards.
- 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 careers.
- Illovo Malawi provides employment for 5,759 permanent employees and 3,668 seasonal workers at peak periods. The company 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. The company continues to provide a comprehensive range of benefits, going above and beyond statutory requirements. Illovo Malawi values its seasonal workers and takes measures to ensure its labour standards and working conditions protect their human rights.
- In a recent speech to representatives of the Sugar Plantation and Allied Workers Union of Malawi (SPAWU) the Union President reaffirmed that Illovo Malawi has a largely positive relationship with the Union. However, following the full acquisition of Illovo Sugar Africa (Pty) Ltd by ABF in 2016, there is uncertainty and apprehension about what changes are expected and a desire for Illovo Malawi to provide reassurances to the union.

Direct employment

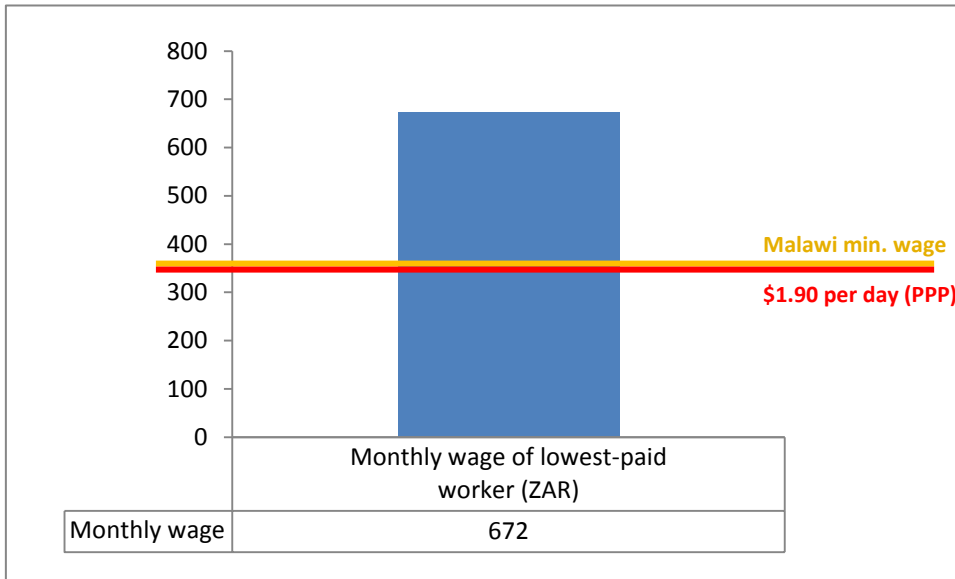
Illovo Malawi: Direct employment, 2014/15 - 2016/17



- The 9,427 people directly employed by Illovo Malawi includes 5,759 permanent employees, and 3,668 non-permanent (including peak seasonal and fixed-contract employees). Illovo Malawi’s permanent employee base has risen slightly since 2014/15, while the number of non-permanent employees has decreased by about 600.
- We estimate the direct jobs provided by Illovo Malawi contribute to supporting the livelihoods of 42,422 people once families and dependents are taken into account. This is based on an average household size of 4.5 people in rural Malawi¹⁰.
- Illovo Malawi paid a total of ZAR 423 million to employees in 2016/17, which is spread across direct salaries and wages and other benefits. All employees are compensated above the national standard minimum wage, with Illovo Malawi’s entry wage standing at 192% of the local minimum wage, which also stands above the World Bank poverty line of \$1.90 per day (PPP).
- Illovo Malawi monitors salary levels to ensure that it is compliant with in-country legislative requirements. In 2015, Illovo conducted a pilot Living Wage study in Malawi, using the Anker methodology and was found to pay more than the living wage. The company is continuing to explore opportunities to align its wages with international standards.

¹⁰ See Appendix 1 for an explanation of the multipliers used.

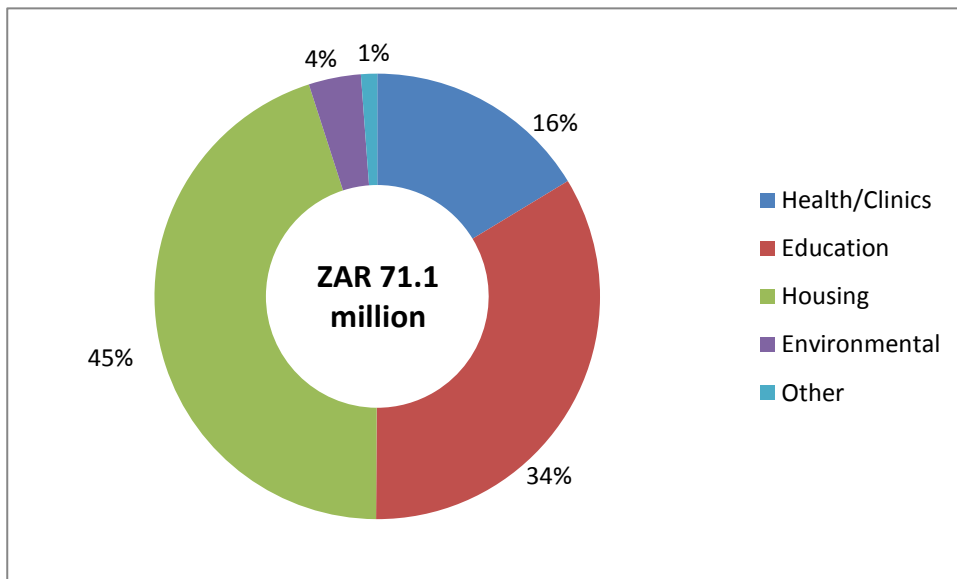
Ilovo Malawi: Monthly minimum wage, 2016/17



Employee livelihoods

- Ilovo Malawi employees are entitled to a number of different benefits in addition to their salaries. In total, the benefits provided to employees in Malawi in 2016/17 total over ZAR 71 million.
- The largest single benefit provided by Ilovo Malawi is in housing, where approximately 4,000 employees were supported with accommodation in 2016/17.

