



# Illovo Sugar

**Zambia Socio-Economic Impact Assessment**

**Internal Management Report**

**April 2014**

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## Executive summary

<b>Zambia Sugar has:</b>
<p>Contributed an estimated ZAR 4 billion to Zambia's economy in 2012/13, including direct, indirect and induced impacts. This is equivalent to about 2% of Zambia's GDP, or about 10% of the country's agricultural sector.</p>
<p>Directly employed 6,014 people in Zambia (including seasonal and non-permanent workers), supported an estimated 3,390 people through outgrowers, and supported further estimated indirect and induced employment of between 1,881 and 8,087. In other words, Zambia Sugar is estimated to support between 11,285 and 17,491 jobs - for every direct employee of Zambia Sugar, between 0.9 and 1.9 workers are supported in the wider economy.</p>
<p>Estimated to support the livelihoods of between approximately 54,167 and 83,958 people, including dependents, through direct, indirect and induced employment (based on national average household sizes).</p>
<p>Paid over ZAR 91 million in taxes to the Government in 2012/13 with the majority coming through indirect taxes such as duty and employee taxes. Undertook major capital investments which mean it has benefited from tax breaks in recent years, which will expire in 2015/16.</p> <p>The Government also receives dividends through its 15% stake in Zambia Sugar's subsidiary, Nanga Farms.</p>
<p>Invested more than ZAR 1.6 billion in the expansion of its factory and estate at Nakambala in 2008/9 which increased annual cane production by 50%.</p> <p>Examining options for a further factory expansion. These investments demonstrate a long-term commitment by the company to Zambia, helping to diversify the business and secure jobs for the future.</p>
<p>Spent ZAR 462 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 Zambian population where over 86% live at or below the poverty line of \$2 per day.</p>
<p>Spent ZAR 488 million (19% of total revenues) in 2012/13 procuring sugar cane from</p>

<p>independent farmers, including over 250 smallholder farmers. Supported pioneering small-holder schemes such as KASCOL and Magobbo.</p> <p>Spent ZAR 1,265 million with non-cane suppliers in 2012/13, about 68% of which was spent with over 400 companies in Zambia.</p>
<p>Invested over ZAR55m in social initiatives including supporting Mazabuka Sugarcane Growers Trust and as well as other local community organisations such as the radio station, schools and sports facilities.</p> <p>Supporting the government’s strategy to combat Vitamin A deficiency - all sugar sold for direct consumption in Zambia is fortified with vitamin A under Government legislation.</p>
<p>Sourced 90% of its energy from renewable bagasse sources</p>

#### Illovo in Zambia:

- **Illovo Sugar operates in Zambia through its subsidiary Zambia Sugar, the country’s largest sugar producer with 93% of national production.** Zambia Sugar’s operations are centred on its estate at Nakambala, close to the town of Mazabuka. The company also has an 85% stake in a farm at nearby Nanga, of which the remaining 15% is owned by the government. Zambia Sugar sells about half its sugar within Zambia to consumers and other businesses.
- **While Zambia’s economy has experienced sustained growth of over 6% since 2005, poverty rates remain high.** This is particularly the case in rural areas beset by low agricultural productivity. Of the 42% of the population living in extreme poverty, 90% inhabit rural areas. Zambia is classified by the UN as a Least Developed Country.

#### Contributing to Zambia’s economy:

- **Zambia Sugar contributed an estimated ZAR 4.0 billion to Zambia’s economy in 2012/13, including direct, indirect and induced impacts.** This is equivalent to about 2% of Zambia’s GDP, or about 10% of the country’s agricultural sector. Zambia Sugar’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 Zambia.** Zambia Sugar directly added ZAR1.1 billion of gross value to Zambia’s economy. 42% of the company’s value added went to employees as salaries, wages and benefits. In 2012/13, ZAR 488 million or 19% of revenues were paid to outgrowers.
- **Zambia Sugar is a major employer** directly employing 6,014 people in Zambia and further supporting an estimated 3,390 workers through outgrowers, and further estimated indirect and induced employment of between 1,881 and 8,087. In other

words, for every direct employee of Zambia Sugar between 0.9 and 1.9 workers are supported in the wider economy. Based on an average household size of 4.8, Zambia Sugar is estimated to support the livelihoods of between 54,167 and 83,958 people throughout Zambia (inclusive of dependents).

