



# Illovo Sugar

**Swaziland Socio-Economic Impact Assessment**

**Internal Management Report**

**April 2014**

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## Executive summary

### Headline figures for 2012/13

<b>Ubombo Sugar has:</b>
Contributed an estimated ZAR 2.4 billion to Swaziland's economy in 2012/13, including direct, indirect and induced impacts. This is equivalent to about 8% of Swaziland's GDP.
Directly employed 2,757 people in Swaziland (including seasonal and non-permanent workers), supported an estimated 5,121 people through out growers, and supported further estimated indirect and induced employment of between 1,576 and 6,775. In other words, for every direct employee of Ubombo Sugar, between 2.4 and 4.3 workers are supported in the wider economy.
Supported the livelihoods of up to 68,869 people, including dependents, through direct, indirect and induced employment (based on national average household sizes).
Undertook major capital investments and paid over ZAR132 million in tax to the fiscus in 2012/13.  Distributed dividends of ZAR 15 million to the national development agency for its 40% stake in the company.
Spent ZAR228 million on remuneration and employee benefits. All employees at Ubombo Sugar, including agricultural and factory workers, earn above the statutory minimum wage, and sufficient to support both themselves and a typical household above the World Bank's poverty line of \$2 per day. In addition, they receive benefits such as housing, healthcare and education allowances.  This compares to the rest of the Swaziland population where 60% live below the poverty line and 40% are unemployed.
Spent ZAR 523 million (40% of revenues) buying cane from local, out grower farmers, including about 3,000 smallholder farms. Spent an additional ZAR 304 million on non-cane procurement, over two-thirds of which went to numerous companies in Swaziland.
Generated over 82% of its electricity from renewable bagasse sources.
Invested more than ZAR 1.3 billion to expand its factory in 2011, representing a long-term commitment to the sustainability of the industry and livelihoods of small growers.

### Illovo in Swaziland

- Illovo operates in Swaziland through its subsidiary Ubombo Sugar Limited, which accounts for 35% of the country's sugar production. Ubombo Sugar is a partnership between Illovo and the Swaziland government, with 60% owned by Illovo and 40% owned by Swaziland's national development agency, Tibiyo Taka Ngwane.
- Swaziland's economy has experienced low growth in recent years and contracted by 1.5% in 2012. The country faces serious health and environmental challenges. It has the world's highest rate of HIV/AIDS and has suffered recent droughts. 60 % of Swaziland's population live below the poverty line and 40% are unemployed.

### Contributing to Swaziland's economy

- **Sugar is Swaziland's largest industry outside of government services and Ubombo Sugar is one of the major sugar producers.** Ubombo Sugar's operations created ZAR 430 million of direct value-added for Swaziland's economy during 2012/13, and contributed positively to the country's balance of trade. The company had an estimated total impact on Swaziland's economy, including direct, indirect and induced impacts, of ZAR 2.4 billion – about 8% of the country's GDP.
- **Ubombo Sugar's business benefits many stakeholders in Swaziland.** In 2012/13, out grower farmers received ZAR 523 million, 40% of the company's revenues, while ZAR208 million (46% of the company's value-added) went to employees as salaries, wages and benefits. In other words, for every direct employee of Ubombo Sugar, more than one additional worker is supported in the wider economy. Ubombo Sugar is estimated to support the livelihoods of over 27,000 people (inclusive of dependents) in Swaziland, with its impact concentrated in the rural, eastern region, which has suffered in the past from under-investment, poor-quality land for farming and the threat of drought and disease.
- **It is a major employer in the region, directly employing close to 2,800 people and further supporting up to 20,000 jobs through its value chain.** For every worker directly employed by Ubombo Sugar, between 2.4 and 4.3 workers are supported in the wider economy.

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

- **Ubombo Sugar buys 60% of its sugar cane from independent out grower farmers in Swaziland, representing a significant support to the livelihoods of small, rural farmers, their families, and local communities.** Swaziland has the second-highest proportion of externally sourced sugar cane of all of Illovo Group's countries of operation, after South Africa, and this proportion has increased rapidly over the past three years.
- **The company's investment to expand its mill in 2011 represents a long-term commitment to the sustainability of the sugar industry and to promoting livelihoods**

**of small growers.** Small-scale growers will meet much of Ubombo Sugar's increased demand for sugar cane following the factory expansion.

- **About 32% of Ubombo Sugar's outsourced cane by tonnage comes from about 3,000 smallholder farmers. The company supports them through a guaranteed market for cane as well as through investment, training, advice and enhanced buying power through the input procurement service.** It played a vital role in securing funding for the LUSIP irrigation project that is making 11,500 hectares suitable for agriculture and enabling hundreds more smallholder farmers to earn an income from sugarcane.
- **Ubombo Sugar spent an additional ZAR 304 million on non-cane procurement, about 56% of which went to numerous companies in Swaziland.** Under Illovo Group policy, contracts signed by non-cane suppliers include a clause on ethical business practices. Ubombo Sugar also conducts 18 audits of out growers each year.
- **Ubombo Sugar provides considerable financial and managerial support to a number of schools in the immediate area,** which are also accessible to children of non employees. These provide a high standard of education and are consistently ranked amongst the top schools in the country.

#### Investing in employees

- **Ubombo Sugar spent over ZAR 28 million in providing a range of benefits to employees and their families** including accommodation, healthcare and education. Entry-level workers also receive food rations. A new scheme allowing employees to buy company houses and land is helping to empower employees.
- **The company is building future capacity through its strong training and development at all levels of the organisation.** It spent over ZAR 5 million on training and talent development during 2012/13, including management development and apprenticeship programmes aimed at closing the skills gap in engineering.
- **Ubombo Sugar has developed an award-winning HIV programme** to provide care and support to employees and their families. It has a network of over 90 active peer educators. Medical services are provided to employees and their dependents and are accessible to the wider local community.

#### Promoting environmental best practices

- **Ubombo Sugar is leading the way in adopting sustainable agricultural technologies.** Its ZAR 84 million investment in centre pivot irrigation led to water use per season falling by about 23% with yields improving by 14 tonnes of cane per hectare. It is also using green cane harvesting.
- **Ubombo Sugar's co-generation project has been a significant success.** It generated 82% of its own energy consumption and exported 37,000 MWh of energy back to the grid in 2012/13, all of which is renewable. It is an important model for bringing energy security to the Group and providing a clean energy source to the wider country.

### Collaborating as a trusted partner

- **Ubombo Sugar is a trusted partner to government, out growers, donors and NGOs.** Through its ownership structure, with the national development agency, Tibiyo Taka Ngwane as a partner, Ubombo Sugar is helping to meet the country's poverty alleviation goals. It is also working in collaboration with out growers, NGOs and donors to help secure and successfully implement donor-funded development schemes.

### Future considerations based on observations from site visit

It is evident that Ubombo Sugar has significant positive impacts in the communities in which it operates. The following are key opportunities to enhance the positive impact it can have and are based on observations from our short site visit. In addition, there is a more detailed management presentation outlining key observations and recommendations for Illovo at the group-level.

- There is a risk that those in the wider community, not directly linked to the business, feel disenfranchised and do not feel the benefits of Ubombo Sugar's community investment. We recommend **Illovo consider a formalised process with the wider community to understand their needs and where it can focus its investment. This should include:**
  - **Community consultation** – while the company actively engages with the community such as community leaders, local government, community-based organisations, NGOs to understand key challenges and needs, this needs to be improved or scaled up.
  - **Define Illovo's role** – use findings from the consultation to identify priority areas for Ubombo Sugar's social investment that help address wider community needs.
- Ubombo Sugar should **consider the long-term sustainability of the employee benefits provided.** The company is already experiencing employee expectations for higher salaries and many employees do not factor in the value of benefits into their remuneration. In the longer-term, employees are likely to want more choice in their benefits. This form of economic empowerment is likely to benefit Ubombo and the wider community in the long-run.
- Women's participation is increasingly important for the development agenda and NGOs, as evidence suggests economically active women help build stronger communities. The company **should 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.**
- Ubombo Sugar sources from local suppliers where feasible, however there is an **opportunity to promote greater enterprise development amongst local suppliers.** The development of a preferred local supplier list would help Ubombo Sugar focus its efforts on a selected group of suppliers, understand the issues they face and identify

areas to provide support. From our observations we believe Ubombo Sugar could support with **i) providing mentoring and training** on general business skills e.g. financial management **ii) promoting access to finance** through innovative solutions **iii) improving supplier payment times.**

Driving further water efficiencies will continue to be important. The company should do **more to reduce water abstraction** and we are aware of its investments in pivot irrigation and water meters to help with this. We recommend **using the water footprint exercise completed in 2013 to develop a comprehensive local water strategy.**





# 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.

To form a deeper understanding of its impact, Associated British Foods, which holds a 51 percent 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 Swaziland, as well as its indirect and wider impacts through its value chain (out growers, 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, Mozambique, Zambia 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 Swaziland

**Headline messages:**

- Swaziland’s economy has been weakened by low growth in recent years, and contracted by 1.5% in 2012.
- The country faces serious challenges as a result of health and environmental problems. It has the world’s highest rate of HIV/AIDS and has been beset by recent droughts.
- Sugar is the largest national industry outside of work for the government, and Illovo’s subsidiary Ubombo Sugar produces over 35% of the country’s sugar.
- Ubombo Sugar’s operations are located in the town of Big Bend in the eastern Lowveld region of the country, a remote rural region with little previous investment and particularly low rainfall.

### Swaziland’s economic structure

Swaziland is ranked 141 out of 186 on the 2012 UN Human Development Index. Its economy, which is highly dependent on neighbouring South Africa, is beset by low agricultural productivity, high inequality and recent reductions in public spending. Swaziland’s economy contracted by 1.5% in 2012.

