



Illovo Sugar

Mozambique Socio-Economic Impact Assessment

Internal Management Report

April 2014

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Executive summary

Maragra Açúcar has:
<p>Contributed an estimated ZAR 861 million to Mozambique's economy in 2012/13, including direct, indirect and induced impacts. This is equivalent to about 0.7% of Mozambique's GDP, or about 2.4% of the country's agricultural sector.</p>
<p>Directly employed 4,857 people in Mozambique (including seasonal and non-permanent workers), supported an estimated 1,625 people through outgrowers, and supported further estimated indirect and induced employment of between 1,296 and 5,575. In other words, for every direct employee of Maragra Açúcar, between 0.6 and 1.4 additional workers are supported in the wider economy.</p>
<p>Estimated to support the livelihoods of between 34,612 and 53,654 people, including dependents, through direct, indirect and induced employment (based on national average household sizes).</p>
<p>Paid close to ZAR 25 million in taxes to the Government in 2012/13. Corporate income tax of close ZAR 20 million represents over 24% of pre-tax profits.</p>
<p>Invested in a major expansion of its sugar mill in 2010/11 which doubled production capacity. Much of the planned additional cane supply will depend on increased production from outgrowers, particularly smallholder farmers.</p> <p>These investments demonstrate a long-term commitment by the company to Mozambique, helping to secure jobs for the future.</p>
<p>Spent ZAR 127 million on remuneration and employee benefits in 2012/13. All employees, including agricultural and factory workers, earn above the national minimum wage and the World Bank's poverty line of \$2 per day. In addition, they receive benefits such as housing, healthcare and education allowances which also cover family members.</p> <p>This compares to the rest of the Mozambique population where 82% live at or below the poverty line of \$2 per day.</p>
<p>Spent ZAR 83million (16% of total revenues) in 2012/13 procuring sugar cane from independent farmers local to the estate, including over 330 smallholder farms.</p> <p>Spent ZAR 72 million with non-cane suppliers in 2012/13, about 20% of which was spent with companies in Mozambique benefitting around 37 small-scale businesses.</p>
<p>Helping to secure and facilitate donor funding to develop smallholder schemes such as the</p>

EU-funded Maragra Smallholder Sugarcane Development Project. This will rehabilitate current flood-prone land and provide a sustainable income stream for 4,064 smallholder families.
Spent ZAR 1.3 million on social investment in 2012/13. This included supporting local schools, promoting access to water and malaria prevention activities.
Self-generated 96% of its energy from renewable biomass sources.

Illovo Sugar in Mozambique

- **Illovo operates in Mozambique through its subsidiary Maragra Açúcar Limited, which operates a single mill in the Manhiça District in southern Mozambique.** Maragra Açúcar accounted for 21% of Mozambique's sugar production in 2012/13 and is the only miller in which the government does not own a stake.
- **Following years of civil war and political instability, Mozambique ranks 185 out of 186 on the 2012 UN Human Development Index.** It is classified as a Least Developed Country. Agriculture is the primary activity for 80% of the population yet represents only 30% of GDP, with most small-scale farmers existing at subsistence level. Approximately 70% of the rural population does not have access to an improved drinking water source and 95% does not have access to an improved sanitation facility.

Contributing to Mozambique's economy

- **Maragra Açúcar contributed an estimated ZAR 861 million to Mozambique's economy in 2012/13, including direct, indirect and induced impacts.** This is equivalent to about 0.7% of Mozambique's GDP, or about 2.4% of the country's agricultural sector. Maragra Açúcar's contribution takes the form of direct impacts (wages paid to employees, tax payments, interest spending and dividends), indirect impacts through the company's value chain, and induced impacts in the form of increased consumption and spending in the economy as a whole.
- **The business benefits many stakeholders in Mozambique.** Maragra Açúcar directly added ZAR 261 million of gross value to Mozambique's economy. 48% of the company's total value added went to employees as salaries, wages and benefits. In 2012/13, ZAR 83 million or 16% of revenues were paid to outgrowers.
- **Maragra Açúcar is a major employer** directly employing 4,857 people in Mozambique and further supporting an estimated 1,625 workers through outgrowers, and further estimated indirect and induced employment of between 1,296 and 5,575. In other words, **for every direct employee of Maragra Açúcar between 0.6 and 1.5 additional workers are supported in the wider economy.** Based on an average household size of 4.45, **Maragra Açúcar is estimated to support the livelihoods of between 34,612 and 53,654 people throughout Mozambique** (inclusive of dependents).

- **The company paid close to ZAR 25 million in taxes to the Government in 2012/13.** It paid corporate income tax of close ZAR 20 million representing over 24% of pre-tax profits.
- **Maragra Açúcar has made significant investments to its factory and land representing a long-term commitment to the sustainability of the sugar industry in Mozambique.** It expanded its sugar mill in 2010/11 to double production capacity. Much of the planned additional cane supply will rely on increased production from outgrowers, particularly smallholder farmers.

Investing in employees

- **Maragra Açúcar spent ZAR 127 million (24% of total revenues and 48% of the company's value added) on remuneration and employee benefits in 2012/13.** All employees, including agricultural and factory workers, earn above the national minimum wage and the World Bank's poverty line of \$2 per day. In addition, they receive benefits such as housing, healthcare and education allowances which also cover family members.
- **The company is building future capacity through its strong training and development at all levels of the organisation.** In 2012/13, the company spent ZAR 3.6 million on training and up-skilling its workforce. Maragra Açúcar is actively supporting the government's localisation agenda and has increased the number of senior management team that are from Mozambique.
- **Maragra Açúcar follows best practice international standards when it comes to health and safety.** All of Illovo's cane-growing and factory operations have four-star accreditation under the NOSA Integrated Five-star System covering safety, health and environmental management.

Supporting out-growers and the long-term sustainability of the sugar industry

- In 2012/13 Maragra Açúcar spent ZAR 83 million (16% of total revenues) procuring sugar cane from farmers local to its estate, including 337 smallholder farms. This represents **a significant support to the livelihoods of small, rural farmers, their families, and local communities.**
- **Maragra Açúcar is a strong supporter of smallholder schemes. The company aims to increase the proportion of sugar cane it buys from smallholders and has successfully secured donor funding to develop new schemes,** for example the EU-funded Maragra Smallholder Sugarcane Development Project. The company supports smallholders through a guaranteed market for cane as well as through investment, training and support to improve productivity. It has also assisted smallholders achieve Fairtrade certification.
- **It also spent ZAR 72 million with non-sugar cane suppliers, about 20% of which was spent in Mozambique.** The company estimates it purchases from around 37 local small businesses. This supports further indirect employment in supporting industries such as haulage, maintenance and other sectors.

Investing in the community and promoting environmental best practice

- **Maragra Açúcar spent approximately ZAR 1.3 million supporting social initiatives in 2012/13.** Whilst some of this focused on initiatives that benefitted mainly employees and their families, the company also invested in projects to address issues facing the wider community. These included providing access to water, combatting malaria, supporting local schools and hospitals, and increasing the productivity of small-scale farmers.
- **Maragra Açúcar is almost energy self-sufficient – it generated 96% of the energy that it uses on-site, using the renewable by-product, bagasse.** The company aims to have minimal impact on the environment through its operations and closely monitors water, energy and pesticide use at its site.

Future considerations based on observations from site visit

It is evident that Maragra Açúcar has significant positive impacts in the community in which it operates. Below is a summary of key opportunities to enhance the positive impact the company can have and are based on observations from our short site visit. In addition, Corporate Citizenship has produced a management presentation outlining key observations and more detailed recommendations for Illovo at the group-level.

Stakeholder and community engagement

- While there was evidence of some engagement with local stakeholders, we believe **Maragra Açúcar would benefit from engaging more proactively and constructively with all key stakeholders** – particularly those it has historically had less contact with or have been critical in the past e.g. NGOs, civil society and local community. **A structured approach, defined by key principles, toolkits, training at the local-level and on-going monitoring,** will help to ensure risks from engagement are minimised.
- As part of a wider stakeholder engagement process, we recommend **Maragra Açúcar consider a formalised process with the wider community to understand their needs and where it can focus its investment.** A focused strategy will also help Maragra Açúcar better communicate the impact of its social investment.

This should include:

- **Community consultation** – engaging with key stakeholders in the community such as community leaders, local government, community-based organisations, NGOs to understand key challenges and needs.
- **Define Maragra Açúcar role** – using findings from the consultation to identify priority areas for Maragra Açúcar’s social investment that help address wider community needs, where there is benefit to the business as well as the resources it has to offer.

Local enterprise development

- Maragra Açúcar has taken steps to promote local enterprise development, for example helping some local businesses gain access to finance so they can expand their business.
- We recognise there are business critical factors such as quality, price, capability and efficiencies which mean local sourcing will not always be feasible. However, we believe Maragra Açúcar could have an even greater impact by focusing more on specific aspects of local sourcing and enterprise development.

Maragra Açúcar should consider how to:

- **Identify opportunities across the value chain** – engage directly with local suppliers to understand their key challenges and where it could have the greatest impact.
- **Define Maragra Açúcar's role** – identify core activities to build capacity. From our observations we believe there is an opportunity to support with i) providing mentoring and training on general business skills e.g. financial management ii) promoting access to finance through innovative solutions/relationships with commercial banks and other organisations. Maragra Açúcar could also consider developing a local preferred supplier list so it can focus its capacity building efforts on specific businesses and create a more efficient system with limited administrative burden.
- **Explore partnerships** – take a collaborative approach and explore partnerships with government agencies, NGOs and local grassroots organisations.
- **Measure performance** – incorporate KPIs and targets with long-term return on investment to understand and communicate the impact the company is having.