- **The company paid over ZAR 91 million in taxes to the Government in 2012/13 with the majority coming through indirect taxes such as duty and employee taxes.** The company's corporate income tax rate has been 10% since 2012, and it has been granted capital allowances by the Zambia Development Agency for its major capital investments. The Government also receives dividends through its 15% stake in Zambia Sugar's subsidiary, Nanga Farms.
- **Zambia Sugar has undertaken significant capital investments, representing a long-term commitment to Zambia and helping to secure jobs and livelihoods in the future.** Its ZAR 1.6 billion factory expansion in 2008/9 increased annual cane production by 50% to over 400,000 tonnes of sugar. It is now considering further investment to diversify its operations. **The availability of Zambia Sugar's products has been a factor in attracting other foreign investment to the country,** for example the construction of a new Pepsi bottling plant in Lusaka.
- **Zambia Sugar has a significant positive impact on Zambia's balance of payments** with direct exports of ZAR 1,226 million compared to imports of about ZAR 400 million and remitted profits of ZAR 88 million.

#### Investing in employees

- **Zambia Sugar spent ZAR 462 million (18% of total revenues and 42% 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.** Zambia Sugar has quadrupled its training budget in the last three years to reach around ZAR 10.5 million in 2012/13. The company is actively supporting the government's localisation agenda and has increased the number of senior management team that are Zambian.
- **Zambia Sugar follows best practice international standards when it comes to health and safety.** All of Illovo's cane-growing and factory operations in Zambia 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

- Zambia Sugar spent ZAR 488million (19% of total revenues) in 2012/13 buying sugar cane from independent farmers local to its mills, including 254 smallholder farmers. This represents **a significant support to the livelihoods of small, rural farmers, their families, and local communities.**

- **Zambia Sugar has a long history of supporting smallholder schemes. It was a co-founder of KASCOL which for many years was the only successful scheme in Zambia.** The company aims to increase the proportion of sugar cane it buys from smallholders by supporting new, similar schemes such as Magobbo. The company supports them through a guaranteed market for cane as well as through investment, training and support to improve productivity.
- **It also spent ZAR 1,265 million with non-sugar cane suppliers, about 68% of which was with over 400 companies in Zambia.** The company is exploring how to increase its procurement from local businesses and working with local organisations and banks to overcome some of the challenges small businesses face.

### Investing in the community and promoting environmental best practice

- **Zambia Sugar spent approximately ZAR 56 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 the upgrade of the Mazabuka Community Radio Station, schools, sports clubs and community projects in the wider local area.
- Zambia Sugar supplies potable water to the 2,900 housing units on its sugar estate. Additionally, the company supplies water to the Southern Water and Sewage Company for potable water and municipal services supply to the entire Mazabuka District.
- **Water and energy are Zambia Sugar's biggest environmental risks.** Zambia Sugar has undertaken a waterfootprint assessment to identify opportunities to reduce water usage and develop a more comprehensive water strategy. 90% of its total energy supply comes from renewable bagasse sources. The company plans to increase the amount of energy generated on-site following a significant failure of external energy supply during 2012/13.

### Future considerations based on observations from site visit

It is evident that Zambia Sugar 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 **Zambia Sugar 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. government, 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.

- 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 Zambia Sugar’s community investment. We recommend **Zambia Sugar consider a formalised process with the wider community to understand their needs and where it can focus its investment.** This could form part of a wider stakeholder engagement process. A focused strategy will also help Zambia Sugar better communicate the impact of its community 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 Zambia Sugar’s role** – using findings from the consultation to identify priority areas for Zambia Sugar’s social investment that help address wider community needs, where there is benefit to the business as well as the resources Illovo has to offer.