Ilovo Malawi: Employee benefits, 2016/17



Human rights and labour standards

- Through established collective bargaining agreements with the union and in-house country dispute resolution mechanisms, employees are able to raise grievances through formal means. In Illovo Malawi, 78% of employees are covered by collective bargaining agreements – this has dropped from 85% in 2014/15.
- Illovo Malawi maintains conducive working relationships with local trade unions as guided by the Labour Relations Act. Issues discussed in 2016/17 through the trade union included industrial relations, wages, conditions of service, disciplinary procedures, welfare and business performance. To enable employees to raise any work-based concerns, a formal disciplinary and grievance handling procedure is also in place.
- Annual refresher sessions are provided to ensure that Illovo Malawi employees understand the group guidelines and policies on child labour, forced labour and other human rights issues.
- On health and safety, Illovo Malawi invested ZAR 10.6 million in safety training in 2016/17. The lost time injury frequency rate has decreased to 0.03 LTIs per 200,000 hours worked in 2016/17 from 0.09 in 2014/15, which is significantly lower than the target of 0.15 set by group.
- To improve occupational health and safety of employees each Illovo Malawi operation has trained Occupational Health personnel and Safety coordinators. Scheduled and impromptu audits take place to ensure the system remains effective.

Case study: Keeping employees safe and healthy

Illovo Malawi's Occupational Health practices have been recognised as a model of good practice in the country. The company offers a comprehensive Occupational Health programme to monitor the impact of the job on the health of employees. It begins with a pre-placement medical check-up, done before an employee takes up a post. Recommendations are made about the employee's fitness for the job and any necessary precautions to keep the employee safe are implemented.

Employees of Illovo Malawi have planned medical check-ups during the year as well, which covers a range of potential issues such as checking lung function, visual screening, hearing and even athlete's foot from work boots.

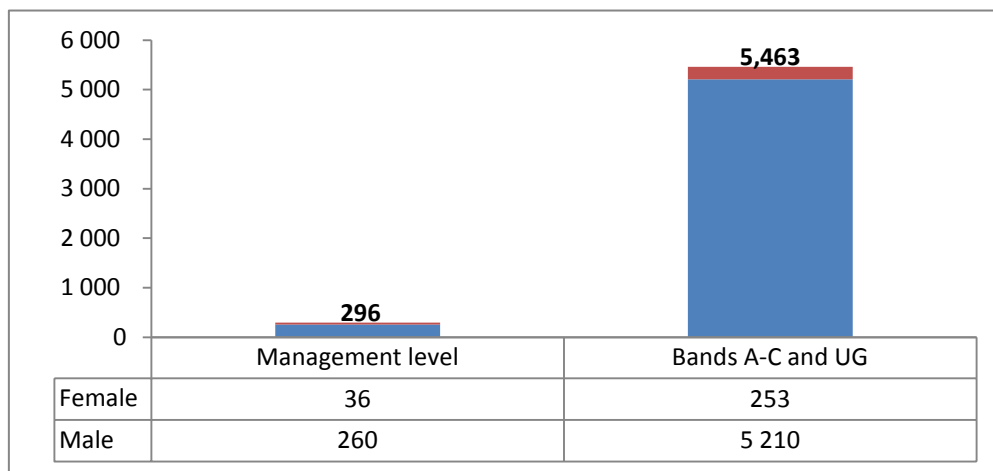
The company also performs exit medical check-ups on employees who leave the business. Employees and their dependents are attended to for no cost while contractors, non-dependents and cane cutters pay at nominal cost to access healthcare.

Illovo Malawi was the OSH Standards Premium Awardee, recognised by the Employers Consultative Association of Malawi (ECAM).

Gender diversity

- Illovo Malawi has 289 permanent female employees, representing only 5% of the total permanent workforce, however, women currently represent around 13.8% of total management positions.
- To support the career progression of female employees Illovo Malawi encourages values driven leadership, which includes elements of inclusiveness, diversity, empowerment, accountability and integrity. Women are actively encouraged to undertake managerial and leadership development programmes and 150 female employees joined the training in 2016/17.

Illovo Malawi: Direct workforce by role and gender, 2016/17



Case study: Jeannie’s journey

Jeannie Manda joined Illovo as a management trainee in 2000 and has enjoyed the opportunities for career progression and benefits Illovo Malawi has provided.

When Jeannie joined Illovo, her husband was also employed by Illovo as a trainee. Over the years, Illovo has supported their career progression (as well as their growing family), allowing Jeannie to move when her husband was transferred to a different operation.

Following her training, Jeannie became a Human Resource (HR) Officer in 2002 and by 2003 she was promoted to HR Frontline Manager. She continued to excel and in 2006 Jeannie was promoted to Assistant Development Manager, responsible for training, administration, disciplinary and, legislative issues with the Industrial Relations Commission.

At Illovo Malawi, Jeannie has had the opportunity to diversify her experience in different locations. In 2010, she moved to Dwangwa for further development opportunities, focusing on land and security issues and housing. And in 2016, the family moved back to Nchalo, where Jeannie was promoted to her current role as Head of the Nchalo HR function.

Jeanie is not the only woman in a management role. She pointed out that roles such as Area manager, HR Development Coordinator, Assistant Finance Manager, and Engineering were all filled by women. Whilst this is not the norm in Malawi or in the industry, Jeannie credits Illovo Malawi with providing training and development opportunities that have supported her career advancement. Mechanisms to retain talent and identify high potential individuals such as the High Potential High Performer programme, the Emerging Leaders Development Programme and the mentorship programme are important to the company's ability to attract, retain, and nurture talent like Jeannie.