The Services sector, which mostly takes the form of employment by the government, represents close to 70% of Swaziland’s GDP. Agriculture accounts for approximately 70% of employment, yet delivers only 8% of GDP. Declining agricultural productivity, exacerbated by recent droughts, is contributing to a growing poverty and skills gap between the 80% of the population inhabiting rural areas and those employed in the growing Services sector.

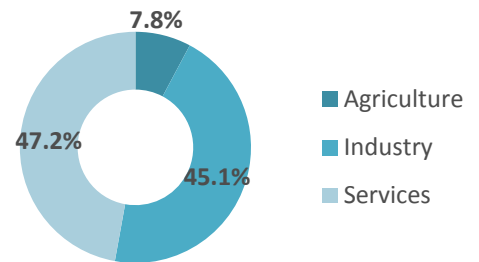
Swaziland Country Data <sup>1</sup>	
<b>Economic Indicators (2012 est.)</b>	
GDP (purchasing power parity)	\$6.345 billion
GDP per capita	\$5,900
Annual GDP growth rate	-1.5%
<b>Labour Market Indicators</b>	
Population	1.4 million
Labour Force	457,900 (2007)
By occupation (2007)	Agriculture 70% Industry NA% Services NA%
Population location	Rural 79% Urban 21% (2011)
Unemployment rate	40% (2006 est.)
<b>Poverty Indicators</b>	
Population living at or below - \$2 per day (PPP)	60.4% (2010)
Adult literacy rate	87.8%
Life expectancy at birth	50 years (2013 est.)

<sup>1</sup> CIA (2013) *World FactBook: Swaziland*

**Development challenges**

Swaziland has an estimated unemployment rate of 40% and poverty rate of 69%, with health and environmental problems contributing significantly to its economic challenges. The country has the world’s highest rate of HIV/AIDS with 25.9% of the population HIV positive. As a result of the epidemic, 38% of the population is under the age of 14.

**GDP breakdown by sector**



Annual droughts have severely weakened crop production since the 1990s, with a particular impact on maize.<sup>2</sup> Predicted additional flooding and droughts resulting from climate change will hinder crop production further in future years. These environmental problems threaten both food security for the population and job security in the agricultural sectors.<sup>3</sup> The eastern Lowveld region is particularly prone to drought.

**Swaziland’s sugar industry**

Sugar dominates both Swaziland’s agricultural and industrial sectors. It is the country’s largest industry, and its largest employer outside of the government. Sugar accounts for 60% of Swaziland’s agricultural output and 35% of its agricultural wages.

The area under sugar cane production has increased by 28% since 2000 as a result of investment in irrigation by the government, sugar companies, commercial growers, the European Union (EU), and donor organizations. Swaziland exports roughly half its sugar to the Southern African Customs Union (SACU)<sup>4</sup> and has duty-free, quota-free access to EU markets<sup>5</sup>.

**Illovo in Swaziland**

Illovo’s subsidiary Ubombo Sugar Limited produced 35% of Swaziland’s sugar in 2012/13. Ubombo Sugar is a partnership between Illovo and the Swaziland government, with Illovo owning a 60% stake in the company, and the remaining 40% held by Swaziland’s national development agency, Tibiyo Taka Ngwane.

Ubombo Sugar’s operations are centred in the town of Big Bend, in the Lowveld region of eastern Swaziland. The company owns 21,000 hectares of land in the local area (of which about 8,600 is under cane), and also manages 2,381 ha of land under cane, which is owned by Tibiyo Taka Ngwane. Ubombo Sugar represents the only major source of employment in this remote region of traditionally poor-quality agricultural land.

<sup>2</sup> IPS News (15 Jun 2013) *In Swaziland, Seeds Beat Drought* <http://www.ipsnews.net/2013/06/in-Swaziland-seeds-beat-drought/>

<sup>3</sup> IFPRI (2013) *Southern Africa agriculture and climate change: A comprehensive analysis*

<sup>4</sup> Illovo integrated report

<sup>5</sup> Fairtrade Foundation (2013) *Fairtrade and Sugar: Commodity Briefing*

## Section 2: Supporting economic growth

### Headline messages:

- Ubombo Sugar contributed an estimated ZAR 2.4 billion to Swaziland's economy in 2012/13, including direct, indirect and induced impacts. This is equivalent to about 8% of Swaziland's GDP.
- Ubombo Sugar directly employs 2,757 people in Swaziland, supports an estimated 5,121 people through out growers, and supports further estimated indirect and induced employment of between 1,576 and 6,775. In other words, for every direct employee of Ubombo Sugar, between 2.4 and 4.3 workers are supported in the wider economy.
- The business benefits many stakeholders. In 2012/13, out grower farmers received 40% of the company's revenues, while 46% of the company's value-added went to employees as salaries, wages and benefits.
- In 2011, the company completed a large factory expansion worth more than ZAR 1.3 billion at its Ubombo mill, which created significant local employment in the short-term and will significantly increase sourcing of sugar cane from local out growers.
- Indirect tax payments in 2012/13 amounted to 132 million, and the national development agency also received dividends of ZAR 15 million from Ubombo Sugar through its 40% stake in the company. However, as a result of recent major investments which benefited from tax holidays, Ubombo has not made any direct tax payments to the Swaziland government.

As a major producer in Swaziland's largest private industry, Ubombo Sugar's contribution to the country's economy is a highly significant one. It is more significant still within the context of the country's eastern Lowveld region where Ubombo Sugar's operations are headquartered. The Lowveld is the area of Swaziland most prone to drought, with poor-quality agricultural land and minimal investment in infrastructure and irrigation in the past. Direct and indirect employment by Ubombo Sugar dominates the local economy.

Ubombo Sugar adds value to the economy of Swaziland 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 Ubombo Sugar’s own employment of workers on farms and in factories, as well as tax payments, interest spending, shareholder dividends, investments and other payments;
- **Indirect** impacts through Ubombo Sugar’s value chain, including payments to farmers, suppliers and distributors, as well as impacts on those selling Ubombo Sugar 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 Ubombo Sugar’s presence in Swaziland include the provision of infrastructure such as roads, water, supporting 5 schools and providing healthcare services. These are described in this report, but have not been given a financial value.

In order to estimate Ubombo Sugar’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 consuming inputs such as 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 impact

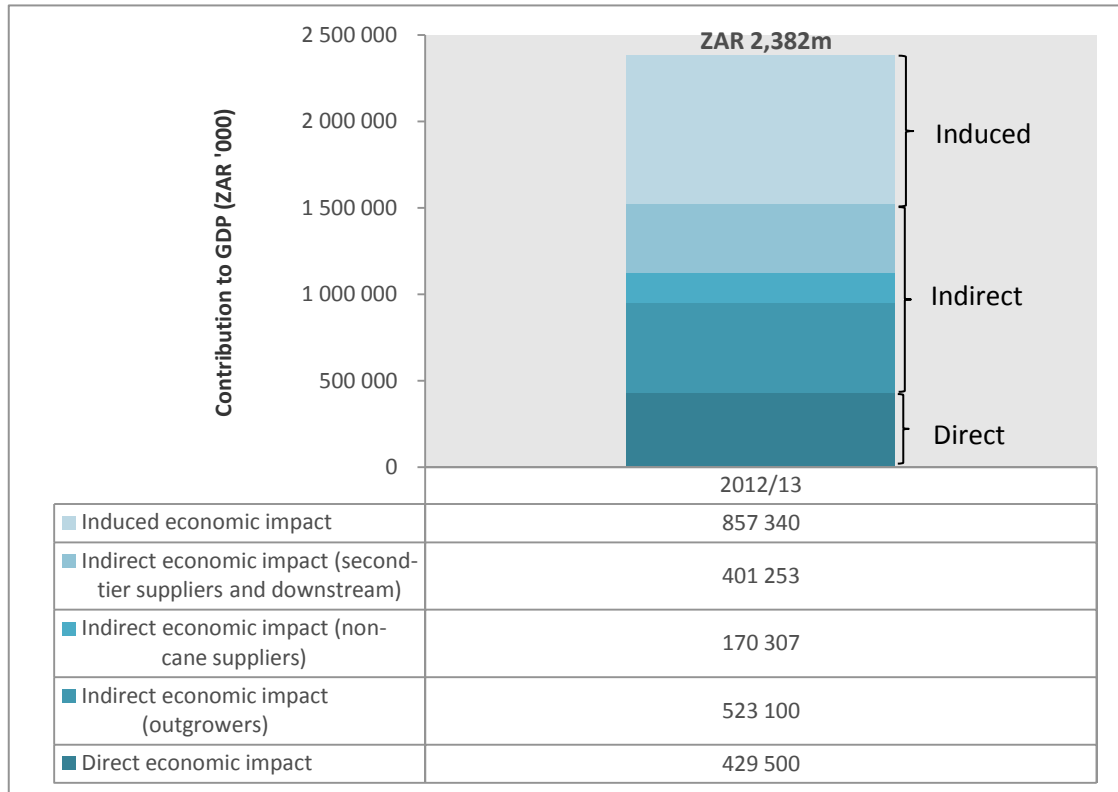
Ubombo Sugar’s direct contribution to Swaziland’s economy, measured in gross value-added, was ZAR 430 million in 2012/13. The company’s additional indirect impacts are estimated at ZAR 1,095 million<sup>6</sup>, and its induced impacts at ZAR 857 million.

Ubombo Sugar’s total contribution to Swaziland’s economy, including direct, indirect and induced impacts, is therefore estimated at ZAR 2,382 million, equivalent to about 8% of Swaziland’s GDP<sup>7</sup>. As the chart over the page shows, indirect impacts make up nearly half of this total, mainly through the sourcing of sugar cane from independent out grower farmers.

<sup>6</sup> Including spending with out grower farmers of ZAR 523 million and non-cane procurement spending in Swaziland of ZAR 170 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.