#### Local enterprise development

- Zambia Sugar has taken steps to promote local enterprise development, for example establishing links with the District Business Association and developing a preferred local supplier list.
- We recognise there are business critical factors such as quality, price, capability and efficiencies that mean local sourcing will not always be feasible. However, we believe Zambia Sugar could have an even greater impact by focusing more on specific aspects of local sourcing and enterprise development. This is supported by views we heard both internally and externally - local communities expect Illovo to do more to source locally.

Zambia Sugar 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 Zambia Sugar’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.
- **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 Zambia Sugar 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. We saw some good examples of women's representation across the company, however 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 Zambia, 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, 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 Zambia

**Headline messages:**

- Zambia’s economy grew at a rate of 7.3% in 2012, continuing sustained growth of over 6% since 2005.
- Poverty rates in Zambia are extremely high, particularly in rural areas beset by low agricultural productivity. 90% of those living in extreme poverty inhabit rural areas
- According to a 2010 study, the World Bank estimates that over 86% of the population lives on \$2 per day (PPP) or less.
- The HIV/AIDS epidemic has significantly impacted the demographics of Zambia. Zambia has the world’s sixth highest rate of HIV/AIDS with 13.5% of the population infected.
- Illovo’s subsidiary Zambia Sugar dominates the Zambian sugar industry with 93% of production

## Zambia’s economic structure

**Economic outlook**

Zambia’s economy grew at a rate of 7.3% in 2012. The country has experienced sustained growth over the past decade, growing at a rate of over 6% each year from 2005-2012. This growth is strongly attributed to copper mining which accounts for over 75% of exports in 2010.<sup>2</sup>

Over 60% of the population of Zambia lives in rural areas where agriculture is the main source of income. Agriculture accounts for approximately 85% of employment nationally, yet only accounts for 21% of GDP. The government has stated a commitment to diversifying the economy as part of

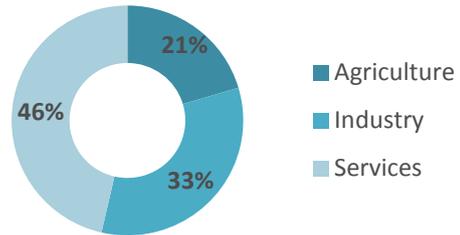
Zambia Country Data <sup>1</sup>	
<b>Economic Indicators (2012 est.)</b>	
GDP (purchasing power parity)	\$24.4 billion
GDP per capita	\$1,700
Annual GDP growth rate	7.3%
<b>Labour Market Indicators</b>	
Population	14 million (2013)
Labour Force	6 million (2012 est.)
By occupation	Agriculture 85% Industry 6% Services 9% (2004 est.)
Population location	Rural 61% Urban 39% (2011)
Unemployment	14% (2006 est.)
<b>Poverty Indicators</b>	
Population living at or below \$2 per day (PPP)	86.6% (2010)
Adult literacy rate	61% (2007 est.)
Life expectancy at birth	51.5 years (2013 est.)

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

<sup>2</sup> [UN Comtrade Zambia 2010](#)

its Sixth National Development Plan, but little progress has been made.

GDP breakdown by sector



**Development challenges**

Poverty represents Zambia’s largest development challenge. According to a 2010 study, the World Bank estimates that 86.6% of the population lives on \$2 per day (PPP) or less<sup>3</sup>. Beyond this, the organisation also concludes that 42% are living in what it defines as extreme poverty. Of those in extreme poverty, 90% inhabit rural areas<sup>4</sup>. Zambia is classified by the UN as a Least Developed Country.

The HIV/AIDS epidemic has significantly impacted the demographics of Zambia. Zambia has the world’s sixth highest rate of HIV/AIDS with 13.5% of the population infected.

**Illovo in Zambia**

Illovo’s subsidiary, Zambia Sugar, dominates the sugar industry in Zambia, accounting for 93% of production. Illovo acquired an 82% stake in the company in 2001. Zambia Sugar is listed on the Lusaka Stock Exchange, with the remaining shares held by a variety of institutional and private investors. The 403,100 tonnes of sugar produced by Zambia Sugar in 2012/13 accounted for about 23% of the Illovo Group’s total sugar production.