Training and development

- Illovo Malawi invested ZAR 12.6 million in training and development in 2016/17 engaging 12,225 employees. As a percentage of payroll, investment in training is 4.25% in 2016/17, significantly higher than other Illovo operations.
- Illovo Malawi supports young people locally through recruiting graduate trainees from various higher learning institutions and enrolling them onto the Management in Training Programme. The 2016/17 cohort included 12 graduates, each of whom is assigned a mentor from within the business. As of 2016/17, Illovo Malawi has 21 apprentices employed by the business, who receive training from local technical colleges as a part of their programme. Illovo Malawi also offers many placements for vocational training.
- For mid-level management and senior management, Illovo has management and leadership programmes to support successful employees to achieve their potential within the organisation. This includes a mentorship programme which has been in place since 1998, and a High Potential High Performer programme to identify and further develop talented employees. Illovo Malawi has also sponsored further education abroad for five employees.
- Other training and development includes attendance of an Annual conference where senior employees present ways of improving the business. Additionally, for managers, Illovo Malawi provides a Frontline manager toolkit, looking at case studies, team management, and resource planning to support them.

Section 3: Supporting farmer livelihoods

Headline messages:

- Illovo Malawi's supply chain includes 2,746 outgrower farmers, in total supplying around 400,000 tonnes of cane every year. 17% of the sugar cane used by Illovo Malawi is supplied by independent farmers, the remaining 83% comes from the company's leased land. Illovo Malawi is unique among the six companies of the Illovo Group in that all of these outgrowers are smallholder farmers.
- Illovo Malawi is estimated to support nearly 2,400 jobs through outgrower farmers. In addition, the company provides significant technical, financial and capacity-building support to outgrowers, material worth over ZAR100,000 per year. Illovo Malawi estimates that 1,500 outgrowers benefited from these schemes in 2016/17.
- Illovo Malawi is one of the first companies to pilot the due diligence framework on land rights being developed by Illovo Group in partnership with Landesa. Illovo Malawi is already applying the Illovo Land Guidelines to legacy land disputes in the local area, in order to find workable solutions to end years of disagreement with local communities and to investigate land disputes that affect the outgrower supply chain.
- The Illovo Group is in the process of developing site specific strategies to optimise outgrower production and livelihoods and build insight and relationships.

Overview

- Some of Illovo Malawi's most significant economic and social impacts are made through the agricultural supply chain. Illovo Malawi's purchases of sugar cane support employment and incomes in rural areas, where 57% of the Malawian population lives below the national poverty line¹¹. During our interviews with outgrowers, they emphasised how Illovo's support helped them to professionalise their farm management practices, improved production yields and also provided stable incomes.
- 17% of the sugar cane processed by Illovo Malawi is supplied by independent farmers from the areas surrounding the company's mills – the remaining 83% comes from the company's land. The proportion of Illovo Malawi's cane sourced from outgrowers is the lowest of the six companies in the Illovo Group. However, Illovo Malawi is unique in that none of this cane comes from large, commercial outgrowers – all of it is supplied by 2,746 smallholder farmers.
- Illovo Malawi estimates that 1,500 of these smallholders benefit from extension services, training and other support provided by the company. Since our last report, the company 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

¹¹ World Bank (2010), [Rural poverty headcount ratio at national poverty lines \(% of rural population\)](#)

the company to develop a longer-term approach to securing its future supply of cane and improve outgrower livelihoods.

- During our site visit to Malawi, outgrowers commended Illovo Malawi for being a reliable and transparent partner, setting the standard high for the agricultural sector through its cane-supply agreement model (see case study).

Case study: A reliable and transparent partner

As a major producer of sugar in Malawi, Illovo Malawi sets the standard for supplier relationships – and that standard has been set very high.

Illovo’s cane-supply agreement stipulates how the company works with its cane growers. Prices are negotiated transparently in an ‘open-book’ agreement that is shared with both farmer and company. This transparency gives the outgrowers visibility of transactions in the value chain, allowing them to understand costs of processing and turnover of sales. According to an outgrower, this level of transparency does not exist in any other commodity sector in Malawi.

Illovo Malawi also initiated the Fairtrade accreditation process for outgrowers, giving them the opportunity to earn a premium on their cane. The company paid for the support the farmers needed during the process, including finding a market, supporting the transaction and administration. For the first time the farmers have been able to earn the Fairtrade premium of \$60 per tonne of sugar.

Outgrowers also voiced their appreciation for Illovo’s support in helping them acquire inputs and equipment at a much lower price than they would otherwise pay. Not only does Illovo use its economies of scale when making purchases, the company allows outgrowers to pay back when they’ve started selling cane, at no extra fee, which is of particular relevance when considering that the local banks’ interest rates are 35% and more.

Outgrower sourcing

- Illovo Malawi’s supply chain includes 2,746 outgrowers, all of them smallholders, who in total supply around 400,000 tonnes of cane every year. This is an increase from the 2,047 reported in our previous study for 2012/13.
- 62% of outgrower cane is from Fairtrade-accredited co-operatives. Three such co-operatives provide Illovo Malawi with sugar – the Kasinthula Cane Growers’ Association and Phata Sugarcane Outgrowers Cooperative near Nchalo, and the Lakeshore Cane Growers Association, an apex body for farmers in Dwangwa. Kasinthula was Fairtrade certified in 2002, while Lakeshore had recently been Fairtrade certified at the time of our last report. Phata was formed in 2011, developed through EU funding and with AgDevCo, a social impact investor and project developer working in the African agriculture sector, and further expanded in 2016 . It obtained Fairtrade certification in 2015.

Supporting outgrower employment

- Illovo supports significant indirect employment through outgrower farmers. The employment impact has been estimated, using employment on Illovo Malawi's own farms as a proxy, at 2,357¹².
- It may seem counter-intuitive that this figure is lower than the total number of smallholder farms supplying Illovo Malawi. However, it should be noted that most outgrowers, particularly in the Nchalo area where smallholders operate within irrigated blocked farm schemes, do not work the land themselves, and instead employ seasonal contractors through a management company.
- Based on an average household size of 4.5 people in rural Malawi (see Appendix 1), Illovo is estimated to contribute to supporting the livelihoods of 10,607 people through its sourcing of sugar cane from smallholders in Malawi.
- In general, sugar is noted for its contribution to female employment¹³. In Illovo Malawi's case, however, the company estimates that only about 7.6% of outgrower employees are women. Challenges in attracting women to the sector include the physical labour intensive nature of the work, lack of background or education required, and cultural stereotypes about gender appropriate work.
- While Illovo Malawi has equal opportunity policies, it currently does not have particular initiatives aimed at increasing female representation among its outgrowers. However, Fairtrade certified growers receive training on gender issues and child labour.