Promoting gender diversity

- Women's participation is increasingly important for the development agenda and NGOs, as evidence suggests economically active women help build stronger communities. The company **could go further to develop a more strategic approach to gender diversity**. This should consider **delivering social investment programmes** focusing on women's empowerment, **investing in specific education and training** for female employees, suppliers and business partners and **building partnerships with local organisations**.



Introduction

Illovo Sugar Limited (Illovo) is Africa's biggest sugar producer with extensive agricultural and manufacturing operations in six African countries: Malawi, Tanzania, Mozambique, Swaziland, Zambia and South Africa itself.

To form a deeper understanding of its impact, Associated British Foods, which holds a 51 percent stake in Illovo, commissioned Corporate Citizenship to undertake a socio-economic impact assessment of Illovo's operations.

This internal management report sets out key findings from the assessment and focuses on Illovo's direct socio-economic impact in Mozambique, as well as its indirect and wider impacts through its value chain (outgrowers, suppliers and customers).

Other reports are available covering the socio-economic impact of Illovo in the other African countries where it operates. In addition, there is a Group-wide management presentation outlining key observations and recommendations.

Methodological note

Corporate Citizenship's process for this project involved reviewing financial and management information provided by each Illovo country team. This was followed by site visits to Swaziland, Zambia, Mozambique and Malawi to visit the operations and their surrounding communities, as well as interview senior management and key stakeholders affected by the business. These 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.

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).

Section 1: Sugar in Mozambique

Headline messages:

- Mozambique is classified as a Least Developed Country and is ranked 185 out of 186 in the UN Human Development Index.
- Recent economic growth is driven by foreign investment in mining, which has not so far benefited the broader economy.
- Agriculture is the primary activity for 80% of the population yet represents only 30% of GDP, with most small-scale farmers existing at subsistence level.
- Illovo's subsidiary Maragra Açúcar Limited accounts for 21% of Mozambique's sugar production and is the only miller in which the government does not own a stake. It has a long history of investing in the country.
- Mozambique's sugar industry is expanding rapidly, with production rising from 400,000 tonnes in 2000 to 2.8 million tonnes in 2010. Sugar accounts for 20% of Mozambique's agricultural exports.

Mozambique's economic structure

Mozambique is one of the world's least developed countries, ranked 185 out of 186 on the 2012 UN Human Development Index. Following years of civil war and political instability, the economic outlook for the country is now strengthening as a result of foreign investment in mining, with the economy growing 7.5% in 2012. However, the benefits of this economic growth have not been widely felt.

Development challenges

Foreign investment in the mining sector is not expected to contribute significantly to job creation and diversification is needed to spread wealth more effectively throughout the economy.

Mozambique Country Data ¹	
Economic Indicators (2012 est.)	
GDP (purchasing power parity)	\$26.7 billion
GDP per capita	\$ 1,200
Annual GDP growth rate	7.5%
Annual inflation rate	2.1%
Labour Market Indicators	
Population	24 million
Labour Force	10.1 million
By occupation	Agriculture 81% Industry 6% Services 13% (2007 est.)
Population location	Rural 69% Urban 31% (2011)
Unemployment	17% (2007 est.)
Poverty Indicators	
Population living at or below \$2 per day (PPP)	81.8% (2009)
Adult literacy rate	56%
Life expectancy at birth	52 years (2013 est.)

¹ CIA (2013) *World FactBook: Mozambique*

Mozambique has a high prevalence of HIV/AIDS at a rate of 11.5% which has contributed to a reduced life expectancy of 52 years. The country has only three physicians per 100,000 citizens.

Nearly 70% of the population inhabits rural areas, where the vast majority rely on subsistence agriculture. Approximately 70% of the rural population does not have access to an improved drinking water source and 95% does not have access to an improved sanitation facility. Despite representing the primary activity for 80% of the population, agricultural productivity is lacking. The sector represents only 30% of GDP.

Sugar industry in Mozambique

Mozambique's sugar industry is expanding rapidly, with production rising from 400,000 tonnes in 2000 to 2.8 million tonnes in 2010. Sugar accounts for 20% of Mozambique's agricultural exports, and the industry's four commercial millers employ nearly 30,000 workers in rural areas.

Mozambique exports sugar to EU markets under the Everything But Arms Arrangement, which allows exports from least development countries to have duty-free, quota-free access to the EU markets. Mozambique primarily exports raw sugar to the EU and US markets.

About 80% of all sugar consumed in Mozambique is brown, unrefined sugar. There are no "white end" refining mills in Mozambique, meaning that the majority of refined sugar is imported from South Africa².

Illovo in Mozambique

Illovo's subsidiary Maragra Açúcar Limited, which is 90% owned by Illovo Group, accounted for 21% of Mozambique's sugar production in 2012/13. It is the only miller in which the government does not own a stake. The company produces raw sugar and molasses for customers in Mozambique and international markets.

Illovo has a long history of investing in Mozambique. Its sugar estate in the Manhiça District of Maputo Province was Illovo's first acquisition outside of South Africa. Following the acquisition, Illovo invested heavily (\$55 million) to rehabilitate the land and upgrade the factory. This commitment to Mozambique was further demonstrated following the heavy floods in 2000 where sugar crops were completely destroyed. Illovo made further significant investments to replant crops and build better flood defences, helping to secure the long-term future of the industry in the region.

The company has 6,500 hectares of land on a 50 years lease from the Government of Mozambique, of which 6,000 hectares is under cane. There have been no expansions since 2004/05, when an area of about 320 hectares was developed to cane. The company is currently in discussions to develop a similar area of land owned by one of the company's large outgrowers.

² USDA/GAIN (2013), *Mozambique Sugar Annual Report*

Section 2: Supporting economic growth

Headline messages:

- Maragra Açúcar contributed an estimated ZAR 861 million to Mozambique's economy in 2012/13, including direct, indirect and induced impacts. This is equivalent to about 0.7% of Mozambique's GDP, or about 2.4% of the country's agricultural sector.
- Maragra Açúcar directly employs 4,857 people in Mozambique, supports an estimated 1,625 workers through outgrowers, and supports further estimated indirect and induced employment of between 1,296 and 5,575. In other words, for every direct employee of Maragra Açúcar, between 0.6 and 1.5 workers are supported in the wider economy.
- Maragra Açúcar significant investments to its factory and land represent a long-term commitment to the sustainability of the sugar industry in Mozambique.
- Maragra Açúcar has embarked on a strategy to increase cane supply by about 300,000 tonnes. Land constraints in the area mean that the additional sugar cane required must be sourced from outgrowers, especially small-scale farmers.

Maragra Açúcar adds value to the economy of Mozambique by taking raw sugar cane, milling and refining it, and producing sugar. The company's impacts on its region and the wider economy take three major forms:

- **Direct** impacts, through Maragra Açúcar's employment of workers on farms and in factories as well as tax payments, interest spending, shareholder dividends, investments and other payments;
- **Indirect** impacts through Maragra Açúcar's supply and value chains, including payments to farmers, suppliers and distributors, and impacts on those selling Maragra Açúcar products or using them in their businesses;
- **Induced** impacts, through spending by direct and indirect employees that leads to increased consumption and employment in the broader economy.

Additional, secondary impacts that result from Maragra Açúcar's presence in Mozambique include the provision of infrastructure such as roads, water, schooling and healthcare. These are described in this report, but have not been given a financial value.

In order to estimate Maragra Açúcar's full macro-economic impacts, Corporate Citizenship has used information from various academic studies into the economic impacts of the sugar industry in southern Africa, including "multipliers" which estimate, for example, the amount of indirect and induced employment created per direct employee in the sugar industry. Full details are contained in Appendix 1.

The sugar industry in southern Africa is noted in a variety of studies for its large multiplier effects. This is due to the relative labour intensity of production, compared to other agricultural crops such as maize and wheat, as well as the large number of smallholder farmers in the value chain. Sugar cane must be milled as soon as possible after harvesting in order to preserve its sucrose content, resulting in the widespread and rapid transmission of income to local people. As well as creating demand for fertiliser, fuel and mechanical equipment, sugar provides opportunities to sectors such as transport, retailing and hospitality, as well as food processing and beverage companies.

Total economic impacts

Maragra Açúcar's direct contribution to Mozambique's economy, the difference between the company's revenues and its input costs otherwise known as its gross value added, was ZAR 261 million in 2012/13. The company's additional indirect impacts are estimated at ZAR 290 million³, and its induced impacts at ZAR 301 million.