Zambia Sugar’s operations are centred on its estate at Nakambala, close to the town of Mazabuka. The Nakambala operation includes a mill, refinery and surrounding irrigated sugar cane estates. The company also has an 85% stake in a farm at nearby Nanga, of which the remaining 15% is owned by the government, and operates secondary distribution depots at Lusaka and Ndola. Zambia Sugar and its outgrower farmers together cultivate about 28,000 hectares of sugar cane.

Zambia 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<sup>5</sup>. Zambia sugar is consumed domestically, shipped to regional markets in Africa, and exported to the EU. All sugar sold for direct consumption in Zambia is fortified with vitamin A, under government legislation to combat vitamin A deficiency.

The company has faced recent challenges in its relationship with government, resulting from government policies such as the significant rise in public sector wages.

<sup>3</sup> World Bank <http://data.worldbank.org/indicator/SI.POV.2DAY/countries/ZM?display=graph>

<sup>4</sup> World Bank <http://www.worldbank.org/en/country/zambia/overview>

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

## Section 2: Supporting economic growth

### Headline messages:

- Zambia Sugar contributed an estimated ZAR 4.0 billion to Zambia's economy in 2012/13, including direct, indirect and induced impacts. This is equivalent to about 2% of Zambia's GDP, or about 10% of the country's agricultural sector.
- Zambia Sugar directly employs 6,014 people in Zambia, supports an estimated 3,390 workers through outgrowers, and supports further estimated indirect and induced employment of between 1,881 and 8,087. In other words, for every direct employee of Zambia Sugar, between 0.9 and 1.9 workers are supported in the wider economy.
- The business benefits many stakeholders. In 2012/13, outgrower farmers received nearly 20% of the company's revenues, while 42% of the company's value-added went to employees as salaries, wages and benefits.
- In 2008/9, Zambia Sugar carried out a major expansion of its factory and estate at Nakambala, and is currently examining options for a further factory expansion. These investments represent a significant long-term commitment to the local economy.

Zambia Sugar adds value to the economy of Zambia by taking raw sugar cane, milling and refining it, and producing sugars and syrup. The company has impacts on a wide range of stakeholders in the local community and the wider economy, through three main channels:

- **Direct** impacts, through Zambia Sugar's direct employment of workers on farms and in factories, as well as tax payments, interest spending, shareholder dividends, investments and other payments;
- **Indirect** impacts in the value chain, through sourcing sugar cane from farmers and payments to suppliers and distributors, as well as the profits of those selling Zambia Sugar products or using them in their businesses;
- **Induced** impacts, through spending by direct and indirect employees of Zambia Sugar, leading to increased consumption and employment elsewhere in the economy.

Additional, secondary impacts that result from Zambia Sugar's operations include support for infrastructure such as roads, water, schooling and healthcare. These impacts are described in this report, but have not been given a financial value.

In order to estimate Zambia 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

Zambia Sugar’s direct contribution to the Zambian economy, measured in terms of its gross value-added, was ZAR 1,111 million in 2012/13. The company’s additional indirect impacts are estimated at ZAR 1,447 million<sup>6</sup>, and its induced impacts at ZAR 1,439 million.