Payments to outgrowers

- Illovo Malawi's outgrowers are paid according to a cane supply agreement and according to sucrose content and market prices, with growers receiving 60% of divisible proceeds. The average price paid to growers in 2016/17 was ZAR 4,100 per tonne of cane. In total, the amount paid to Illovo Malawi's outgrowers – who provide 17% of the company's cane – is equivalent to about 9% of total sales revenues.
- Members of the Kasinthula, Phata and Lakeshore co-operatives are paid the Fairtrade premium of ZAR 600 per tonne of sugar – equating to approximately ZAR 55 per tonne of cane for social development projects.
- Illovo Malawi estimates that 95% of growers' incomes come from cane, with the remainder from a limited number of cash crops grown to supplement incomes. Growers' wages are estimated at ZAR 3.75 per hour – significantly higher than the ZAR 2.35 per hour minimum wage suggested by the government in July 2017. The outgrower associations supplying Illovo Malawi benchmark the salaries and benefits received by their members.

¹² Combining Illovo Malawi's permanent agricultural employment of 3,362 with fixed-term, casual and peak seasonal agricultural employment of approximately 4,305 gives an estimate of 0.39 jobs per hectare harvested. This compares favourably to estimates by the South African sugar industry and Conningarth Economists (see Appendix 1) of between 0.17 and 0.23 jobs per hectare.

¹³ Levin and Mhamba (2007) – see Appendix 1.

Case study: Collaborating for shared value – Phata Sugarcane Outgrowers Cooperative

Phata Cooperative is a smallholder farmer owned organisation that was formed in 2011, located in Shire. The cooperative was established in partnership with Agricane as the technical and administrative partners. The cooperative is managed centrally by a small team of staff supported by a management contract with Agricane.

Phata obtained its Fairtrade certification in January 2015 and they collaborate with Illovo Malawi on marketing their sugarcane. The company has supported the co-operative by helping them to access Fairtrade markets and earn higher premiums. On the impact of their relationship with Illovo, one of the co-op managers reflected that they would not survive if Illovo were not present to provide a market for their cane.

The company also provides them with agricultural inputs such as fertilizer and seed cane at cost. The co-op also benefits from Illovo's economies of scale on the purchase of equipment or supplies.

Phata view Illovo Malawi as a key partner in their success story. From their Fairtrade premiums, they have been able to develop a maize mill for community use. Maize is an important dietary staple and without the mill, community members would have to travel long distances to gain access to mills.

The co-operative is debt-free and thriving. Through their partnership, Phata and Agricane have secured additional funding from the Scottish Government International Development Fund/Malawi Development Programme, allowing them to diversify their activities and income from sugarcane. In addition to sugarcane they now produce:

1. Food crops such as maize and kidney beans under sprinkler irrigation (24ha)
2. 10 fish ponds (1,2ha)
3. Mangoes, Bananas and Oranges under irrigation (2ha)
4. Wood for fuel and construction (6ha)

The Cooperative has also set up a revolving fund for members to access for short term credit to assist with establishing other income generating activities.

Supporting smallholder farmers

- Illovo Malawi provides outgrower associations with inputs to farming operations at cost-price, with an estimated value of ZAR 1 million per year. The company also assists with technical and material expertise and resources, such as dredging of canals, pest and disease control, and maintenance of pumping equipment.
- Illovo Malawi estimates that 1,500 outgrowers benefit from extension services, agronomy support, health and safety training and other support, at a cost to the company of about ZAR 100,000 per year. The company also facilitates capacity building through external organisations such as United Purpose, and pays for the administration of outgrowers' Fairtrade schemes, as well as providing assistance with Fairtrade audits.
- In addition, Illovo Malawi provides access to company clinics to all local communities and contractors, including outgrowers, at cost. Emergency cases are

treated at no charge, with an estimated cost to the company of ZAR 20,000 per month.

- Illovo Malawi also supports a local Agricultural Community College, in order to support business and farming operations in the local community. Through a partnership with external organisations such as FES and Agricane, the College aims to develop skills in the local community and later beyond.

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. Illovo Malawi estimates that 80% of outgrower workers are seasonal or migrant labourers. In order to mitigate human rights risks, Illovo Malawi senior managers and managers from Agriculture and Human Resources were 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.
- The Illovo Group 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.
- All outgrower workers in Malawi have the right to freedom of association and most, including members of the Kasinthula and Dwangwa associations, belong to the Sugar and Plantation Workers Union of Malawi (SPAWUM), to which Illovo Malawi’s own workers also belong.
- Fairtrade-certified growers are also assisted to understand and embed human rights principles in their operations.

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 Africa has responded by developing a more formalised approach through the development of its [Guidelines on Land and Land Rights](#), which commit the group 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 tool for land rights assessments on Illovo’s estates and supply chain in Mozambique, Malawi and Tanzania.

- Illovo has appointed a “local land champion” for each of its operations, who are responsible for implementing the Guidelines and conducting land rights assessments using the new framework.
- Illovo Malawi has 99-year leases on all of its land, in compliance with Malawi’s Land Act. Through the C2P project, two external organisations, Landesa and Landnet, are currently engaged in helping the company implement the new land rights framework, addressing legacy and current land issues mainly related to encroachment on company-leased land. Illovo Malawi has undertaken a full boundary retracement survey of the Nchalo Estate and has developed action plans to target issue areas. Dwangwa Estate will also be resurveyed against the lease documents.
- On our visit, we found that Illovo also provides wider community support by helping to facilitate inclusive multi-stakeholder dialogue with communities. Managing the many views and voices involved in land restitution is critical to maintaining peace and harmony within these communities and ensuring a successful transition process.