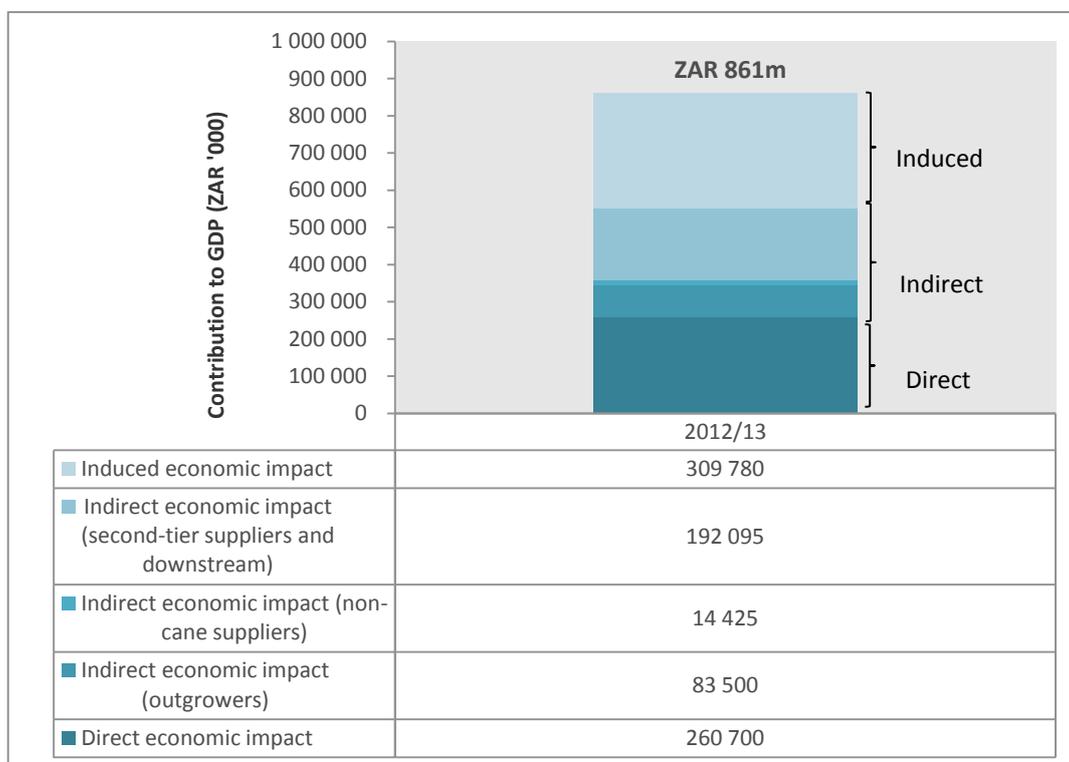
Maragra Açúcar's total contribution to Mozambique's economy, including direct, indirect and induced impacts, is therefore estimated at ZAR 861 million, equivalent to about 0.7% of Mozambique's GDP, or about 2.4% of the country's agricultural sector⁴⁵.

³ Including spending with outgrower farmers of ZAR 83.5 million and non-cane procurement spending in Mozambique of ZAR 14.4 million (see Section 4), as well as wider impacts through second-tier supplier spending and impacts in the downstream value chain. See Appendix 1 for an explanation of the multipliers used.

⁴ [IMF World Economic Outlook Database](#), Mozambique gross domestic product, current prices, 2012

⁵ [CIA World Factbook for Mozambique](#), GDP - composition, by sector of origin

Maragra Açúcar: Total economic impacts in Mozambique (estimated), 2012/13



Contribution to employment

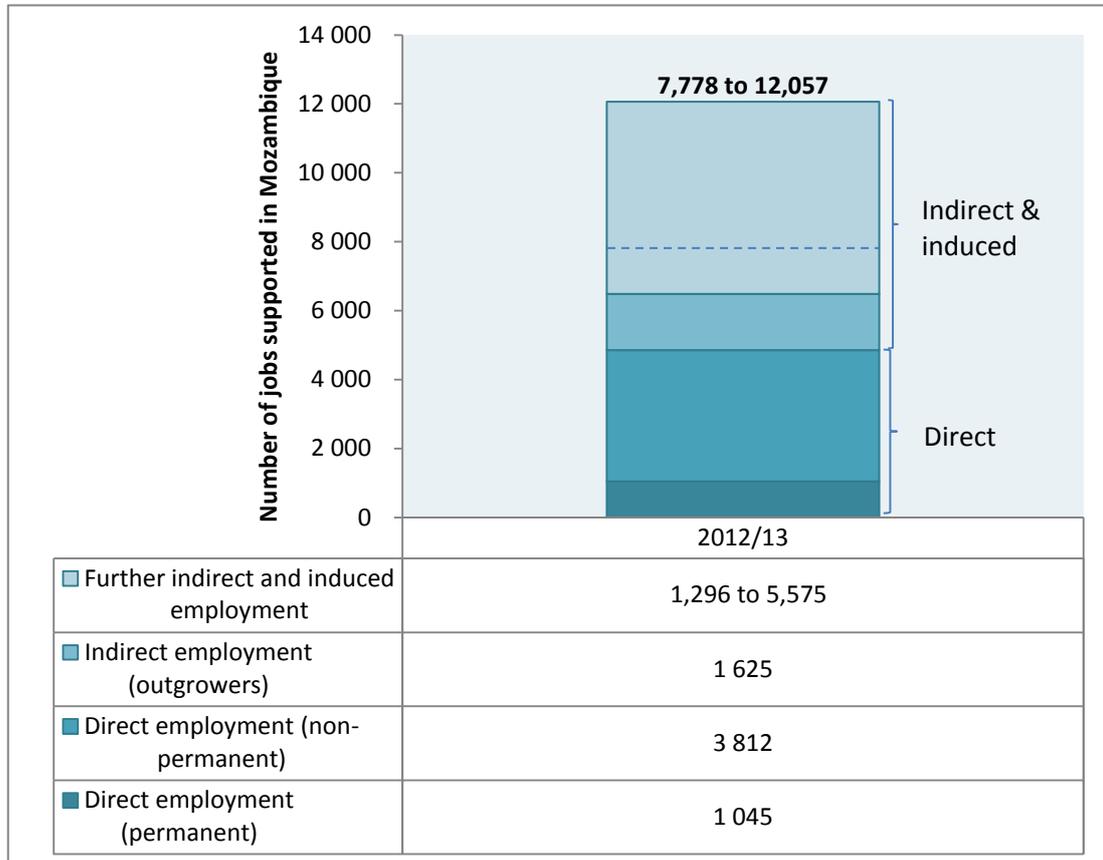
Maragra Açúcar is estimated to support between 7,778 and 12,057 jobs in Mozambique. This includes direct employment of 4,857 people⁶, an estimated 1,625 workers supported through outgrower farms, and further estimated indirect and induced employment of between 1,296 and 5,575⁷ people. In other words, for every direct employee of Maragra Açúcar, between 0.6 and 1.5 additional workers are supported in the wider economy. These estimates are based on a range of conservative multipliers from external studies, and may in fact understate Maragra Açúcar's total employment impact, since some informal employment may not be accounted for.

Maragra Açúcar's impact on livelihoods does not end with those who it employs. As a result of the poor, rural areas in which the company is based, there is a significant impact on workers' dependents (i.e. immediate and extended family). The average household size in Manhiça is 4.45, although the total number of dependents supported by rural farmers is likely to be higher. Maragra Açúcar is therefore estimated to support the livelihoods of between 34,612 and 53,654 people throughout Mozambique, equivalent to up to 10 people for every direct employee of the company.

⁶ 1,045 permanent employees, plus 3,812 seasonal workers. Seasonal workers are hired according to the milling season of 6-9 months, so receive a significant proportion of their incomes from the company.

⁷ See Appendix 1 for an explanation of the multipliers used.

Maragra Açúcar: Total employment impacts in Mozambique (estimated), 2012/13



Distributing wealth

Maragra Açúcar is a successful and growing business that benefits many stakeholders within Mozambique. The company’s pre-tax profits were ZAR 80 million in 2012/13, up from ZAR 63 million the previous year.

The wealth that Maragra Açúcar creates for the economy and society is represented through its direct “value-added”, the majority of which is distributed to employees and other stakeholders with some retained by the business for reinvestment. In 2012/13, 65% of the ZAR 265 million value-added was distributed to employees, providers of capital and the government, and 35% reinvested in the business.

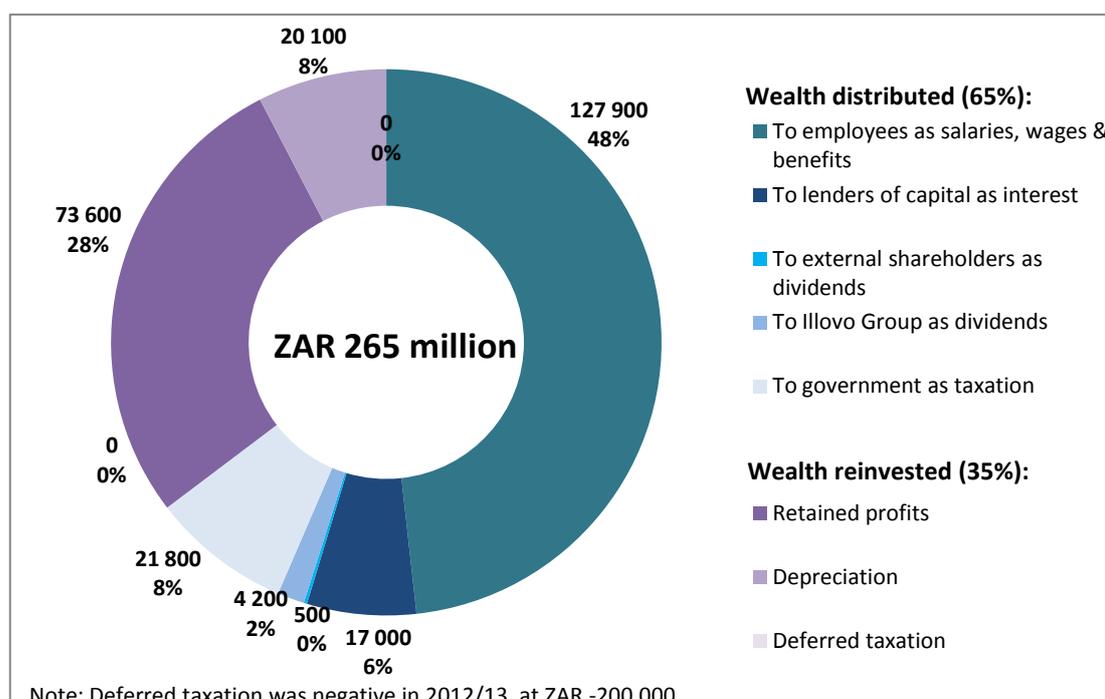
Dividends to Illovo Group account for about 2% of gross value-added. The remaining dividends go to private external shareholders, many within Mozambique. After dividends to Illovo Group are subtracted, this leaves a total direct value-added contribution to Mozambique’s GDP of about ZAR 261 million.