<sup>7</sup> [IMF World Economic Outlook Database](#), Swaziland gross domestic product, current prices, 2012

**Ubombo Sugar: Total economic impacts in Swaziland (estimated), 2012/13**



**Contribution to employment**

Ubombo Sugar is estimated to support between 9,454 and 14,653 jobs in Swaziland. This includes direct employment of 2,757<sup>8</sup>, an estimated 5,121 people supported through out grower farms, and further estimated indirect and induced employment of between 1,576 and 6,775<sup>9</sup>. In other words, for every direct employee of Ubombo Sugar, between 2.4 and 4.3 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 Ubombo Sugar’s total employment impact, since some informal employment may not be accounted for.

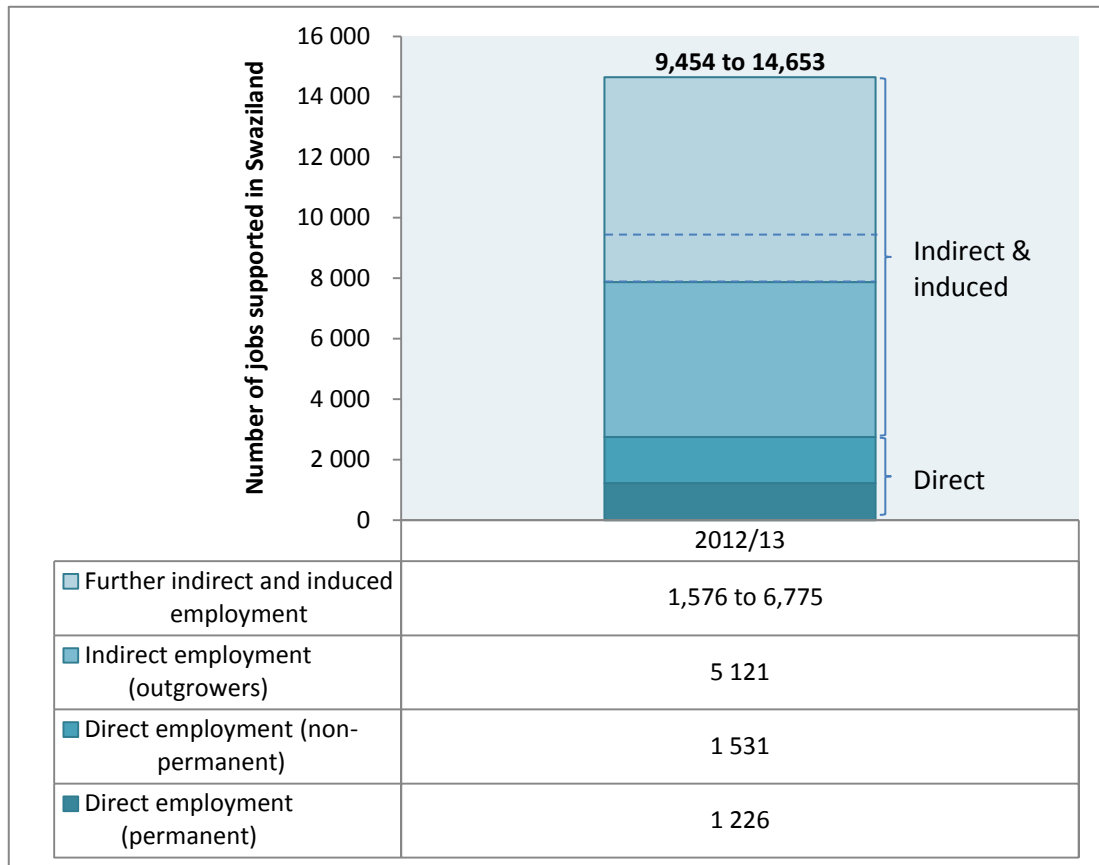
Ubombo Sugar’s impact on livelihoods does not end with those who it employs. As a result of the poor, rural areas in which the company is based, there is a significant impact on workers’ dependents (i.e. immediate and extended family). The average household size in Swaziland is 4.7, although the total number of dependents supported by rural farmers is likely to be higher. Ubombo Sugar is therefore estimated to support the livelihoods of

<sup>8</sup> 1,226 permanent employees, plus 1,531 seasonal workers. Seasonal workers are hired according to the milling season of 9-10 months, so receive a significant proportion of their incomes from the company.

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

between 44,432 and 68,869 people throughout Swaziland, equivalent to up to 24 people for every direct employee of Ubombo Sugar.

**Ubombo Sugar: Total employment impacts in Swaziland (estimated), 2012/13**



**Distributing wealth**

Ubombo Sugar is a successful and growing business that benefits many stakeholders within Swaziland. After a loss in 2011/12, the company made a pre-tax profit of ZAR 81 million in 2012/13 on the back of a significant increase in gross revenues to ZAR 1,315 million. This growth was driven by recent investment in the local region and strong sugar prices. In particular, the company has felt the benefits from the successful expansion of its mill at Big Bend in 2011, the expansion of its cane-growing area by 476 hectares, and irrigation projects that have increased the cane supply from out grower farmers.

The wealth that Ubombo Sugar creates for the economy and society is represented through its “value-added”, which is defined as the difference between the company’s revenues and its input costs. Out growers are the biggest beneficiaries from the company’s revenues, receiving 40% in 2012/13.

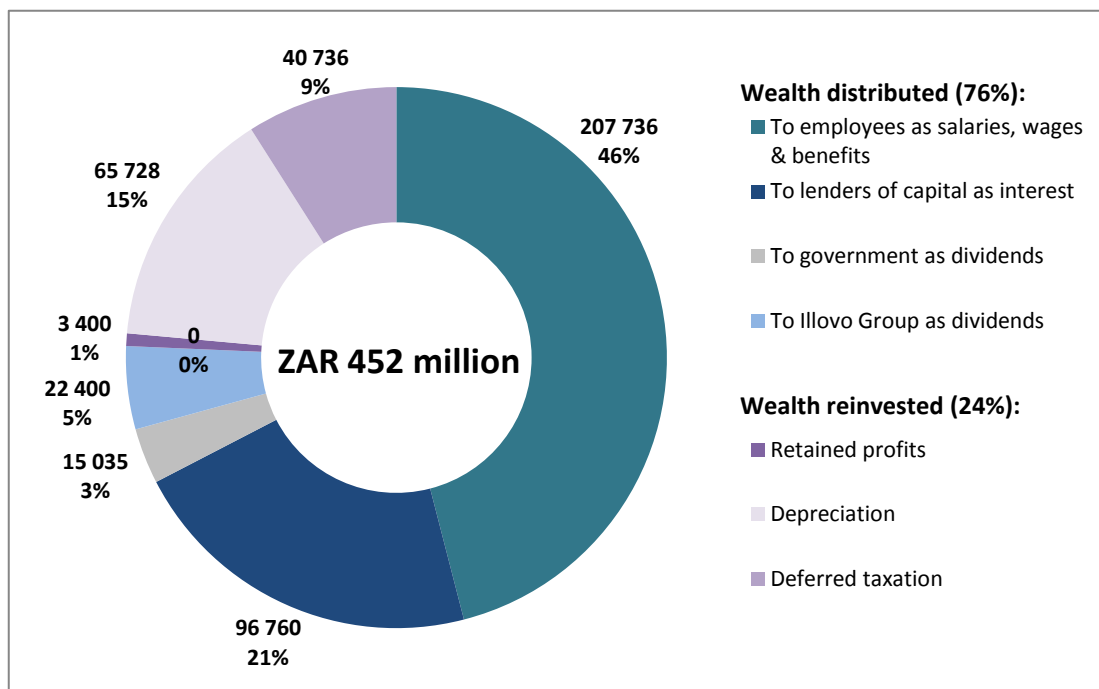
**Ubombo Sugar wealth creation, 2012/13**

Revenue	ZAR 1,315 million	
Paid to out grower farmers <sup>10</sup>	(ZAR 523 million)	40%
Manufacturing costs	(ZAR 340 million)	26%
<b>Total value-added</b>	<b>ZAR 452 million</b>	<b>34%</b>

The majority of Ubombo Sugar’s value-added total of ZAR 452 million is distributed to its stakeholders, with some retained by the business for reinvestment. In 2012/13, 76% of value added was distributed to employees, providers of capital and shareholders (including the government), and 24% reinvested in the business.

Dividends to Illovo Group account for about 5% of gross value-added. The remaining dividends go to the government through its share in the company. After dividends to Illovo Group are subtracted, this leaves a total direct value-added contribution to Swaziland’s GDP of about ZAR 430 million.

**Distribution of Ubombo Sugar value-added, 2012/13**



<sup>10</sup> This figure includes prior year price adjustments, so differs from the figure given in Section 4