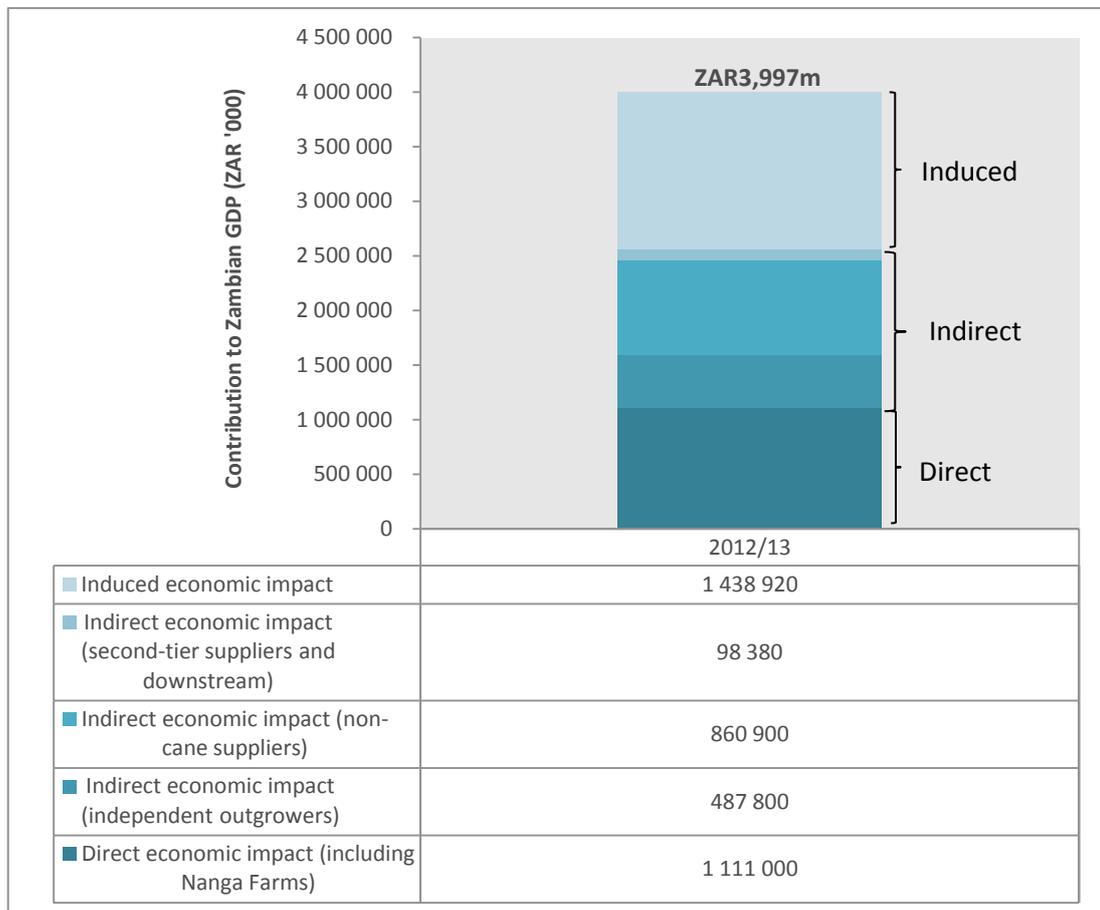
Zambia Sugar’s total contribution to Zambia’s economy, including direct, indirect and induced impacts, is therefore estimated at ZAR 3,997 million, equivalent to about 2% of Zambia’s GDP, or about 10% of the country’s agricultural sector<sup>7,8</sup>.

<sup>6</sup> Including spending with outgrower farmers of ZAR 488 million and non-cane procurement spending in Zambia of ZAR 861 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](#), Zambia gross domestic product, current prices, 2012

<sup>8</sup> [CIA World Factbook for Zambia](#), GDP - composition, by sector of origin

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



**Contribution to employment**

Zambia Sugar is estimated to support between 11,285 and 17,491 jobs in Zambia. This includes direct employment of 6,014<sup>9</sup> people, and estimated indirect and induced employment of between 5,271 and 11,477<sup>10</sup> (including an estimated 3,390 people employed through outgrower farms). In other words, for every direct employee of Zambia Sugar, between 0.9 and 1.9 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 Zambia Sugar’s total employment impact, since some informal employment may not be accounted for.