Amongst the company’s input costs, outgrower farmers represent a smaller proportion of expenditure than for a number of other Illovo companies. However, they still received about 16% of the company’s revenues in 2012/13.

Maragra Açúcar wealth creation, 2012/13

Revenue	ZAR 536 million	
Paid to outgrower farmers	(ZAR 83 million)	16%
Manufacturing costs	(ZAR 188 million)	35%
Total value-added	ZAR 265 million	49%

Distribution of Maragra Açúcar value-added, 2012/13



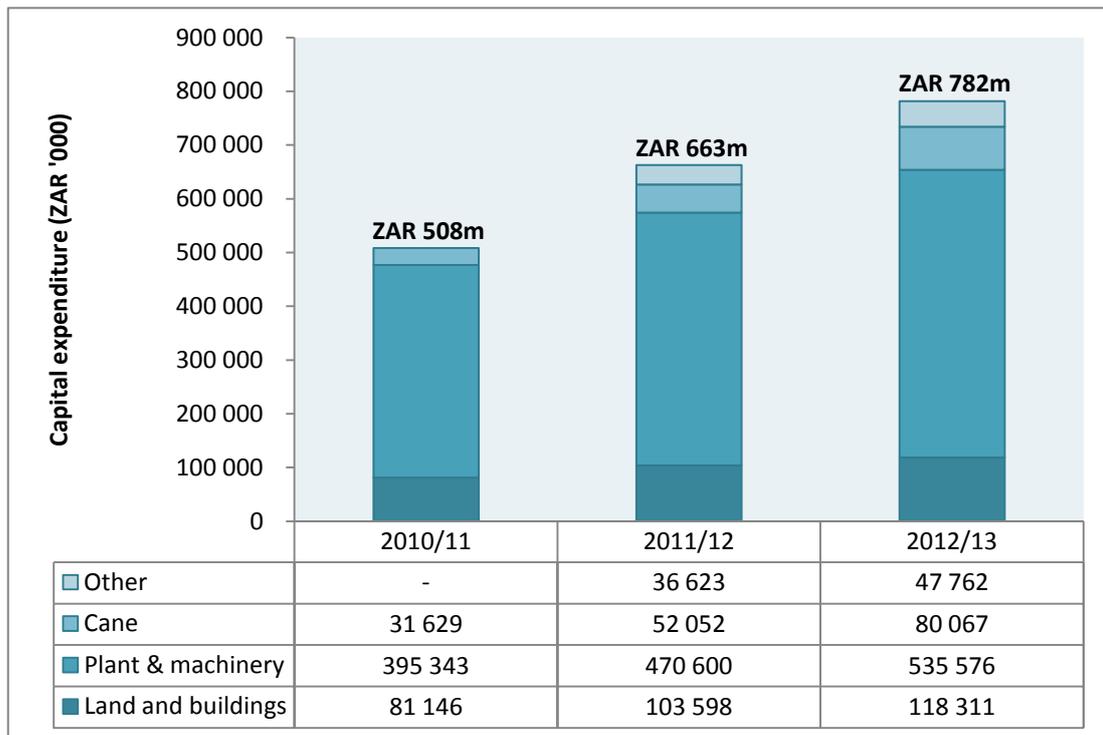
Investing in the future

Maragra Açúcar’s investments in its farms and factory represent a long-term commitment to the sustainability of the sugar industry in Mozambique and to promoting the livelihoods of small growers. In 2010/11, Maragra Açúcar completed an expansion of its sugar mill, which doubled its production capacity to around 150,000 tonnes per year. While this level of production was not realised in 2012/13, due to issues with boiler performance that have since been rectified, the company aims to increase sugar production to above 100,000 tonnes in 2013/14.

In order to eventually utilise all available capacity, Maragra Açúcar has embarked on a strategy to increase cane supply to 1 million tonnes of cane per annum (an increase of about 300,000 tonnes). While this plan includes investments in the company’s own farms, and the proposed development of an area of undeveloped land owned by one of the company’s large outgrowers, much of the additional cane supply will depend upon increased production from outgrowers, especially small-scale farmers. Once the target has been sustainably achieved, Maragra Açúcar may pursue a further factory expansion plan, which would then trigger further increased demand from outgrowers. The company therefore aims to have a significant and increasing long-term impact on the livelihoods of rural farmers surrounding its estate.

In 2012/13, Maragra Açúcar’s total capital expenditure amounted to ZAR 782 million, an increase on both previous years.

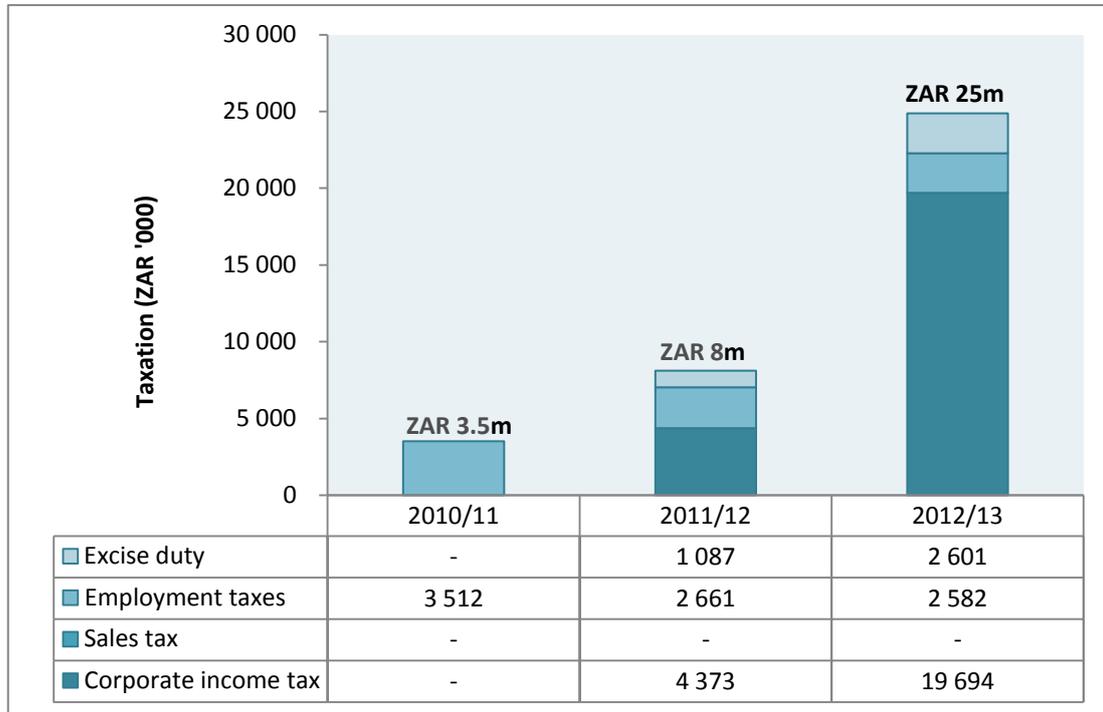
Maragra Açúcar capital expenditure, 2011-13



Contributing to public finances

Maragra Açúcar paid nearly ZAR 20 million in corporate income tax in 2012/13, representing over 24% of pre-tax profit. The company paid an additional ZAR 5 million in indirect taxes, including employee taxes and duties, for a total tax contribution of nearly ZAR 25 million. Sugar is exempt of sales tax in Mozambique.

Maragra Açúcar taxation, 2011-13



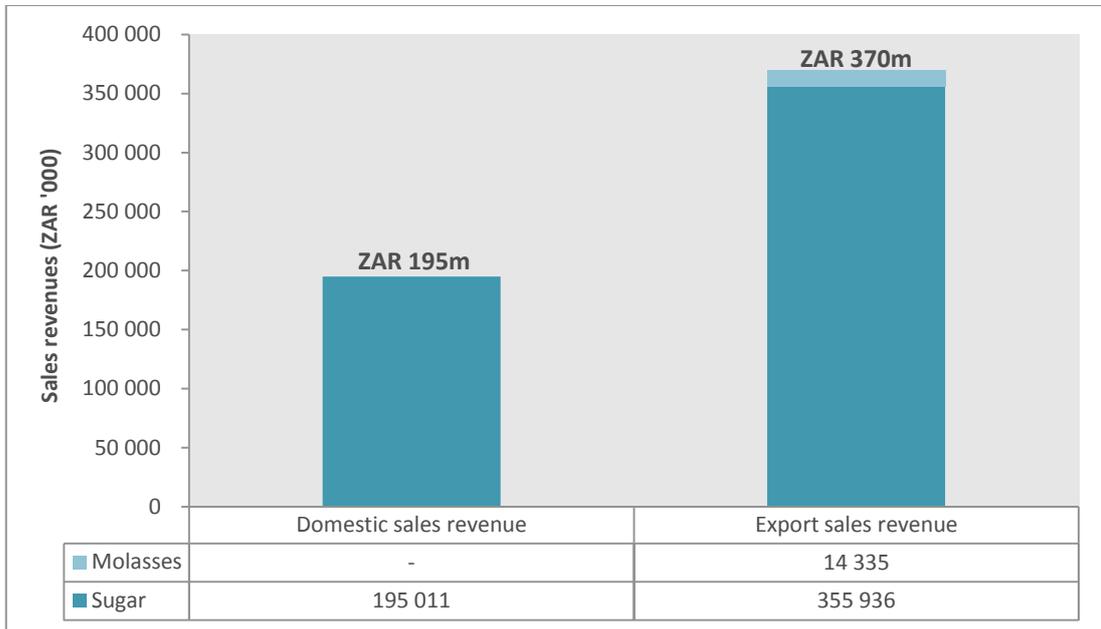
Contributing to trade

Sales of sugar into domestic markets benefit local consumers and help reduce reliance on imports, while exports have a positive impact on Mozambique’s balance of trade, increasing flows of foreign revenues into the country.