## Investing in the future

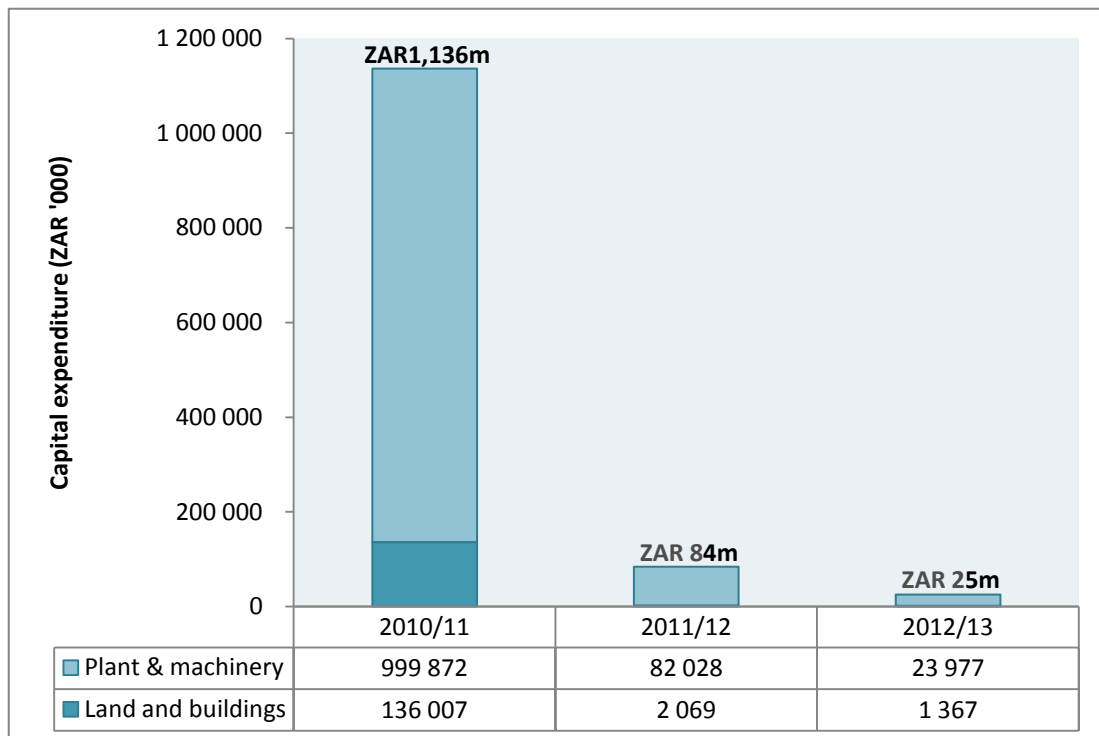
The company’s significant capital investment of more than ZAR 1.3 billion to expand its factory, completed in 2011, represents a long-term commitment to the sustainability of the sugar industry in Swaziland and promoting livelihoods of small growers. The investment to expand milling capacity was pivotal in securing the donor funding for the LUSIP irrigation project and means thousands more small growers are now able to earn an income from cane growing.

The successful expansion of the Ubombo mill has increased its capacity by almost 25%, increasing Ubombo Sugar’s purchases of sugar cane from small-scale farmers in the local region, and expanding its output. Ubombo Sugar aims to increase total cane supply to 2.59 million tonnes in 2015/16, compared to 2.16 million tonnes in 2012/13.

In the short-term, the project provided employment to 1,687 contractors, who worked 2.35 million man hours over the course of the factory expansion. Over half of these contractors came from the local area, and locals also provided catering, laundry and social services for 750 expatriate workers.

Ubombo Sugar continues to invest in the business and wider community, benefiting a wide variety of stakeholders. Capital expenditure plans are in place up to 2020, including investments in factory capacity; tools and safety equipment; maintenance and upgrading of vehicles; employee housing; and hospital equipment.

### Ubombo Sugar capital expenditure, 2011-13



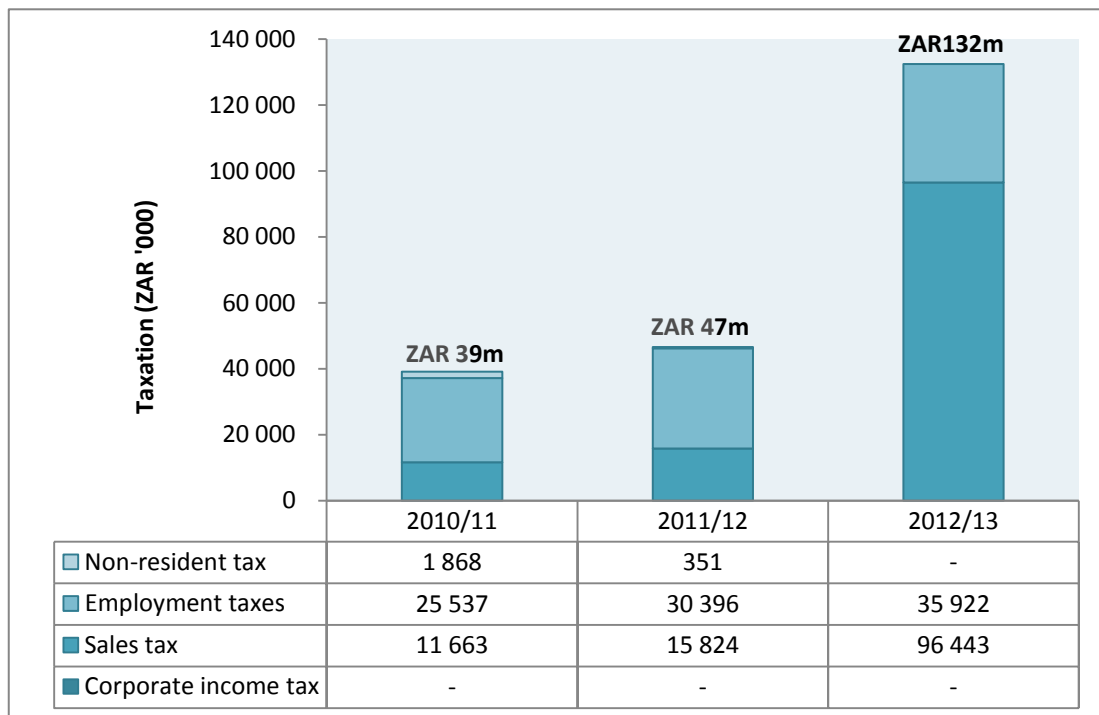
## Contributing to public finances

Ubombo Sugar is a taxpayer in Swaziland. However, in recent years it has benefited from tax holidays and tax relief on capital investments, as well as a reduced tax rate of 10% (due to end in 2021).

However, the company does make significant indirect tax contributions, through sales taxes (VAT replaced the previous cascading sales tax in Swaziland in April 2012) and employee taxes. In 2012/13, these amounted to ZAR 132 million. The national development agency, Tibiyo Taka Ngwane, also received dividends of ZAR 15 million from Ubombo Sugar through its stake in the company.

Because the Swaziland Sugar Association (SSA) handles sales of sugar in Swaziland, Ubombo Sugar is not liable for customs or excise duties. Ubombo Sugar does not receive any grants or subsidies from the Swaziland Government.

### Ubombo Sugar 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 Swaziland’s balance of trade, increasing flows of foreign revenues into the country. The Swaziland Sugar Association (SSA), which is responsible for all marketing of Swaziland sugar, reports that sales tonnages are split approximately 50/50 between domestic markets (including SACU) and export markets, including the EU, and to much lesser extent, USA and Regional markets.

## Section 3: Creating jobs and supporting livelihoods

### Headline messages:

- In 2012/13, Ubombo Sugar directly employed 2,757 people and is the primary employer in Big Bend. Through direct employment, the company supports the livelihoods of close to 13,000 employees and family members.
- The company spent close to ZAR 208 million on remuneration and employee benefits in 2012/13. All employees, including agricultural and factory workers, earn above the statutory minimum wage, and receive enough money to support both themselves and a typical household 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 rations, which are also available to seasonal workers.
- Ubombo Sugar has developed an initiative that offers employees the opportunity to buy company-owned houses and land to build homes, helping to create economic empowerment. To date, 32 employees have purchased land through this scheme.
- Gender diversity remains a challenge for Ubombo Sugar. Whilst, it has almost 15% female representation, there are very few women in leadership roles and only one in senior management.
- The company spent over ZAR 5.2million on training in the last financial year, which saw over 90 individuals enhance their skills through various development programmes.
- Over 90% of employees at Ubombo Sugar are Swazi nationals and 56% of the senior management team are Swazis.
- Ubombo Sugar spends a total of ZAR 15 million on providing healthcare and medical aid. Its Public Health Unit has been successful in virtually eliminating malaria from its estates.

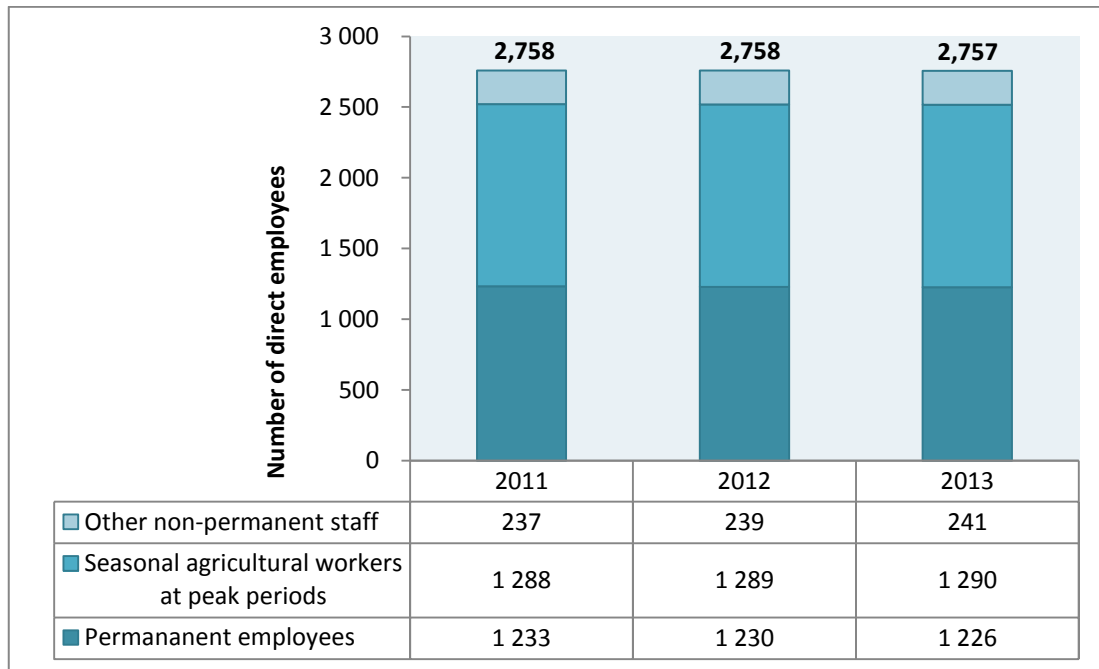
### Direct employment overview

Ubombo Sugar is the major source of employment in the town of Big Bend, in the eastern Lowveld region, and makes an important contribution to the health and livelihood of its employees and their families.