Case study: Working with local communities to find solutions to land disputes

Illovo Malawi has already begun using the Illovo Guidelines and pilot framework to find solutions to long-running land disputes. One particular legacy dispute concerns an area of land that the Mlala community claims was encroached onto by Illovo, after the land was ‘loaned’ to Illovo’s predecessor (Lonrho). Although the land is within Illovo Malawi’s leased area it is not fully farmed by Illovo, but it is required for access to other fields. Following years of disagreement, including clashes between the community and Illovo workers, Illovo Malawi has proposed a solution in line with the Illovo Group Guidelines.

Under the proposal Illovo Malawi will lease the area to the Mlala community at a nominal rent, which will be receipted as proof of ownership, with the proceeds reinvested by Illovo into community initiatives. The proposal was accepted unanimously by the community in 2015.

The pilot project is based on the condition that the land will be farmed for the benefit of the community to avoid the risk of elite capture and protect the vulnerable members of the community, and that there will be no further encroachment onto Illovo land by the Mlala community. The next step is for the Mlala community to form a legally registered, inclusive governance structure such as a co-operative, to which Illovo Malawi can formally lease land. A local NGO is working with the Mlala community through the C2P to address some of the challenges inhibiting progress of this piloted approach

Section 4: Investing in communities

Headline messages:

- Illovo Malawi's community investments totalled ZAR 4.3 million in 2016/17. The majority of this investment went towards healthcare initiatives, supporting key programmes such as disease prevention and treatment, and enabling the wider community to use the company's clinic for a nominal fee.
- A number of shared value activities, such as community security for sugar cane, are underway with the aim of benefiting both the communities in and around Illovo Malawi's operations and the company itself.
- Illovo Malawi is investing in initiatives that will benefit the community for the longer-term. In 2016/17, Illovo Malawi built education facilities to support the outreach to 13,000 students, provided drinking water facilities as well as community policing services.

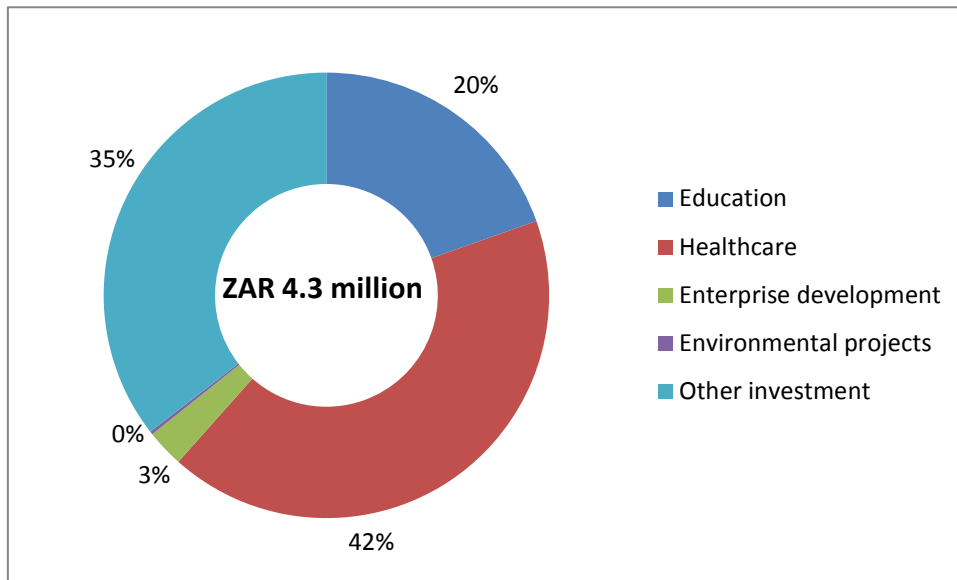
Overview

- Illovo Malawi invested over ZAR 4.3 million in supporting the local communities in and around its operations in 2016/17. The majority of this was spent on healthcare initiatives, including the provision of medicines to Montfort Hospital at Nchalo which serves approximately 120,000 people in the community. Employee-related benefits (Section 2) and outgrower development spending (Section 3) are excluded from this total.
- Corporate Citizenship interviewed Senior Chief TA Ngabu, in Nchalo, who oversees an area with a population of 150,000. Chief Ngabu highlighted the many ways in which Illovo Malawi contributes to the community, including the support to health facilities and schools and the creation of employment opportunities. He is proud that Illovo Malawi use cane from his community to produce sugar for the country.
- While the Chief and his community showed appreciation for Illovo Malawi's efforts, they called for more engagement between the company and communities in order to make Illovo Malawi a more inclusive business.
- To avoid perpetuating a cycle of patronage and dependence, Illovo Malawi is developing a more strategic approach to community investment, with greater focus on empowerment. Across all six countries, Illovo Africa is exploring ways to address societal needs and challenges through models that simultaneously address social and business needs in a manner that creates sustainable shared-value impact.
- Examples of shared-value programmes in Malawi include funding community-based security services so as to improve physical security of cane, company property and farm equipment; funding the Agricultural Community College to increase agro-skill support for Illovo Malawi's business and farming operations in the local community; and the Phata Sugarcane Outgrowers Co-operative reported in

Section 3. As implementation of these programmes is at an early stage, it has not yet been possible to assess their impacts.