All domestic sugar sales in Mozambique are handled by the industry marketing association, the Distribuidora Nacional de Açúcar. Roughly one third (34%) of Maragra Açúcar’s sales revenues in 2012/13 came from domestic sugar sales, totalling ZAR 195 million.

The remaining 66% (ZAR 370 million) of sales revenues were from exports of sugar and molasses, with higher European prices boosting revenues significantly in 2012/13. Comparing export revenues with Maragra Açúcar’s imports of about ZAR 197 million and remitted profits of about ZAR 4 million shows that Maragra Açúcar has a significant positive impact on Mozambique’s balance of payments.

Maragra Açúcar domestic and export sales revenues, 2012/13



Section 3: Creating jobs and supporting livelihoods

Headline messages:

- In 2012/13, Maragra Açúcar directly employed 4,857 people, making it a significant employer for the Manhiça district. Through direct employment, the company supports the livelihoods of over 21,000 employees and family members.
- The company spent close to ZAR 127 million on remuneration and employee benefits in 2012/13. All employees, including agricultural and factory workers, earn above the national minimum wage, and receive enough money to support themselves above the World Bank's poverty line of \$2 per day (PPP). In addition to their basic wage they receive benefits such as housing, healthcare and bonuses, which are also extended to seasonal workers.
- In the fight against HIV/AIDS Maragra Açúcar provides workers with the opportunity to be tested every month. Those tested positive are given access to treatment and additional allowances to reinforce their diet. The company spends over ZAR 2 million a year on providing healthcare to its employees.
- Gender diversity remains a challenge for Maragra Açúcar. Approximately 13% of its employees are women, but very few of these women are in leadership roles and there are none in senior management.
- Maragra Açúcar spent over ZAR 3.5 million on training and up-skilling its workforce in 2012/13. A third of Maragra Açúcar's senior management are local citizens, up from 21% previously.

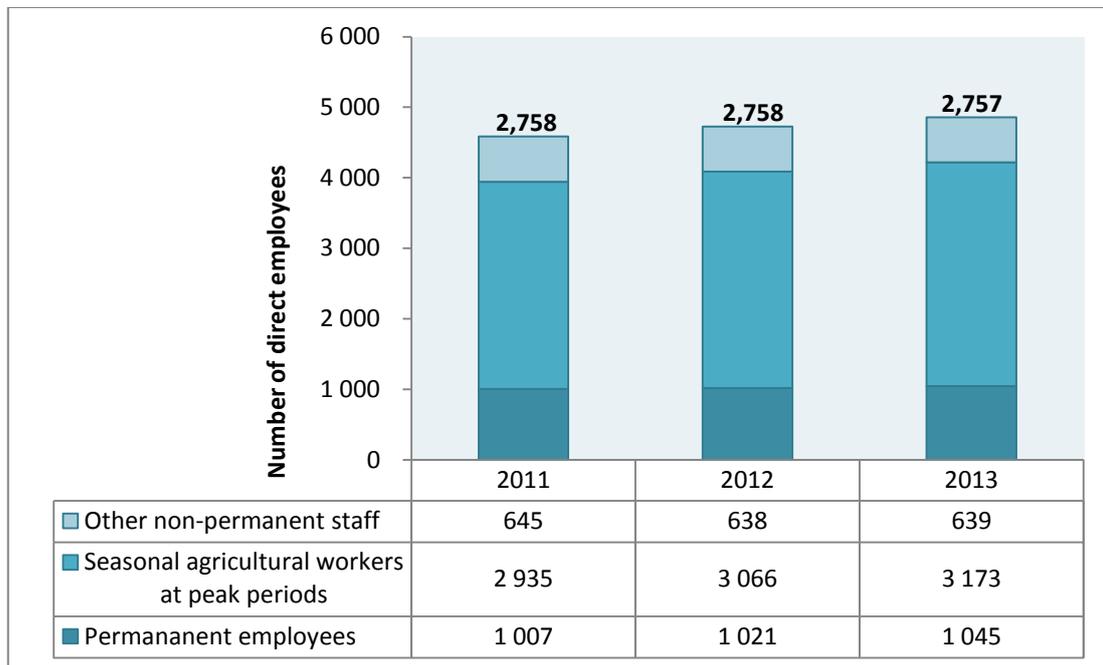
Direct employment overview

Maragra Açúcar is a major source of employment and makes an important contribution to the health and livelihoods of local citizens. Its presence has been pivotal in creating a thriving community in Manhiça.

Maragra Açúcar employs a total of 4,857 people, of which 1,045 are permanent employees and 3,812 non-permanent fixed-contract employees, including 3,173 seasonal agricultural workers employed during peak periods⁸. The employment offered by Maragra Açúcar represents stability for the local community, with employment figures relatively constant over the past three years.

⁸ Employment figures may differ from those reported in the Illovo Integrated Report due when the headcount on employee numbers was conducted.

Maragra Açúcar’s direct employment, 2011-13



Maragra Açúcar is the primary supporter of livelihoods in the Manhica region. In Mozambique, over 45% of the population is aged 0 to 14 years and therefore heavily dependent on other family members to provide for them. In many cases a single employee will be the sole earner in a family. Based on the average household size of 4.45 (in the Manhica district), it is estimated that through providing direct employment, Maragra Açúcar supports the livelihoods of approximately 21,614 people, including the family members and dependents of employees.

Extended impact of direct employment



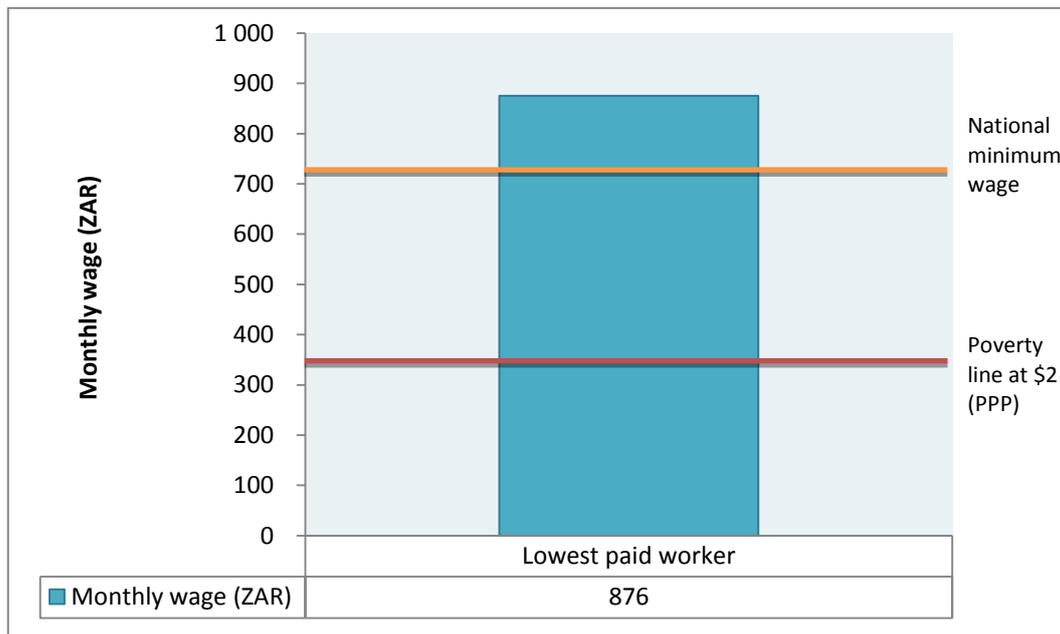
Direct employment represents only one aspect of Maragra Açúcar’s support for livelihoods. The company also indirectly supports livelihoods through jobs in the wider value chain.

Competitive income levels

Maragra Açúcar paid its employees a total of close to ZAR 118 million in wages during 2012/13. A further ZAR 9 million was spent providing employee with benefits in addition to the basic pay. The lowest paid worker at Maragra Açúcar receives a monthly salary of ZAR 876 which is above Mozambique’s statutory minimum wage of ZAR 731 per month.

According to a 2009 study, 81.8% of Mozambique’s population lives on or below US\$2 a day (PPP)⁹. All employees at Maragra Açúcar, including agricultural and factory workers, receive enough money to support themselves above the median poverty line for the developing world defined by the World Bank at \$2 (PPP) per person a day. However, the income of the lowest paid worker becomes stretched if we assume that they are the sole earner of a typical household.¹⁰ This does not take into account the additional benefits such as healthcare, education allowances and housing which employees and their dependents receive.