Ubombo Sugar employs a total of 2,757 people, of which 1,226 are permanent employees and 1,531 non-permanent fixed-contract employees, including 1,290 seasonal agricultural

workers employed during peak periods<sup>11</sup>. The employment offered by Ubombo Sugar represents stability for the local community, with employment figures remaining constant for the past three years. Employee turnover in 2012/13 was 3.4%, down from 4.1% in the previous year<sup>12</sup>.

**Ubombo Sugar’s direct employment, 2011-13**



Those employed by Ubombo Sugar are usually the only wage earners in their families, and with an average household size of 4.7 in the country as a whole, it can be conservatively estimated that the company supports the livelihoods of approximately 12,958 people in total. Such a calculation confirms Ubombo Sugar as the primary supporter of livelihoods in the region. The company’s direct employment impact extends further across Swaziland, with seasonal workers migrating to the area and sending money back to homes and families elsewhere. A disproportionate number of these dependents are children - over a third (38%) of Swaziland’s population is under the age of 14.

**Extended impact of direct employment**



<sup>11</sup> Employment figures may differ from those reported in the Illovo Integrated Report due to timing differences in when headcount data has been provided.

<sup>12</sup> Data sourced from the Illovo Integrated Report, 2013.

Direct employment represents only one aspect of Ubombo Sugar’s support for livelihoods in the Big Bend area and Lowveld region. The company also indirectly supports livelihoods through jobs in the wider value chain.

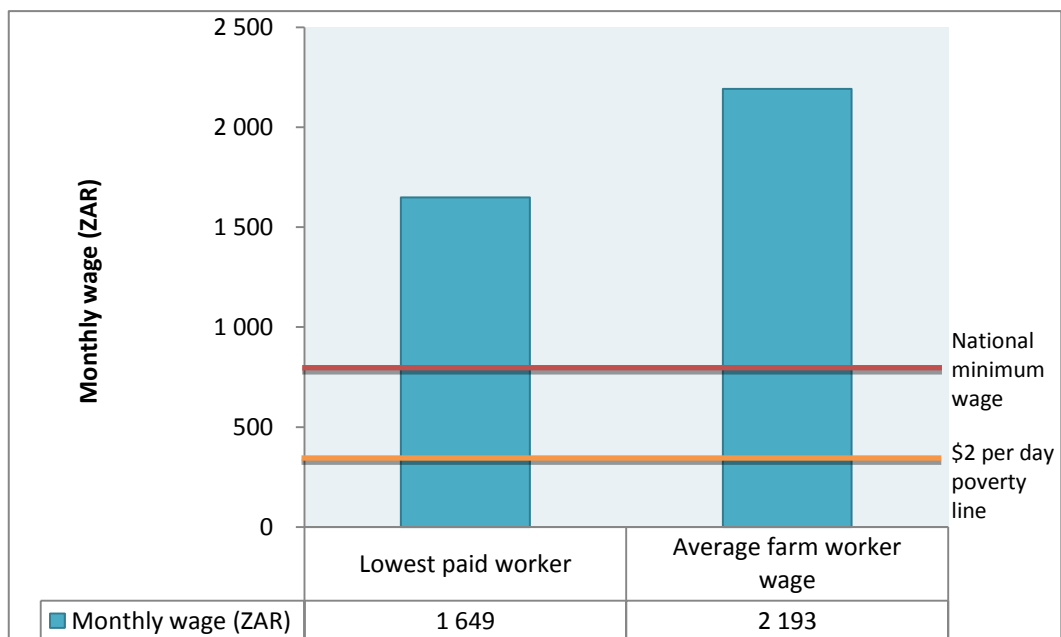
## Competitive income levels

Ubombo Sugar paid its employees ZAR 181,591,770 in wages during 2012/13, and spent a further ZAR 28.6million providing employee benefits. Average salaries have risen above the rate of inflation, increasing by 19.4% between 2011 and 2013, and rising at the same rate for all wage bands.

### Paying a living wage

According to a 2010 study, 60.4% of Swaziland’s population live below the World Bank’s median poverty line, on less than US\$2 a day (PPP)<sup>13</sup>. All employees at Ubombo Sugar, including agricultural and factory workers, receive enough money to support both themselves and a typical household above this poverty line<sup>14</sup>. The lowest paid worker receives a monthly salary of ZAR 1,649, substantially above Swaziland’s statutory minimum wage, which equates to ZAR 795 per month. In addition to their basic wage, employees also receive a wide range of benefits. These are also available to seasonal workers.

### Ubombo Sugar monthly wages, 2012/13



<sup>13</sup> <http://data.worldbank.org/indicator/SI.POV.2DAY/countries/SZ?display=graph>

<sup>14</sup> The poverty line is calculated at ZAR 348 per person per month (2013 prices), or ZAR 1,636 per household per month (see Appendix 2 for further detail)

## Employee relations

Sugar cane harvesters, particularly those who work on a seasonal basis are some of the most vulnerable workers in Ubombo Sugar's value chain.

Strong and active unions help to promote constructive dialogue and workers' interests, and labour standards. In 2012/13, approximately 95% of Ubombo Sugar's non-management employees were members of a trade union; this is up from 92% in the previous year<sup>15</sup>. Unions noted they felt they had good access to top management and constructive negotiations with the company.

Trade unions representing Ubombo Sugar workers have complained that the company's wages should be higher. They argue that rising inflation has eroded the real value of their wages and left them with inadequate disposable income. In response, Ubombo Sugar has recently completed a remuneration benchmark survey. Findings from this noted that the remuneration paid by Ubombo Sugar is on average within the 50<sup>th</sup> and 75<sup>th</sup> quartile.

## Additional benefits

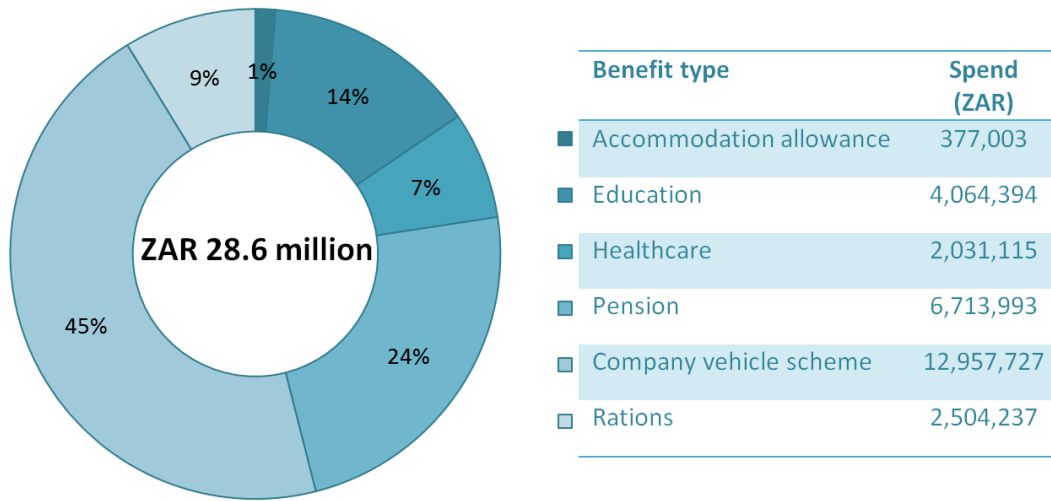
Ubombo Sugar employees receive a wide range of benefits in addition to their salary. The company provides employees with housing, subsidised electricity, free water, education, medical benefits and where applicable accommodation allowance. It has also recently started an innovative new initiative that sells company land to employees at cost price to build their own homes. This scheme has been widely praised by employees and trade unions and demonstrates a commitment to giving employees more opportunities for economic empowerment.

Healthcare and medical aid are extended to cover all employees. Entry-level workers receive food rations, which offer stability and security against the threat of rising food prices. Education allowances are provided for employees' family members. Employees have consistently chosen to keep these benefits when offered the opportunity to exchange them for increased salaries.

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<sup>15</sup> Data sourced from the Illovo Integrated Report, 2013.

**Ubombo Sugar Limited’s spend on benefits<sup>16</sup>:**



In addition to the accommodation figures in the chart above, Ubombo Sugar has spent ZAR 14.6 million developing the housing on its estate and a further ZAR 3.8 million on refuse removal services, all of which benefit employees and families living on the estate.

## Contributing to health and wellbeing

### Provision of health care and medical aid

The company provides health care and medical aid to both permanent employees and seasonal agricultural workers, as well as to 4,565 of these workers’ dependents. Much of this medical provision comes through the well-equipped 40 bed hospital built by the company in Big Bend, which is the only hospital within 60km. The hospital also provides care for non-employees and dependents of employees not qualifying for free medical care, at a nominal fee. In addition, Ubombo Sugar has established satellite clinics in remote rural areas, providing easier access to medical facilities for the workers who live there.

### HIV/AIDS

Swaziland has the world’s highest rate of HIV/AIDS infection, with 25.9% of the population HIV positive. This is even higher in the Big Bend area where rates are above 40%. Government faces a huge challenge to meet the demand for HIV –related services such as testing, awareness and drugs across the country’s population.

Ubombo Sugar is at the forefront of the battle against HIV/AIDS and has developed an award-winning HIV program to provide excellent care and support for employees and their families. It has a network of active peer educators (over 90) and an AIDs support group to

<sup>16</sup> Due to differences in the calculation of benefits, these figures may differ from what is included in the Illovo Integrated Report, 2013.

provide outreach. It is also equipped with its own CD4 testing machine and offers HIV tests as part of every routine visit.

The company’s overall strategy aims to identify which employees are HIV negative and help them to stay that way, to ensure the ones that are HIV-positive receive suitable medical management programmes, and to reduce stigma and discrimination around HIV and AIDS. This approach is deliberately aligned with UNAIDS ‘Triple Zero’ strategy of zero infections, zero deaths and zero discrimination. It is overseen by an HIV/AIDS Committee, which includes representatives from both employees and management.