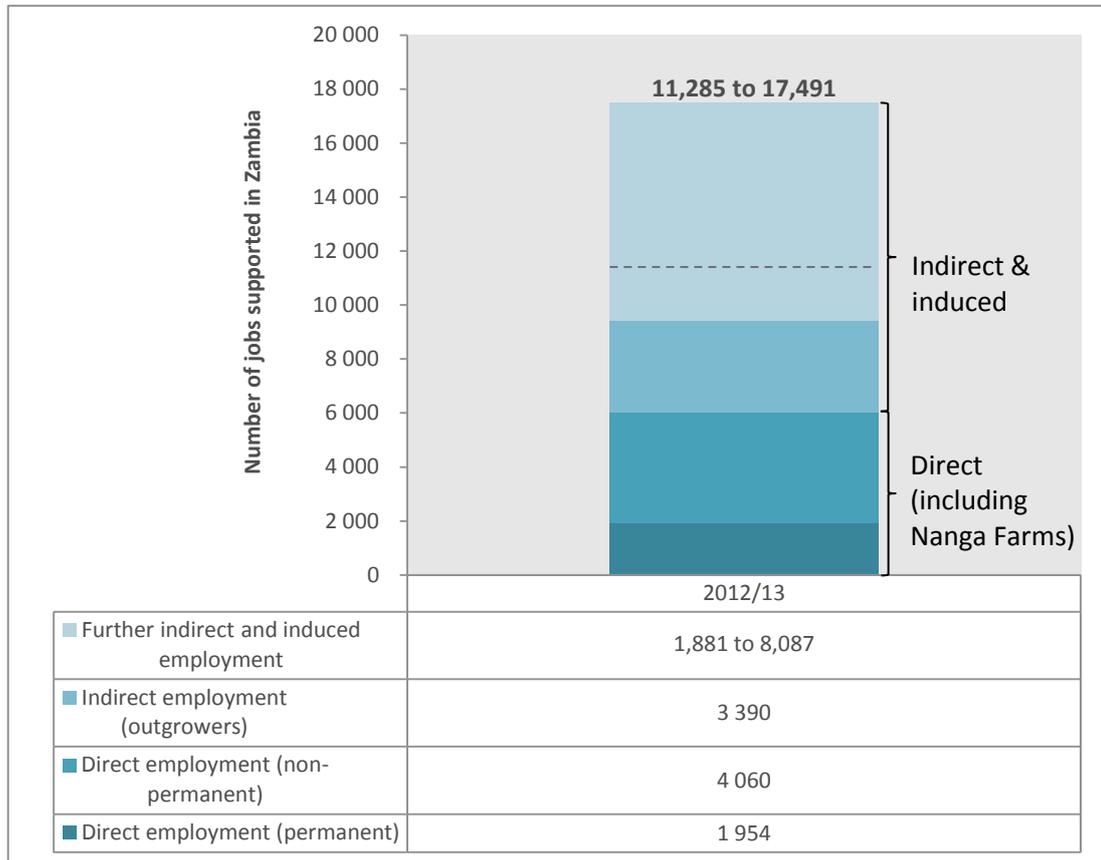
Zambia Sugar’s impact on livelihoods is not restricted to those it provides work for. Given the average household size of 4.8 in rural Zambia and with many families supported by only one income-earner, the company has a significant impact through the dependents of its employees and of those in its value chain. When dependents are taken into account,

<sup>9</sup> 1,954 permanent employees, plus 4,060 seasonal workers (including Nanga Farms). Seasonal workers are hired according to the milling season of 6-9 months, so receive a significant proportion of their incomes from the company.

<sup>10</sup> See Appendix 1 for an explanation of the multipliers used.

Zambia Sugar is estimated to support the livelihoods of between 54,167 and 83,958 people throughout Zambia, equivalent to up to 13 people for every direct employee of Zambia Sugar.

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



**Distributing wealth**

Zambia Sugar is a successful and growing business. In 2012/13, the company’s gross revenues were ZAR 2,520 million. This was a significant increase on revenues in the previous two years, due to growth in the domestic market, improved productivity and record sales to the EU. Pre-tax profits also increased substantially, from ZAR 226 million in 2011/12 to ZAR 286 million in 2012/13. The nature of Zambia Sugar’s business means that a wide range of stakeholders benefits from these increased revenues.