Maragra Açúcar monthly wages, 2012/13



Employee relations

Sugar cane harvesters, particularly those who work on a seasonal basis and without formal contracts, are some of the most vulnerable workers in Maragra Açúcar’s value chain. Strong and active unions help to promote constructive dialogue, workers’ interests and labour standards. In 2012/13, approximately 99% of Maragra Açúcar’s permanent non-management employees were members of a trade union; this is up significantly from 87% in the previous year¹¹.

Additional benefits

Maragra Açúcar employees receive a wide range of benefits in addition to their salary, including housing, which is replaced by an accommodation allowance for more senior employees. The company provides healthcare and medical aid for all employees and

⁹ <http://data.worldbank.org/indicator/SI.POV.2DAY/countries/MZ?display=graph>

¹⁰ The \$2 a day (PPP) has been calculated as ZAR 348 per person per month (2013 prices), or ZAR 1,549 per household per month (see Appendix 2 for further detail)

¹¹ Data sourced from the Illovo Integrated Report, 2013.

education allowances for their families. Seasonal workers receive healthcare and a bonus, in addition to their basic wages.

Maragra Açúcar breakdown of spend on main benefits, 2013¹²:

Benefit	Spend (ZAR)
Accommodation	Data not available
Health Care	2,280,158
Education (COS)	243,414
INSS	3,714,001
Bonus	5,304,001
Company Vehicle	12,239,320

Contributing to health and wellbeing

Much of the medical provision comes through the clinic built by Maragra Açúcar for its employees and up to 7 dependents for each permanent employee. The clinic has its own qualified doctor and offers occupational healthcare alongside medical examinations. The clinic is currently undergoing an expansion which is due for completion in April 2014.

HIV/AIDS

Based on 2009 data, 11.5% of Mozambique's population is infected with HIV/AIDS. Maragra Açúcar's approach to the battle against HIV/AIDS is deliberately aligned with UNAIDS 'Triple Zero' strategy of zero infections, zero deaths and zero discrimination.

The company provides workers with the opportunity to be tested whilst at work, on a monthly basis, helping to increase take-up of voluntary tests. Any workers who test positive receive access to treatment and an allowance of 1,870MT (roughly ZAR 546) per person to reinforce their diet. At the time of this report, Maragra Açúcar is supporting 140 workers through this programme.

The company's induction programme also raises awareness and educates employees about the risks of HIV/AIDS.

¹² Due to differences in the calculation of benefits, these figures may differ from what is included in the Illovo Integrated Report, 2013.

Malaria and other diseases

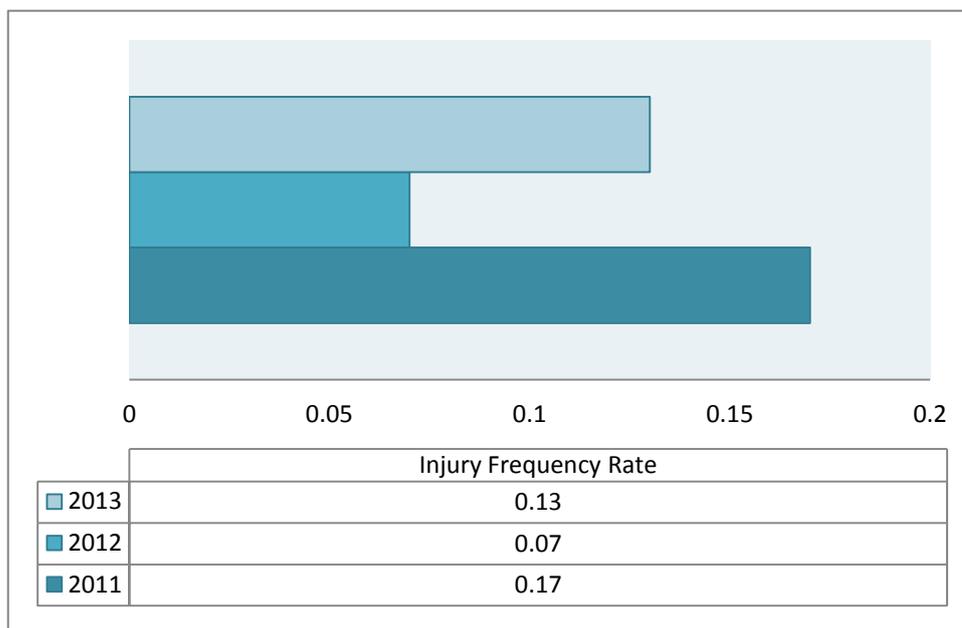
Malaria remains a key challenge in Mozambique. Maragra Açúcar has achieved considerable success in reducing infection rates through a public-private partnership with the government that supports an indoor residual spray programme in the surrounding community.

Occupational safety

Occupational safety is a core priority across the Illovo Group as a whole. Maragra Açúcar has implemented the NOSA Integrated Five-star System covering safety, health and environmental management at both its cane growing and factory operations. All of its facilities received a NOSA rating of at least four stars during 2012/13.

Maragra Açúcar spent ZAR 259,700 on health and safety training during the year, covering areas such as Safety, Health and Environment (SHE), first aid, defensive driving, fire fighting and incident investigation. This focus on health and safety has helped to drive down the number of disabling injuries across the company from 86 on the estate in 2007 to 4 in 2013. The company’s accident rate remains a challenge in an industry with inherent hazards. However, no fatalities have been suffered during the last three years.

Accident Injury Frequency Rate, 2011-13



Improving diversity

The importance of women’s economic participation is increasingly understood by NGOs, with evidence suggesting that active women help to build stronger, thriving communities. Despite diversity being a group-wide priority for Illovo, the number of women working in

agriculture remains a challenge. Women face barriers to accessing land and credit, earning income and developing skills.

Maragra Açúcar employs a total of 632 women, which is 13% of the employee count. This is made up of 168 women in permanent positions and 464 in temporary or seasonal work. The company currently has no female senior managers.

Maragra Açúcar's workforce profile, 2012/13:

Position	Male:	Female:	Percentage female:
General Management	3	0	-
Senior Managers	12	0	-
Middle Management	16	5	24%
First Line Managers & Lower C	48	6	11%
C-Band	179	9	5%
A and B Band	619	148	19%
Seasonal and temporary workers	3348	464	12%

Developing skills and talent

The availability of skilled labour, particularly in engineering, is a key issue in Mozambique. Employee development is therefore an important part of Maragra Açúcar's strategy for ensuring the sustainability of its business. In 2012/13, the company spent ZAR 3.6 million on training and up-skilling its workforce.

Maragra Açúcar provides apprenticeships for artisans, many of whom are employed by the company upon completing their courses. It had 16 apprentices in 2012/13, all of which passed trade tests at Shukela Training Centre. It also provides an internship programme for graduates and trainees from technical schools.

Additionally, Maragra Açúcar offers engineer-in-training, management and leadership development, both for current and emerging leaders. The company had 5 employees undertaking professional qualifications in 2012/13.

Maragra Açúcar actively promotes local talent through its recruitment and training and development programmes. It has put in place a localisation plan to support the government's localisation agenda. In 2012/13, 33% of its senior management were local citizens, up from 21% in the previous financial year.

Section 4: Value chain impact – suppliers

Headline messages:

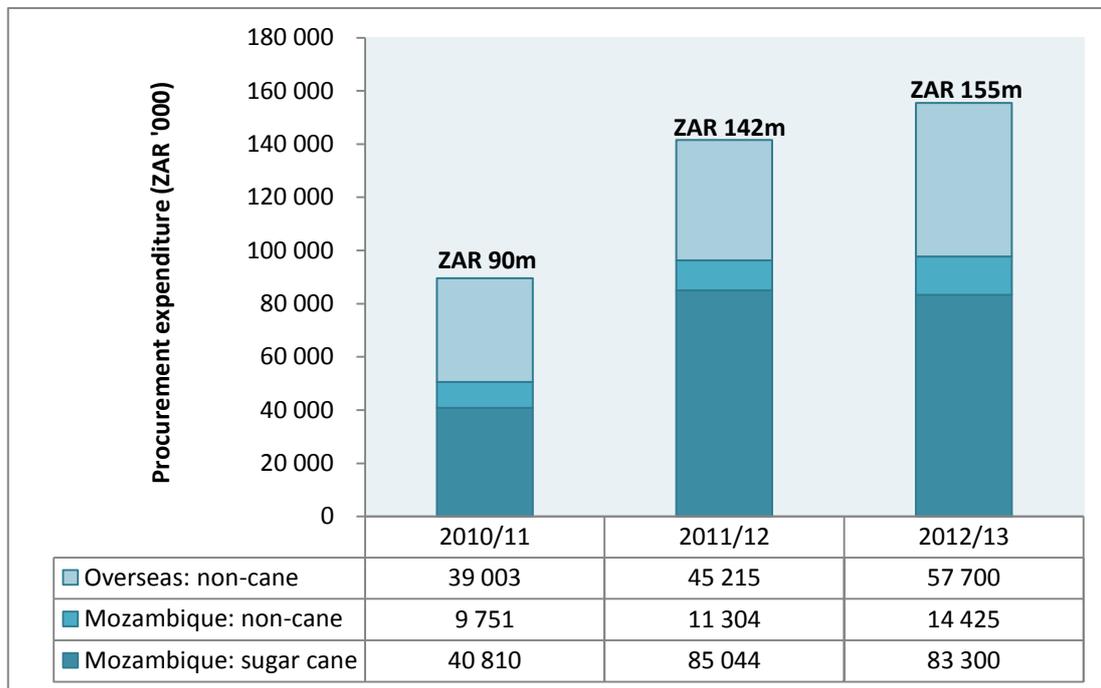
- In 2012/13, Maragra Açúcar spent ZAR 83 million (16% of total revenues) procuring sugar cane from farmers local to its estate, including 337 smallholder farms. The company plans to increase significantly the amount of cane that it sources from smallholder farms.
- In addition, Maragra Açúcar spent ZAR 72 million with non-cane suppliers, about 20% of which was spent with companies in Mozambique. Maragra Açúcar's presence in Manhiça has been instrumental in creating a thriving local economy.
- Maragra Açúcar is playing an important role in securing donor funding to support outgrower development schemes. These plans include the EU-funded Maragra Smallholder Sugarcane Development Project, which is currently in development.