**Malaria and other diseases**

Malaria has long been prevalent in the Lowveld region of Swaziland. However Ubombo Sugar’s dedicated Public Health Unit has succeeded in virtually eliminating the disease from the company’s estates. The company hospital works closely with the Swaziland government on efforts to tackle tuberculosis (TB), and also assists employees to manage chronic illnesses such as diabetes and high blood pressure.

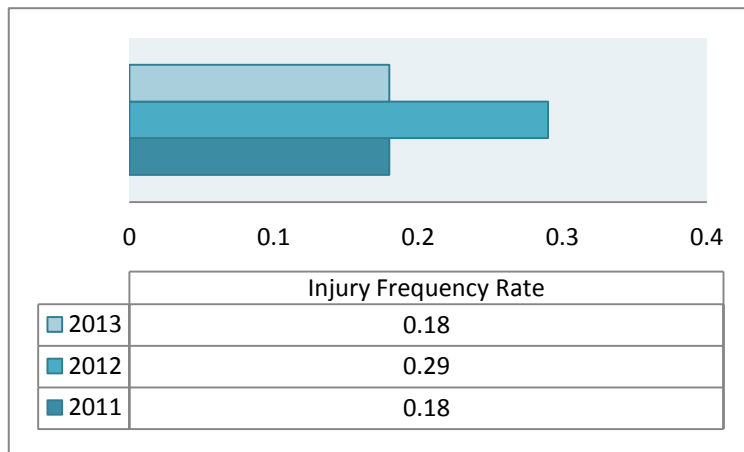
**Occupational safety**

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

The company spent ZAR 558,089 on health and safety training during the year, covering Safety, Health and Environment (SHE), first aid and fire fighting. The company’s accident rate remains a challenge, however new measures such as weekly safety talks for all employees have helped to reduce the injury frequency rate after it increased significantly the previous year.

In August 2013, a tractor accident resulted in the death of one of Ubombo Sugar’s employees. This tragedy was the first fatality suffered by the company for three years.

**Accident Injury Frequency Rate, 2011-13**





## Improving diversity

Women's participation is an increasingly important issue for the development agenda and campaigning NGOs, as evidence suggests economically active women help to build stronger, thriving communities. The sugar industry traditionally has a strong gender bias – women face barriers to accessing land and credit, earning income and developing skills. Diversity within the workplace and amongst senior management is a group-wide priority for Illovo, the number of women working in agriculture remains a challenge.

The company employs a total of 406 women, which is 14.7% of the employee count. This is made up of 174 women in permanent positions and 232 in temporary or seasonal work. The company currently has no female senior managers, unlike other companies within the Illovo Group. Ubombo Sugar's diversity policy is not publicly promoted and despite some initiatives such as transporting women to a women's day, the company recognises that it can do more in this area.

Position	Male:	Female:	Percentage female:
Senior Managers	16	1	0.6%
Middle Management	28	4	12.5%
First Line Managers & Lower C	175	59	25.2%
Other	781	111	12.4%
Seasonal and temporary workers	1531	232	13.2%

## Promoting localisation and developing skills

Ubombo Sugar is a firm supporter of the Government's localisation strategy, which is aimed at maximising employment opportunities and developing skills within Swaziland. However, finding skilled labour is a challenge in a rural area from which many migrate to seek opportunities in South Africa or Swaziland's larger cities.

Addressing Swaziland's skills gap, developing local talent and offering life-long learning are key elements of Ubombo Sugar's strategy for ensuring the growth and sustainability of its business. Currently, over 90% of employees at Ubombo Sugar are from Swaziland. Furthermore, 56% of senior management team are Swazis<sup>17</sup>.

<sup>17</sup> Data sourced from the Illovo Integrated Report, 2013.

### Training and development

Ubombo Sugar has a range of employee development activities and invested approximately ZAR 5.3 million in training in 2012/13, mostly focused on developing future talent. This resulted in 3.9 training days per employee. Ubombo Sugar has developed specific training and apprenticeship programmes to address the particularly acute skills gap in engineering. It supported 22 engineering apprenticeships in 2012/13, with 80% of those completing these programmes going on to take up jobs in the company. In addition, Ubombo Sugar conducts management development programmes, aimed at both first-line and upper management and offers internships to students from local universities.

Training offered	Description	Attendees
Apprenticeships	Structured formal technical trainee programmes, mainly from the engineering discipline.	22
Managers-in-training	Delivery of group-based management development programmes, aimed at both first-line and upper management.	8
Internship programmes	Student placement schemes offered by the company to develop talent and provide work experience.	21
Work-based/professional qualifications	Assists employees to further their studies in fields relevant to their positions through a study assistance scheme which is available to all permanent employees.	38
Other trainees		4

## Section 4: Value chain impact – suppliers

### Headline messages:

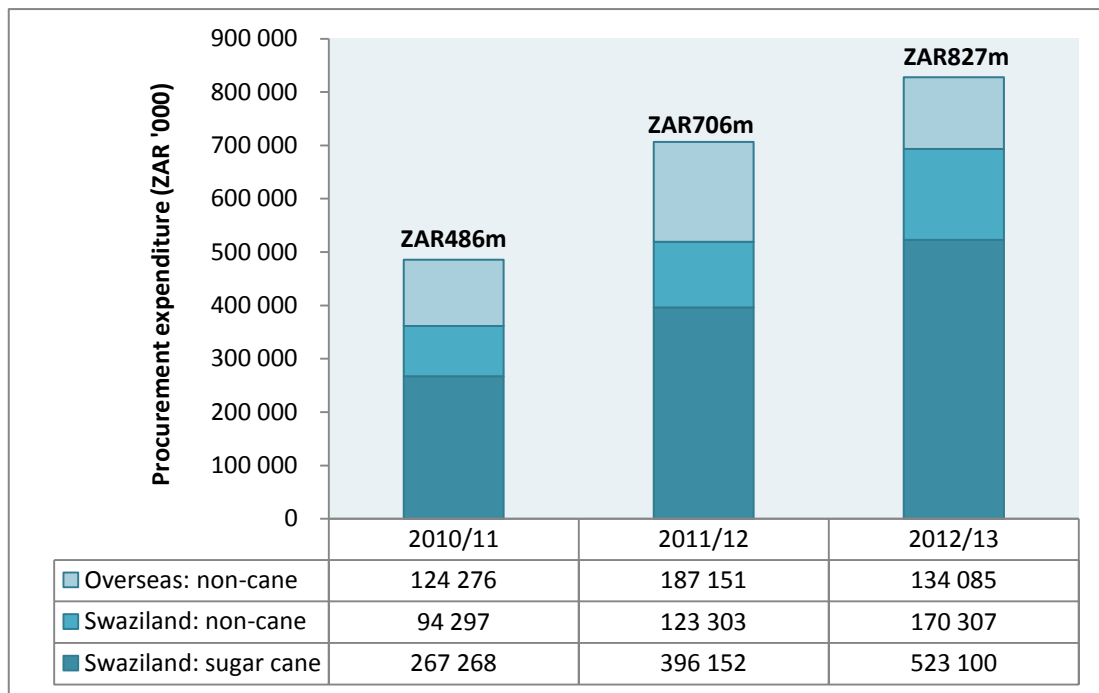
- In 2012/13, Ubombo Sugar spent ZAR 523 million with local out growers (40% of revenues), including about 3,000 smallholder farms.
- In addition, Ubombo Sugar spent ZAR 304 million on non-cane procurement, over two-thirds of which went to numerous companies in Swaziland.
- Small-scale growers will meet much of Ubombo Sugar's increased demand for sugar cane following the factory expansion, primarily through LUSIP, a donor-funded project to provide irrigation to smallholder farmers.

### Ubombo Sugar's supply chain

Ubombo Sugar buys 60% of its sugar cane from independent out grower farmers, with the remaining 40% grown on company land. Of all the countries in which Illovo Group operates, Swaziland has the second-highest proportion of externally sourced sugar cane, after South Africa, and this proportion has increased rapidly over the past three years. Ubombo Sugar spent ZAR 523 million with local out growers in 2012/13, buying 1.3 million tonnes of cane and representing a significant support to the livelihoods of small, rural farmers, their families, and local communities.

In addition, Ubombo Sugar spent ZAR 304 million on non-cane procurement in 2012/13, about 56% of which went to numerous companies in Swaziland.

**Ubombo Sugar procurement spending, 2011-13**

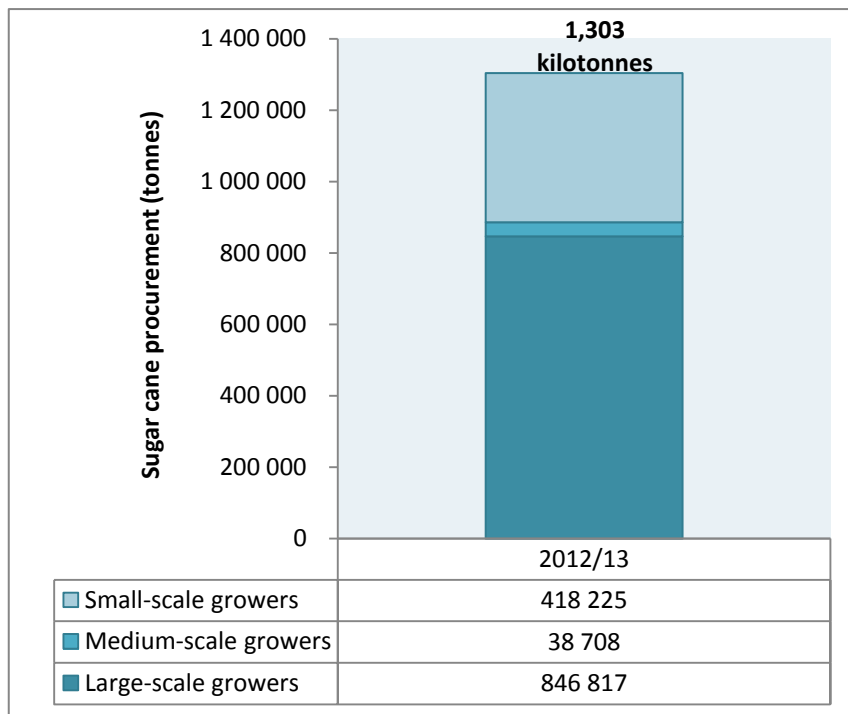


Ubombo Sugar buys sugar cane from three main types of independent growers:

- **Small-scale growers** on Swazi National Land, with around 3 hectares of land under cane. 32% of Ubombo Sugar’s outsourced cane comes from small-scale growers, through about 100 farmer associations. Given that each association comprises about 30 members, this equates to about 3,000 smallholder farms in Ubombo Sugar’s supply chain.
- **Medium-scale growers:** smallholder commercial growers with less than 50 hectares of title deed land. 15 such growers supply about 3% of Ubombo Sugar’s cane supply.
- **Large-scale growers:** commercial farmers with over 50 hectares of title deed land under cane. Illovo buys cane from 16 such farms, representing 65% of total out grower cane.