Community citizenship & social investment

Illovo Malawi: Total investment in the community, 2016/17



- Illovo Malawi has increased its total investment in community projects over the last year from ZAR 4.16 million in 2015/16 to ZAR 4.32 million in 2016/17. Over 40% of this expenditure went towards healthcare initiatives. Support for education increased from just under ZAR 700,000 in 2015/16 to almost ZAR 850,000 in the last reporting year.
- Malaria incidence has dropped to an average of 9% of the incidence in communities surrounding the estates last year, from 20% five years ago. Similarly, HIV/AIDS prevalence has reduced to current levels of 10% of those accessing voluntary counselling and testing. Illovo Malawi has contributed to these reductions through a number of initiatives. These include the opening of company clinics to the wider community for a nominal fee at cost, providing water treatment chemicals in vulnerable areas and spray treatment to tackle malaria, and providing voluntary counselling and testing for HIV/AIDs.
- Approximately 25,000 people benefitted from a series of further initiatives tackling health related challenges in 2016/17. These included infrastructure to provide safe drinking water treatment to control cholera and further sanitation service. Illovo Malawi clinics have on average 25,000 patient visits a month, and the company distributes antiretroviral drugs on behalf of the government through the clinic system.
- In the communities in and around Illovo Malawi's estate, over 13,000 students were able to attend school and pursue their education last year as a result of the company's investments in classrooms infrastructure and equipment such as desks and learning materials and in some cases subvention of teachers' salaries.

- In addition to the focus on healthcare, the communities in Illovo Malawi's estates benefited from community policing schemes introduced by Illovo. Either directly or indirectly, through fostering safe communities, this initiative reached approximately 70,000 estate residents in 2016/17, who will continue to be supported in the years to come.
- Employees participated in Illovo Malawi's community programmes through active engagement in health related projects aimed at supporting the delivery of health services, particularly to mothers and their new born babies. Through their fundraising efforts, Illovo Malawi employees raised ZAR 100,000 to support community projects in 2016/17.

Case study: Montford Hospital in Nchalo

Montford Hospital serves 68,000 people and has a staff of about 200, seeing approximately 1000 outpatients every month. Illovo Malawi has been instrumental in the setup and ongoing maintenance of this hospital.

The land for the hospital was provided by Illovo. The company also supports salaries paid to medical staff and has helped to refurbish and in cases re-equip the hospital as well.

One of the hospital's biggest challenges is stocking enough medicine to meet demand. To help alleviate this challenge, Illovo Malawi makes quarterly donations of medicines.

In addition to treating patients, the hospital also serves the community by running preventative programmes on Malaria and HIV.

We spoke to doctor at Montford, who was certain that without donations from Illovo Malawi, Montford Hospital would not exist and people would have to travel over 7km away to the District Hospital in Chikhwawa to seek treatment.

Community & stakeholder engagement

- Through both regular and ad-hoc consultative meetings, Illovo Malawi consults a broad range of stakeholder groups on specific community issues or community investment projects that are already underway. These stakeholder groups include traditional authorities and chiefs, educational principals, government officials, health services and hospitals and clinics.
- In addition to specific issues such as community policing, environmental degradation and land tenure issues, stakeholders shared their desire to see Illovo develop more encompassing social responsibility projects, which will benefit the community at large.
- Illovo Malawi has taken measures to address some of the concerns raised at community level through supporting local police services and local hospitals, drilling boreholes to provide drinking water and building and equipping classrooms to support education.

Section 5: Promoting environmental sustainability

Headline messages:

- Illovo Malawi manages all of its own land according to the SusFarmS environmental management system, which was pioneered by growers at Illovo South Africa's Noodsberg mill, in partnership with WWF.
- Illovo Malawi was responsible for 16% of the group's total carbon emissions in 2016/17, equating to 114,049tCO₂e.
- 91% of Illovo Malawi's energy consumption is provided from renewable sources, primarily bagasse.
- In 2016/17, at least 69% of water withdrawal by Illovo Malawi's factories was recycled and returned to source. In response to recent droughts, Illovo Malawi is planning investments into drip irrigation, which aim to reduce the company's water and energy demands.

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 Illovo'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. The potential for over-use of fertilisers and pesticides also affects the protection of land and biodiversity.
- 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, Illovo Malawi can cut costs and reduce reliance on the national grid, while helping to mitigate the impacts of climate change.
- Illovo Malawi has made significant investments in environmental initiatives over the last three years. This includes a solid waste treatment site at Nchalo (ZAR 3.5 million), and investments in irrigation infrastructure. A planned five-phase project will convert existing irrigation systems to drip irrigation, resulting in more effective and efficient water and electricity use. Illovo Malawi has committed ZAR 31 million to the first phase of this project.
- Nchalo water from the Shire River is abstracted after hydropower generation upstream of Illovo Malawi's operation. Water abstraction averages about 7% of the river flow with the remainder flowing into the sea.

Case Study: Continuous progress in the Illovo Group

The business continues to challenge itself to even higher standards than required, by harmonising its approach to compliance with environmental standards and certifications. A review in 2014/15 revealed that Illovo was compliant with all standards it was required to uphold. With a view to creating a more efficient audit process, Illovo developed an in-house combined assurance programme, setting a higher standard to aim for. The programme combines aspects of OSHAS, ISO14000, UNGC principles, and other best practice guidelines into one programme for the basis of future audits. Audits will therefore be more comprehensive and efficiently managed.

Land & biodiversity

- Illovo Malawi 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.
- Illovo Malawi also provides training on sustainable farming techniques, including pest control and land preparation, as part of the support which it provides to smallholder farmers (see Section 3). While SusFarMS has not yet been adopted by any outgrower associations, several already meet environmental requirements through their membership of initiatives such as Fairtrade and EU funding schemes, and receive environmental audits from multinationals such as Costco, Coca-Cola and Sainsbury's.
- Illovo Malawi owns and maintains the Nyala Park Reserve, a 350-hectare biodiversity corridor through its cane estate that supports endemic game species. Natural flora and fauna have been introduced to the area, and the company is also carrying out programmes to establish forests in previously barren areas.