Maragra Açúcar's supply chain

Maragra Açúcar buys 26% of its sugar cane from independent outgrower farmers, with the remaining 74% grown on company land. This is substantially lower than in many of the six other countries where Illovo operates. However, the company is pursuing policies that will increase the proportion of cane that it outsources. It spent ZAR 83 million with local outgrowers in 2012/13, buying 187,300 tonnes of cane and supporting the livelihoods of many small, rural farmers, their families and local communities.

In addition, Maragra Açúcar spent ZAR 72 million on non-cane procurement in 2012/13, around 20% of which was spent with companies in Mozambique. Over the last three years non-cane sourcing has steadily increased, helping to bring further economic benefit to businesses in Manhiça and wider Mozambique.

Maragra Açúcar procurement spending, 2012/13



Maragra Açúcar buys sugar cane from three main types of independent growers:

- **Small-scale growers** with less than 20 hectares of land under cane. Maragra Açúcar sources from 337 such growers, who provided over 40,000 tonnes of sugar cane in 2012/13, accounting for about 17% of the total cane from outgrowers.
- **Medium-scale growers** with 20-120 hectares under cane. 29 medium-scale growers supply cane to Maragra Açúcar, accounting for about 37% of outgrower spending.
- **Large-scale growers:** commercial farms with more than 120 hectares under cane. Illovo buys cane from five such farms, representing around 45% of its total spending with outgrowers.

Maragra Açúcar plans to increase its consumption of sugar cane from about 700,000 tonnes in 2012/13 to 1 million tonnes, in order to fully utilise spare capacity at its factory. Due to land constraints in the area, much of this increased demand will come from outgrowers, and the company is pursuing initiatives to increase significantly the amount of cane that it sources from small-scale growers. Initiatives such as the EU-funded Maragra Smallholder Sugarcane Development Project (MSSDP), which is currently in development, are expected to play a key role increasing the proportion of cane sourced from smallholders.

Supporting employment in the supply chain

Outgrower employment

Maragra Açúcar provides significant indirect employment through its spending with outgrower farmers. This includes the 371 farmers from whom the company buys cane, and also the workers who plant, fertilise, weed and harvest the crop.

Detailed surveys would be required to give a precise estimate of the total employment that this represents. However, a rough estimate of the impact has been calculated by Maragra Açúcar using assumptions on the number of workers required per hectare of land. This results in an employment estimate of 1,254. Adding to this the 371 farm owners themselves brings the total estimate of employment through outgrowers to 1,625.

The average household size in Manhiça is 4.45, although the total number of dependents supported by rural farmers is likely to be higher. Maragra Açúcar is therefore estimated to support the livelihoods of around 7,231 people through its purchase of outgrower cane in Mozambique, although larger rural households may mean that this figure is an underestimate.

Further supply chain employment

Maragra Açúcar's spending with non-cane suppliers in Mozambique supports further indirect employment in the haulage, maintenance, and machinery sectors, with a total of 37 key suppliers in the local area. This spending generates further economic activity as suppliers and their employees spend money with other local businesses.

Supporting outgrower livelihoods

Mozambique is one of the world's poorest countries, and more than 70% of its poor households living in rural areas¹³. Agriculture employs nearly 80% of the workforce, but is largely subsistence-based, leaving its practitioners highly vulnerable¹⁴. In 2000 the worst floods in living memory killed many people, destroyed crops and left around 100,000 people homeless. Since then, further disasters have repeatedly displaced families and affected agricultural yields.

By providing incomes and support to outgrowers, Maragra Açúcar helps reduce rural poverty. Through its sourcing of cane from smallholders, the company enables poor farmers to scale up their operations from subsistence levels.

Outgrowers supplying Maragra Açúcar have over 3,300 hectares of land under cane. However, Maragra Açúcar estimates that only 35% of outgrowers' land is used to grow cane, meaning that a large amount is still available for other crops. Despite potentially replacing food crops on some land, sugar cane also has positive impacts on farmers' food

¹³ <http://www.ruralpovertyportal.org/country/home/tags/mozambique>

¹⁴ <http://www.worldbank.org/en/country/mozambique/overview>

security. Income from sugar cane can be used to purchase food, and also to purchase fertiliser that supports greater yields and a greater range of food crops.

Maragra Açúcar undertakes to purchase all cane delivered by its registered outgrowers.

Supporting farmer productivity

Beyond providing a market for sugar cane, Maragra Açúcar engages in a number of initiatives that help to ensure the long-term sustainability of its suppliers' farms.

Maragra Açúcar's extension managers provide training and other services to the company's outgrowers, and the company also contracts specialised herbicide agronomists to provide technical assistance. The company enables its outgrowers to buy inputs such as seed and fertilisers at bulk discount rates.

In 2012/13, Maragra Açúcar helped small-scale outgrower associations to secure Fairtrade certification. This provides them with an additional premium of \$60 per tonne of cane for investment in social, environmental or economic development projects. Our meeting with representatives from an outgrower association highlighted the value of Fairtrade to their communities. The association had used Fairtrade funds to invest in building a new road, sanitation facilities as well as capacity building through computers and skills training.

Maragra Açúcar is playing an important role in securing donor funding to promote new smallholder development schemes.

Building smallholder capacity

The expansion of Maragra Açúcar's sugar mill creates a significant opportunity for local smallholders to meet increased demand for sugar cane. However, taking advantage of this opportunity requires productive arable land and the decision by smallholders themselves to invest in planting cane.

The Maragra Smallholder Sugarcane Development Project (MSSDP) is an initiative aimed at turning the opportunity to supply cane into the basis of sustainable economic growth. Supported by a contribution of €2.4 million from the European Union, it will secure 3,014 hectares of currently marginal, flood-prone land by rehabilitating flood defences and installing drainage and pumps. This will put 2,002 hectares of good-quality arable land into the hands of 4,064 smallholder families.

Maragra Açúcar will have overall responsibility for the implementation of the project, working in partnership with three new smallholder schemes created by the MSSDP. The company will manage the rehabilitation of the land, provide a guaranteed market for the cane produced, and supply technical support for cane growing. Of the 2,002 hectares of arable land secured by the project, 1,540 hectares will be developed for cane, with 462 hectares set aside for sustainable food crops such as maize, rice and vegetables, enhancing food security for local communities. The project is expected to deliver 65 tonnes of cane per hectare and over 100,000 tonnes per year, whilst creating well-managed sugar schemes and the opportunity to build communities through the creation of sustainable income streams.

Maragra Açúcar is currently seeking additional private partners for the project, to help meet the remaining costs of €3.36 million.

Standards in the supply chain

The Fairtrade certification not only provides farmers with an additional premium on the price of cane, but also requires independent audits to ensure internationally recognised standards for best practice.

Under Illovo Group policy, contracts signed by non-cane suppliers include a clause on ethical business practices, which includes stipulations on working conditions and hours, living wages, freedom of association, non-discrimination, non-child labour, environmental management programmes, and anti-bribery and corruption. Maragra Açúcar does not conduct any audits itself, but expects outgrowers to comply with Mozambique's labour laws.

The rights of freedom of association and collective bargaining can make a significant difference to the lives of poor and rural workers. Maragra Açúcar recognises local unions, but the number of outgrower employees belonging to unions is unknown.

Supporting local and small businesses

Maragra Açúcar's non-cane procurement includes energy, plant and machinery, chemicals and motor vehicles. About 20% of non-cane procurement in 2012/13 was sourced from local companies in Mozambique.

During our site visit we observed how Maragra Açúcar's presence has contributed to a thriving local economy. A number of small- and medium-sized enterprises (SMEs) have developed to provide services to Illovo's estates and to its outgrowers, including cane cutting, security and artisan work. Local vendors also benefit from increased custom from Illovo employees and outgrowers, who buy a range of goods from local stores and markets.

Small-scale businesses face specific challenges such as access to finance and having the skills to deliver to appropriate scale and quality requirements. We are aware of examples where Maragra Açúcar has helped to support local businesses with these issues. We believe there is an opportunity for the company to have a more proactive and formalised strategy to promote local enterprise development which would deliver benefits to both the company and the wider community.

Illovo has policies at group level which favour sourcing from local businesses, even where they may be more expensive, since it brings benefits to the company in terms of shorter supply chains and faster response times. In some cases, goods such as packaging may be sourced locally even where they are of inferior quality or consistency. The group procurement system includes a list of stock items that can be purchased locally, requests for which are automatically sent to local procurement. Payment terms may also be adjusted to suit local suppliers.

Section 5: Value chain impact – customers

Headline messages:

- About 35% of Maragra Açúcar's sugar production is sold within Mozambique, all of it via the national marketing association. The remainder is mainly sold into world markets.