The company’s recent factory expansion has significantly increased Ubombo Sugar’s demand for sugar cane, and much of this additional demand will be met through small-scale growers.

**Ubombo Sugar: Tonnes of cane by size of out grower farmer, 2012/13**



**Supporting employment in the supply chain**

**Out grower employment**

Ubombo Sugar provides significant indirect employment through its spending with out grower farmers. This includes the 3,031 farmers from whom the company sources (only some of whom work on their land but all of whom are supported through their business with Ubombo Sugar) 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 Ubombo Sugar using multipliers from the Swaziland Water and Agricultural Development Enterprise (SWADE)<sup>18</sup>, resulting in an employment estimate of 2,090. Adding to this the 3,031 farm owners brings the total estimate of employment through out growers to 5,121.

The average household size in Swaziland is 4.7 people, although the total number of dependents supported by rural farmers is often higher. Ubombo Sugar is therefore estimated to support the livelihoods of 16,272 people through its purchase of out grower cane in Swaziland, although larger rural households may well mean that this figure is an underestimate.

<sup>18</sup> These multipliers assume that small growers employ about 0.2 workers per hectare, and large growers employ 0.104 workers per hectare. These assumptions have been confirmed by Ubombo Sugar’s out grower extension office.

### Further supply chain employment

Ubombo Sugar's spending with non-cane suppliers supports further indirect employment in sectors such as haulage, maintenance and machinery. The company also supports induced employment, via spending by indirect employees leading to increased consumption and employment throughout the economy.

### Supporting out grower livelihoods

80% of the population of Swaziland lives in rural areas where agriculture is the main source of income. By providing incomes and support to out growers, Ubombo Sugar helps reduce rural poverty. The large proportion of its cane that it sources from small-scale growers enables poor farmers to scale up their operations from subsistence levels.

Out growers supplying Ubombo Sugar cover almost 15,000 hectares of land, much of which was previously undeveloped due to a lack of irrigation. Sugar cane grows on land in the region that is not suited for other crops, although Ubombo Sugar also encourages out growers to grow food crops for their own consumption where the land is suitable. The company estimates that about 95% of out growers' land is used to grow sugar cane, with the remainder used to grow food crops.

Despite potentially replacing food crops on some land, sugar cane also has positive overall impacts on farmers' food 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.

The price that Swaziland's growers receive for sugar cane is regulated by the Swaziland Sugar Association (SSA). Ubombo Sugar's growers are paid for their cane every week, and also receive a final adjustment to the sucrose price at the end of the year. This ensures a stable, consistent income stream.

Out growers located more than 60km from Ubombo Sugar's mill also receive a transport subsidy of R0.90 per tonne for every kilometre above 60. These subsidies total to more than ZAR 481,000 paid to out growers over and above the price of cane.

### Supporting farmer productivity

Beyond providing a market for sugar cane, Ubombo Sugar engages in a number of initiatives focused on increasing its suppliers' productivity and ensuring the long-term sustainability of their farms.

A dedicated team of 12 provides support and technical assistance to out growers, including engineering and business management support. Ubombo Sugar enables its out growers to buy seed and fertilisers at the company's bulk discount rates, and also provides access to infrastructure and clean water.

### **The Lower Usuthu Smallholder Irrigation Project (LUSIP)**

Ubombo Sugar plans to increase the amount of cane that it sources from small-scale farmers through the Lower Usuthu Smallholder Irrigation Project (LUSIP), a donor-funded initiative to irrigate 11,500 hectares of land from a dam on the Lower Usuthu River. The project will provide opportunities for farming high-value crops which require irrigation, including sugar cane, cotton and maize.

LUSIP is financed through loans from the African Development Bank, the Development Bank of Southern Africa, the International Co-operation and Development Fund, the Arab Bank for Economic Development in Africa, the International Fund for Agricultural Development, the European Investment Bank and a grant from the European Development Fund. The expansion of the Ubombo mill played an integral part in securing funding for the project through its guarantee of a local market for sugar cane.

The first phase of the project (LUSIP I) comprises 6,500 hectares of farmland, 5,000 hectares of which will be developed under sugar cane.

In addition to directly benefiting smallholder farmers, the project will also provide local communities with potable water and improved sanitation. LUSIP has involved the careful relocation of 157 homesteads and 958 graves, and a monitoring lab has been set up to ensure environmental compliance.

## **Standards in the supply chain**

A number of grower associations supplying Ubombo Sugar are currently in the process of attaining Fairtrade certification. This provides them with an additional premium on the price of cane, for investment in social, environmental or economic development projects. It 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-use of child labour, environmental management programmes, and anti-bribery and corruption. Ubombo Sugar conducts 18 audits of out growers each year, but human rights standards (other than those required by law) are not enforced.

The rights of freedom of association and collective bargaining can make a significant difference to the lives of poor and rural workers. Ubombo Sugar estimates that approximately 582 employees of its larger-scale out growers are union members.

## Supporting local and small businesses

Ubombo Sugar's non-cane procurement includes plant and machinery, chemicals, transportation and other equipment. About 56% of non-cane procurement in 2012/13 was sourced from companies in Swaziland and many services, such as security and on-site shops have been actively outsourced to the wider community in recent years. In some cases, such services are provided by former Ubombo Sugar employees who have been given assistance by the company to set up their own businesses. During the expansion of the Ubombo Sugar mill, half of the additional employment came from the local area, and local workers also provided support services. The company is currently investigating the sourcing of other services, such as maintenance and repairs, from local suppliers.

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.

In practice, Ubombo Sugar sources from local suppliers where feasible and there are some good examples of supporting small local businesses. However, there is an opportunity to promote greater enterprise development amongst local suppliers. The development of a preferred local supplier list would help Ubombo Sugar focus its efforts on a selected group of suppliers, understand the issues they face and identify areas to provide support. For example, one small local business expressed concerns over long supplier payment periods which negatively impacts on cashflow. This is a huge challenge for small businesses and can sometimes cause small enterprises to go out of business.



## Section 5: Value chain impact – customers

### Headline messages:

- Ubombo Sugar sells raw, refined and speciality sugars to customers in Swaziland and international markets.
- Ubombo Sugar does not sell any of its sugar directly to customers or retailers, as the Swaziland Sugar Association (SSA) is solely responsible for the marketing of all sugar in both domestic and export markets.

### Serving customers

Ubombo Sugar sells raw, refined and speciality sugars to customers in Swaziland and international markets. Sugar is sold both for direct consumption and industrial use in food and beverage industries. The wide range of customers for Ubombo Sugar's products means that the company has significant downstream impacts in Swaziland's economy.

In 2012/13, Ubombo Sugar produced about 170,500 tonnes of raw sugar, and 80,500 tonnes of refined sugar. The company also exported 37,000 MWh of electricity to the national grid, through energy generation at its mill.

Ubombo Sugar does not sell any of its sugar directly to customers or retailers, due to the structure of the Swaziland sugar industry. The Swaziland Sugar Association (SSA) is the statutory monopoly marketing body, solely responsible for the marketing of all sugar in domestic and export markets.

The SSA sells about half of Swaziland's total sugar production in the Southern African Customs Union (SACU). Through the Swazi Economic Empowerment initiative, a portion of this sugar is reserved for local traders, in order to assist them to develop the skills and sophistication required for export markets. Most of the remaining sugar is sold to EU and US markets, where trade agreements give access to sugar markets on preferential terms. Residual sugar is sold into regional and world markets, which are characterised by generally low prices.

Ubombo Sugar ensures the quality and safety of its products using the internationally approved certification schemes ISO 9001 (quality management systems) and FSSC 22000 (food safety systems). The SSA's operations are also based on ISO 9001 standards.

Ubombo Sugar 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:

- In addition to providing benefits and supports to its direct employees and suppliers, Ubombo Sugar invests roughly 9% of pre-tax profit in community focused initiatives. The company's investment in healthcare and education in particular has benefited the broader community.
- Ubombo Sugar provides essential sanitation services and potable water to the surrounding community. Prior to this, people were forced to travel several kilometres to find enough water to meet their needs.

### Investing in local communities

Most of Big Bend's population of just over 10,000 is connected with Ubombo Sugar's operations in some way. By creating jobs and providing support for local suppliers, Ubombo Sugar is helping to address the threat of poverty and food insecurity for this remote rural community, and to close the persistent gap between rural and urban income levels in Swaziland.

In addition to its impact through direct employment and its supply chain, Ubombo Sugar runs a number of essential community services and makes donations to support other community projects. Ubombo Sugar spent a total of ZAR 16,078,852 on community investment in 2012/13. This equate roughly to 9% of its pre-tax profit. The company works with 15 community organisations and calculates that it has benefited approximately 15,000 people through its investment programmes.