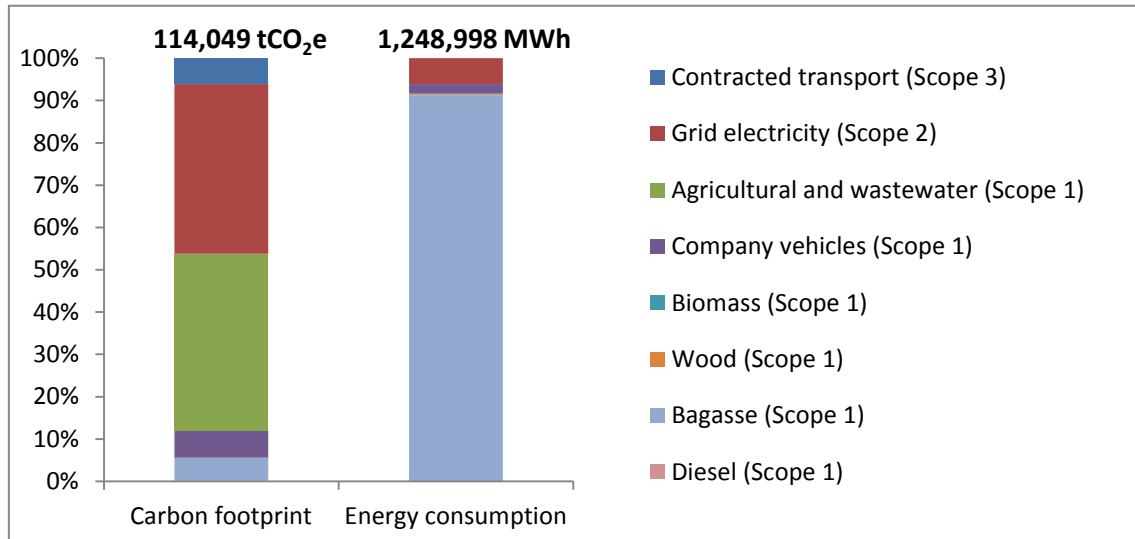
Energy and climate change

- 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 spells¹⁴. For Illovo, 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 Illovo to minimise its carbon footprint. Energy use primarily takes place during the cane-crushing season, meaning that Illovo has a ready supply of renewable fuel. 91% of Illovo Malawi's energy consumption is provided from renewable sources – almost entirely bagasse (592,600 tonnes in 2016/17), supplemented by 2,647 tonnes of biomass and 758 tonnes of wood.

¹⁴ See Jones MR and Singels A (2014), *A preliminary assessment of mid-century climate change impacts on sugarcane production in South Africa*.

- Illovo Malawi was responsible for 16% of Illovo Africa’s total carbon emissions in 2016/17. Electricity consumption from the national hydro-electric power grid accounts for the largest proportion of Illovo Malawi’s carbon footprint (40%), followed by agricultural and wastewater emissions. Work is ongoing to improve energy efficiency in Illovo Malawi’s mills, while the phased introduction of drip irrigation will reduce the energy and water requirements for pumping.

Illovo Malawi: Carbon footprint and energy consumption, 2016/17

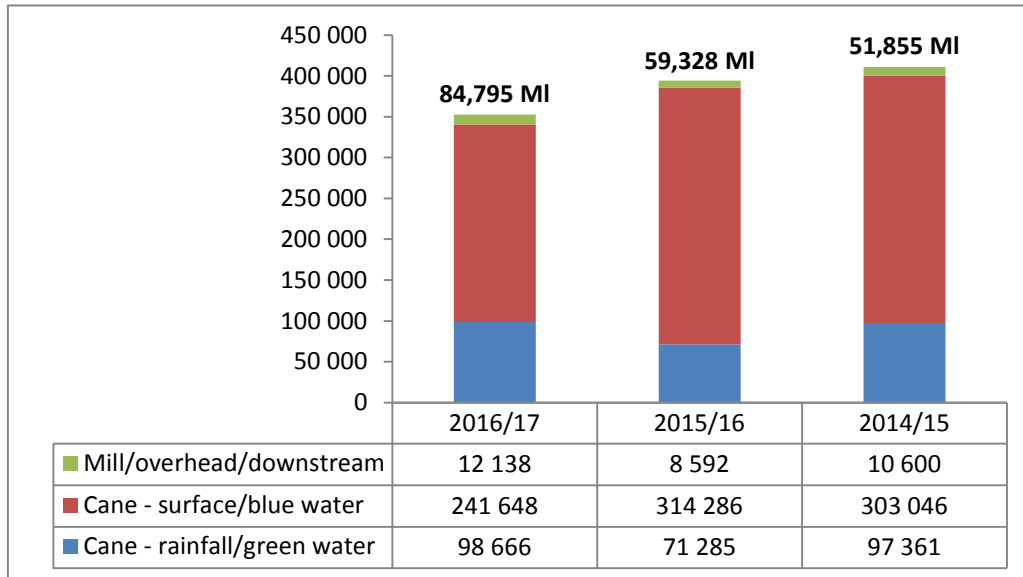


Water and waste

- Water is a vital resource both for Illovo’s operations and surrounding communities, meaning that responsible management is a business imperative. 95% of Illovo Malawi’s water usage is for crop irrigation. The planned introduction of more efficient drip irrigation systems at Nchalo is aimed at reducing the company’s demands on local water sources.
- Both of Illovo Malawi’s sites have suffered from both floods and droughts in recent years. In 2016/17, dry conditions led to a severe drop in water levels and meant that Illovo Malawi’s water consumption fell,¹⁵ with a significant detrimental effect on the cane crop.

¹⁵ It is important to note that while all of the water used on Illovo’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.

Illovo Malawi: water consumption (megalitres), 2014/15 - 2016/17



- Illovo Malawi provides water treatment plants at local villages where employees live, which also benefit people from surrounding areas. The company has also invested in drilling and equipping boreholes in surrounding communities and in accessible places installing potable water stand-pipes.
- 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, Illovo Malawi’s mills and other non-cane operations withdrew 39,020 megalitres of water. Of this, at least 69% was recycled and returned to source, although some outflow from Illovo Malawi’s effluent treatment plant was not recorded correctly, partially explaining a fall in the data from 80% the previous year.
- All of Illovo Malawi’s operations practice active waste sorting and recycling. Opportunities for reducing waste include re-purposing of mill by-products as soil nutrients, as well as improvement targets on recycling (including composting). At Nchalo, runoff from fields is collected by drains, and silt is returned to the fields. In Dwangwa, irrigation is controlled, meaning that silt and chemical runoff do not occur.