Serving customers

Maragra Açúcar sells raw sugar and molasses to customers in Mozambique and international markets, both for direct consumption and industrial uses. The wide range of customers for Maragra Açúcar's products means that the company has significant downstream impacts in Mozambique's economy.

In 2012/13, Maragra Açúcar produced about 85,000 tonnes of sugar, accounting for around 21% of production in Mozambique. Maragra Açúcar does not sell any of its sugar directly to customers or retailers in Mozambique, due to the structure of the sugar industry. All domestic sugar sales in Mozambique are marketed by the industry marketing association, the Distribuidora Nacional de Açúcar.

Of the six countries in which Illovo operates, Mozambique is the only one in which its operations do not include a refinery. About 80% of all sugar consumed in Mozambique is brown, unrefined sugar, with the majority of refined sugar imported from South Africa.

About 35% of Maragra Açúcar's sugar production is sold in Mozambique, with around 5% sold in the EU and US, where trade agreements give access to sugar markets on preferential terms. The remainder is sold into world markets, which are characterised by generally low prices.

Maragra Açúcar ensures the quality and safety of its products using the internationally approved certification schemes ISO 9001 (quality management systems).

Supporting downstream employment

Maragra Açúcar supports indirect employment in its downstream value chain through distributors, retailers, re-packers, food processors and pharmaceuticals.

Section 6: Social responsibility and community investment

Headline messages:

- Overall, Maragra Açúcar spent ZAR 1.3 million on social investment in the community in 2012/13.
- The company meets with local government to determine how best to meet community needs. Its programmes address water scarcity and malaria, support local schools and hospitals and help to develop the productivity of small-scale farmers.

Investing in local communities

Mozambique's population of 25 million live in a country ranked 185 out of 186 on The UN Human Development Index, signifying an immense need for economic and social development. Through the creation of jobs, directly and indirectly, and the provision of benefits and support to employees and suppliers, Maragra Açúcar is helping to create sustainable economic development, and raise standards of living.

Maragra Açúcar also invests directly in its local community. The company spent ZAR 1,324,330 on social investment in 2012/13. Some of this expenditure primarily benefits employees and their families (e.g. health clinics) but other investment brings important benefits to the wider community.

Addressing water, education and health needs

The company conducts regular meetings with the district government and other stakeholders, in order to determine how best to address community needs. Some of the key priority areas identified are access to water, education and health.

All Maragra Açúcar employees are provided with access to free potable water. Additionally, Maragra Açúcar has developed boreholes adjacent to local communities to help address water scarcity in the region.

The company provides support to local schools. Our meeting with the local school principal highlighted the importance of the financial support provided by Maragra Açúcar, which has helped to build new classrooms, provide accommodation for teachers and pay for general maintenance.

To combat the high prevalence of Malaria, Maragra Açúcar has purchased 3,000 mosquito nets and sprayed local areas against mosquitoes, benefiting over 19,000 people.

Engaging stakeholders

Maragra Açúcar has experienced recent challenges in its relationship with NGOs, who have criticised the company over land rights issues. The company contests the allegations raised, however it has been cautious to proactively engage with NGOs on the issues. We believe Maragra Açúcar would benefit from engaging more constructively with all key stakeholders – particularly those it has historically had less contact with or have been critical in the past e.g. NGOs, civil society and other community-based organisations.

Section 7: Environmental sustainability

Headline messages:

- All water used in the company’s operations comes from surface sources. In 2012/13, the company abstracted 580,000m3.
- Maragra Açúcar provides employees with access to potable water and has drilled boreholes to address water scarcity.
- Maragra Açúcar generates 96% of the energy that it uses on-site, using the renewable by-product, bagasse.

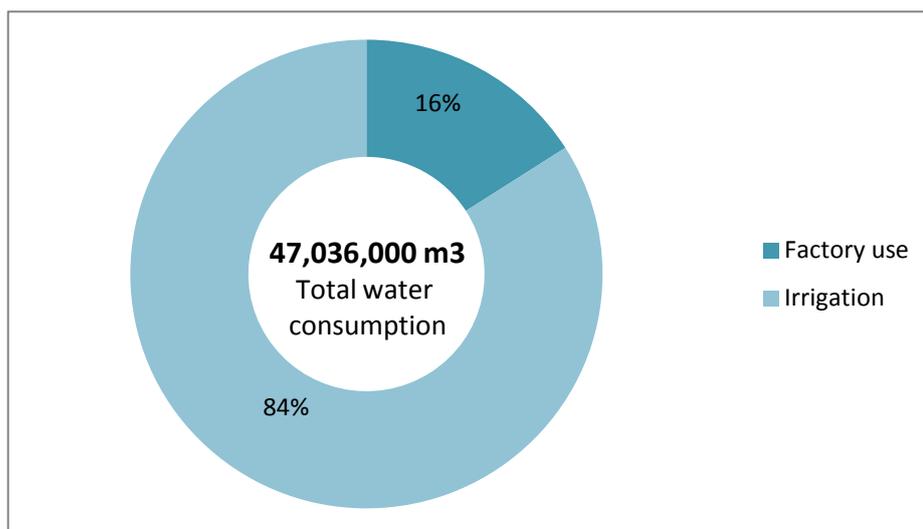
Sugar cane cultivation is associated with a number of environmental issues, in particular water usage and the risk of polluting water supplies. The potential for over-use of fertilisers and pesticides can also affect land and biodiversity.

Promoting environmental best practice is closely linked with Maragra Açúcar’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.

Water stewardship

In terms of its own water consumption, Maragra Açúcar abstracted 47,036,000 m3 from surface water sources. To manage water pollution, Maragra Açúcar regularly records factory effluent discharges in accordance with government regulations.

Maragra Açúcar water consumption by location (m³)



Protecting land and biodiversity

Maragra Açúcar lease approximately 6,500 hectares of land from the Mozambican government, of which roughly 6,000 hectares is under cane. The company aims to have minimal impact on the environment through its operations and closely monitors pesticide use at its sites, with 55,673 litres of herbicide and 1,440 litres of pesticides used during the 2012/13 growing season.

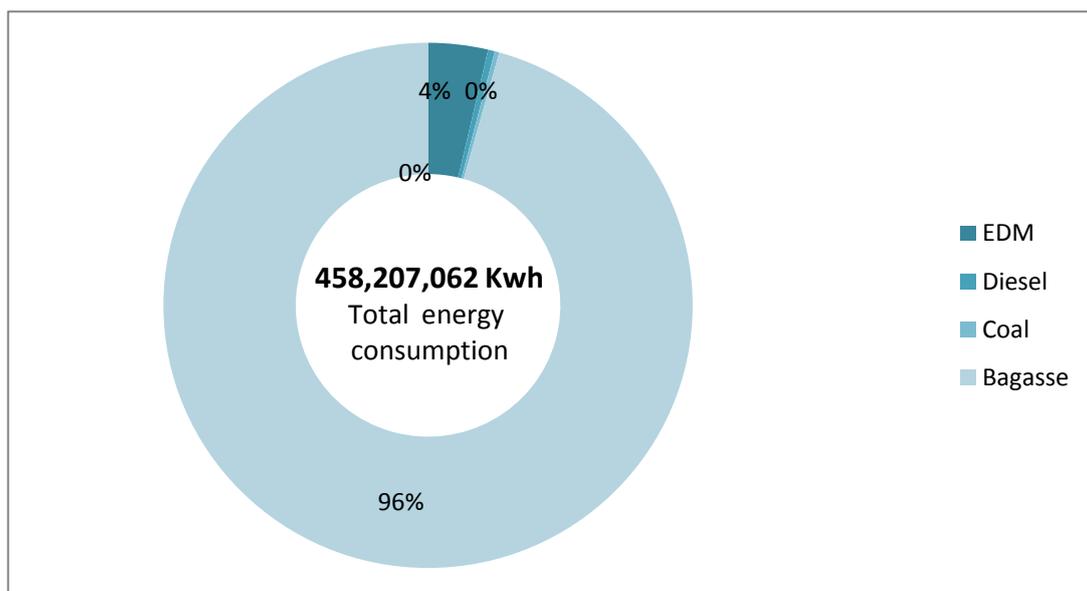
In the 2013/14 growing season, Maragra Açúcar plans to fallow 100 hectares of land and plant a green manure crop such as sun hemp. Maragra Açúcar will increase the area allocated to fallow/green manure to 200 hectares per annum during the 2014/15 growing season. This will limit the company’s environmental footprint and further protect the local ecosystem.

Energy use and emissions

Some Illovo operations find external energy supplies unreliable, particularly when there are competing demands for electricity across the country. Maragra Açúcar uses bagasse, a renewable by-product of the cane crushing process, to generate its own electricity. This has environmental benefits as well as helping to ensure energy security for the company.

In 2012/13, Maragra Açúcar generated 438,305,516 KWh of its own electricity, accounting for 96% of its total energy consumption. The remaining 4% of its energy is supplied by the national grid, and generated from diesel and coal.

Breakdown of energy consumption by source, 2012/13



At group level, Illovo participates in the Carbon Disclosure Project (CDP), demonstrating commitment to transparency on GHG emissions reductions. The company has also publicly committed to reducing GHG emissions across the group by 10.7% on 2010 levels by 2020. Based on the projected increase in sugar production, the effective emissions reduction will be 34%.

Waste

Waste handling and disposal is managed according to the ISO 14000 system. The company produced a total of 52 tonnes of non-hazardous waste in 2012/13 and has a recycling programme. Each year, it recycles 3 tonnes of plastics, glass, bottles and tins.



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