<b>Community investment activity</b>	<b>Description</b>	<b>Value (ZAR):</b>
Healthcare	Ubombo Sugar has built a 40-bed private hospital, which it continues to support and maintain. The hospital provides medical services to employees as well as being open to the wider community at a nominal cost.	12,926,603
Schools subventions	Ubombo Sugar supports four schools through subventions, which help to maintain facilities and pay staff wages. The schools are attended by both the company's employees and the wider community.	2,352,249
Infrastructure	Maintenance of public roads and bridges that pass through the company estate.	800,000
<b>Total</b>		<b>16,078,852</b>

In addition, Ubombo Sugar provides potable water to the wider community at cost price, removing the need to travel long distances to obtain safe drinking water. Ten churches, a bus rank and recreational facilities for the community are all run by Ubombo Sugar on company-owned land.

It is clear Ubombo Sugar has an important impact in its immediate community although its investment mainly benefits employees and their dependents. There is a risk that those in the wider community, not directly linked to the business, feel disenfranchised and do not feel the benefits of Ubombo Sugar's community investment. Ubombo should explore how part of its social investment spend could support projects that help address wider community needs.

## Section 6: Environmental sustainability

### Headline messages:

- Ubombo Sugar's co-generation project has been a significant success. The company exported 37,000 MWh of energy to the grid in 2012/13, 99% of which was generated from renewable sources.
- 82% of total energy used is renewable, helping to contribute to over a 60% reduction in Ubombo Sugar's carbon footprint in 2013 compared to 2012.
- Ubombo Sugar plays an important role in facilitating access to water for the community. It provides potable water, irrigation systems and educates farmers on good irrigation management.
- The company is leading the way in adopting sustainable agricultural technologies and techniques. Its ZAR 84million investment in centre pivots led to water use per season falling by about 23% with yields improving by 14 tonnes of cane per hectare. It is also using green-cane harvesting.

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.

Ubombo Sugar is seen as a leader in environmental management and has shared knowledge and best practice with the Swaziland government to help develop new, higher environmental standards at a national level. It operates according to the NOSA Integrated Five-Star Management System and ISO 14001, and has recently created a new role specifically promoting environmental management.

### Promoting access to water

Access to water for drinking, sanitation and farming is essential for rural community development. Water scarcity is a particular issue for Swaziland and the eastern lowveld region where Ubombo Sugar's operations are located and this means that irrigation is needed to make farming viable. Smallholder farmers face particular challenges, as they do not have the resources or means to develop irrigation systems in isolation.

Ubombo Sugar is playing an important role in facilitating access to water for the community. It provides potable water to those living on the estate and surrounding areas. It is a strong supporter of the local LUSIP irrigation project, and the expansion of its sugar mill played a key role in securing donor funding for the initiative. The company provides

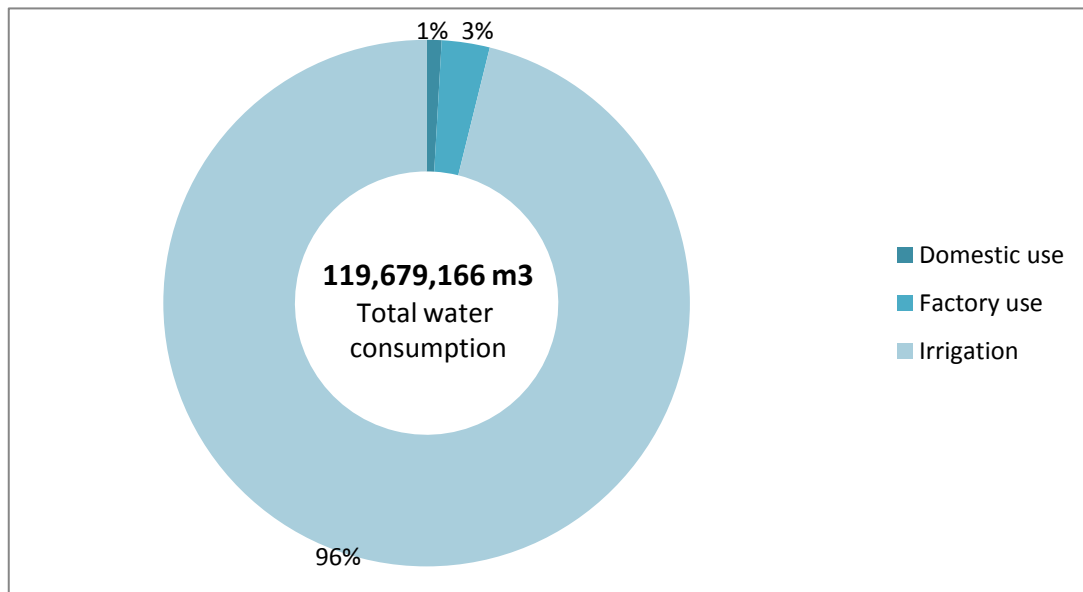
irrigation management training, supplies technical assistance for sugar crop production, and ensures a local market for small-scale sugar crop producers<sup>19</sup>.

## Water stewardship

In terms of its own water consumption, Ubombo Sugar Limited used 119,679,166 m<sup>3</sup> of water in 2012/13, all of which was acquired from surface water sources, and most of which is used for irrigation. There will be continuing pressure to reduce water usage and Ubombo Sugar has started to respond by investing in leading-edge water-efficient technology. It has successfully completed an irrigation upgrade project to convert to centre pivots. A total of R84 million was invested and as a result water use per season has reduced by around 23% and yields have increased by 14 tonnes of cane per hectare. The project also reduced energy use by about 20%. This type of investment demonstrates a commitment to producing sugarcane in a more productive and environmentally sustainable way.

Driving further water efficiencies will continue to be important. The company could do more to reduce water abstraction and has invested in water meters to help with this. Conducting a complete water footprint will also help with developing a comprehensive water strategy.

### Illovo Sugar South Africa water consumption by location (m<sup>3</sup>)



In Swaziland, effluent is managed in two ways depending on the source. Effluent from factories is treated and used in the factory. Effluent from residential areas is treated in effluent ponds and discharged to surface water. Total discharge per annum is 803 million litres.

<sup>19</sup> European Union (2006) Lower Usuthu Smallholder Irrigation Project Swaziland [http://eeas.europa.eu/delegations/Swaziland/documents/eu\\_Swaziland/lower\\_usuthu\\_smallholder\\_irrigation\\_project\\_mid-term\\_evaluation\\_august\\_2006.pdf](http://eeas.europa.eu/delegations/Swaziland/documents/eu_Swaziland/lower_usuthu_smallholder_irrigation_project_mid-term_evaluation_august_2006.pdf)

To manage water pollution, Ubombo Sugar Limited schedules its irrigation to avoid run-off water, and monitors any run-off that does occur before the water reaches catch-off points. The company is updating its sewage systems to improve water treatment and eliminate risks of groundwater contamination.

## Protecting land and biodiversity

Agricultural operations at Ubombo Sugar have adopted best practice farming methods based on guidelines advocated by the South African Sugarcane Research Institute (SASRI). All new developments undergo a comprehensive Environmental Impact Assessment process to ensure any adverse biodiversity impacts are identified and mitigated. Land that is disturbed is rehabilitated.

Ubombo Sugar Limited closely monitors pesticide use at sites, with 122,687 litres of pesticides used during the 2012/13 growing season. The company has set new internal standards on using biodegradable pesticides and herbicides.

### Mhlosinga Nature Reserve

Ubombo Sugar has maintained biodiversity corridors throughout its sugar estates, which leave wetlands and other riparian zones undisturbed. One example of this is its management of the private Mhlosinga Nature Reserve, including the Van Eck Dam. Sitting on 1,108 hectares of land, the reserve supports game, birds, reptiles and fish.

### Preventing soil degradation

The expansion of Ubombo Sugar's cane cultivation involves using newly efficient irrigation systems to convert land to cane that was previously used for cattle ranching. This can have a positive impact on the quality of land, since overgrazing by cattle has been responsible for much of the degradation of Swazi National Land.

## Energy use and emissions

Some Illovo operations are finding unlimited access to a reliable energy source is a challenge, particularly when there are competing demands across the country for that energy. Ubombo Sugar's co-generation model is the first across the Group and transforms that challenge into an opportunity, ensuring its own energy security and providing a clean energy source to the wider country.

Ubombo Sugar generated 141,750 MWh of its own electricity in 2012/13, accounting for 82% of its total energy consumption. The remaining 18% of energy consumed comes from imported electricity from the grid to supplement any shortfall in capacity from self-generated sources. Of its self-generated electricity, 99% is from renewable sources, which has led to a huge reduction in carbon emissions. The company emitted 28,286 tCO<sub>2</sub>e in 2012/13, a reduction of more than 60% from the 77,193 tCO<sub>2</sub>e produced in 2012.

Additionally, the company exported 37,000 MWh of electricity to the national grid under a commercial agreement with the Swaziland Electricity Company (SEC). Based on emissions factors published by the GHG Protocol, the sale of this electricity enabled the SEC to avoid 18 068 tCO<sub>2</sub>e in 2012/13. With the completion of the expansion project, Ubombo Sugar has plans to increase this amount to 55,000 MWh by 2015, supplying around 16% of the country's total power requirements.

### **Breakdown of energy generation and consumption, 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%.

Inside the company's factory, Ubombo Sugar has embarked on further initiatives to optimise energy use by reducing the process of steam demand, improving bagasse moistures, improving boiler efficiencies, and further expanding its use of renewable energy to replace the use of coal.

## **Waste**

Waste handling and disposal is managed according to the ISO 14000 system. The company produced a total of 2,274 tonnes of non-hazardous waste in 2012/13, of which 55% went to landfill. Annually, 450 tonnes of waste is reused or recycled, comprised of scrap metal and paper sold to two local companies in Matsapha.

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