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Case study: partnering to improve farmers’ climate resilience

In 2013, Illovo Malawi engaged with the Climate Resilience Infrastructure Development Facility (CRIDF), a DFID funded programme operating in sub-Saharan Africa to implement transformational water infrastructure projects building climate resilience for the poor. The project engaged with Illovo on a number of specific demand-driven projects, including a project to address challenges around potable water supply in Nchalo, in partnership with GIZ and the Southern Regional Water Board (SRWB).

The project stalled due to the lack of commitment by SRWB and Illovo’s concerns that it would not widely address potable water challenges in the more remote and vulnerable communities. Illovo Malawi is now exploring alternatives through Water Witness International. However, it was followed by a project called CRIDF+, which developed a tool to help smallholders to identify their risks around climate resilience and mitigation strategies. The project was piloted with two non-grower communities, and resulted in the identification of a number of opportunities for interventions that may be supported through a future project called CRIDF2.

Despite the challenges of working on the Nchalo water supply project, Illovo Malawi welcomed the opportunity of working with CRIDF, and sees further scope for collaboration in future on irrigation projects for farmers.

Section 6: Sugar in the marketplace

Headline messages:

- Illovo Malawi spent ZAR 21 million on fortification of sugar with Vitamin A last year. 110,126 tonnes of sugar, 80% of all sales in the domestic market, were fortified with Vitamin A, reaching an estimated 2 million people.
- Illovo Malawi has a significant downstream economic impact, through approximately 20,000 small retailers who sell Illovo products within Malawi. The associated economic and employment impacts are captured within the multiplier estimates in Section 1.
- Illovo Malawi supports small businesses selling its products through commission-based incentives for hitting monthly targets, in store promotions and advertising materials.

Overview

- Illovo Malawi contributes approximately 98% of total sugar production in Malawi. To ensure that its products remain affordable, Illovo Malawi has introduced smaller pack sizes of 220gm and 500gm to cater for local customers who are financially unable to purchase larger bags.
- The downstream impacts of sugar relate predominantly to associated health impacts, as well as ensuring the safety and quality of products sold and its affordability given the local domestic markets Illovo operates in.
- Illovo has a significant downstream economic impact, as domestic sales involve many distributors/agents, wholesale chain stores, independent wholesalers, sub wholesalers, grocers, and table-top vendors, who act as resellers to consumers. Sugar is distributed to customer outlets through five distribution centres including the two mill warehouses in Nchalo and Dwangwa. The haulage of sugar to the distribution centres is supported by 20 transporters with a total fleet of 300 trucks.
- Research completed in the last two years shows that approximately 20,000 small retailers sell Illovo products within Malawi, demonstrating the extent of the downstream impact of Illovo's production. The associated economic and employment impacts are captured within the multiplier estimates in Section 1.
- To support businesses, Illovo Malawi provides commission-based incentives to customers who achieve a set target on a monthly basis. This is supported with in-store consumer promotions to support secondary sales from the local outlets and promotional and advertising materials to help drive sales. To ensure fairness, Illovo Malawi also offers uniform pricing of sugar to all customers from all warehouses by subsidising the cost of transport to the distribution centres.

Product impacts

- As a sugar-producing company, Illovo Africa advocates the promotion of a balanced and healthy lifestyle through its parent company AB Sugar's "Making Sense of Sugar" campaign (www.makingsenseofsugar.com), which aims to educate people about sugar and the role it can play in a healthy balanced diet. The stated aim is to provide science-based information about the role of sugar in the human body, to help consumers make informed choices. This is particularly important in countries such as Malawi, where sugar can be an important source of dietary calories for the poor.
- To help eliminate micronutrient malnutrition, particularly in children, the government launched a programme requiring the fortification of sugar with Vitamin A in 2012. Illovo Malawi spent ZAR 21 million on fortification last year leading to 110,126 tonnes of sugar fortified with Vitamin A that reached an estimated 2 million people.
- To help monitor the affordability of its products, Illovo conducts regular consumer immersions to inform itself of the price points required by consumers at various disposable income levels. In Malawi, measures include market research to check that retailers are selling Illovo products in line with the pricing strategy.

Recommendations and challenges

- **Communication on business understanding amongst stakeholders.**

Whilst there are well-regarded capacity building programmes and support for outgrowers, there was a desire amongst certain outgrowers to better understand the rationale and outcomes of decisions taken by Illovo Malawi concerning mill activities and medium to long term objectives. Given the changes happening within the business and external factors that may affect the industry, outgrowers would welcome more timely and transparent communication about future plans. We recommend a focussed engagement programme to enhance business understanding amongst community stakeholders, particularly outgrower communities.

- **Community needs assessment**

Community dependency on Illovo Malawi for a wide range of support – from social infrastructure to school supplies – was also a recurring theme we observed amongst stakeholders we interviewed. This places unrealistic and unsustainable expectations on the business and its shareholders and risks straining community relations when expectations are not met. A more structured approach to assessing and prioritising community needs is recommended, complimented by a business understanding campaign as mentioned above. This will enhance business understanding of priority issues and inform a coordinated, long term response.

- **Explore advocacy opportunities for shared value**

As a development partner with government, Illovo Malawi is well placed to advocate for sustainable initiatives that can promote shared value and accelerate development. Illovo could further explore opportunities to collaborate with government on priority issues that affect the economy and the business.

For example, the limited water supply to the Shire Valley is a pressing issue for businesses and communities alike. Advocating for a gravity-led stream from the Shire River would provide water for the whole valley and improve water supply for agriculture. .

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