Zambia Sugar’s direct economic contribution to Zambia is represented through its “value-added”, which is defined as the difference between the company’s revenues and its input costs. Yet this is only one aspect of the company’s economic contribution. Those input costs, for example, largely benefit independent outgrower farmers<sup>11</sup>, who received nearly 20% of the company’s total revenues in 2012/13.

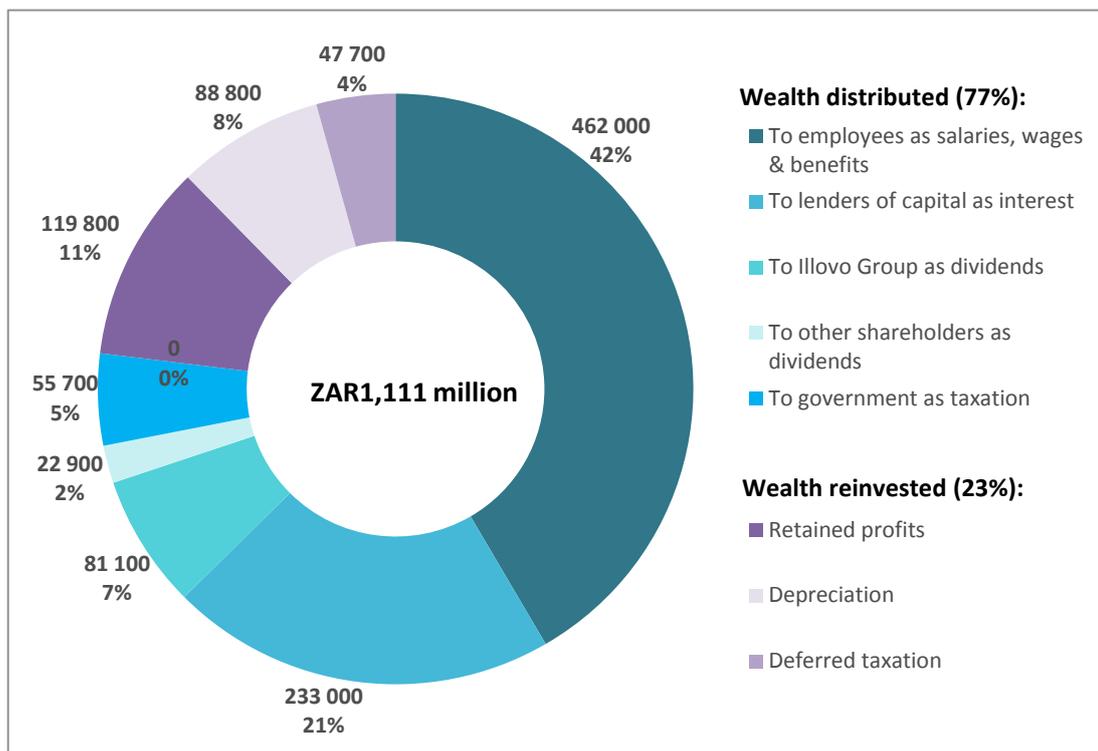
<sup>11</sup> I.e. excluding employees of Nanga farms, in which Zambia Sugar has an 85% stake

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

Revenues	ZAR 2,520 million	
Paid to independent outgrower farmers	(ZAR 488 million)	19%
Manufacturing costs	(ZAR 921 million)	37%
<b>Total value-added</b>	<b>ZAR 1,111 million</b>	<b>44%</b>

The majority of Zambia Sugar’s value-added total of ZAR 1,111 million is distributed to its stakeholders, with some retained for reinvestment. In 2012/13, 77% of value added was distributed to employees, providers of capital and the government, and 23% reinvested in the business, as the following chart shows.

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



**Investing in the future**

Zambia Sugar’s on-going presence and investment in Mazabuka has had a significant impact on the local economy. The population of Zambia Sugar’s own Nakambala estate has increased to about 16,000, and the neighbouring town’s growing prosperity has made it very attractive to migrants from other areas of the country. Census data from the Central Statistical Office shows that the population of Mazabuka town increased from 12,401 in

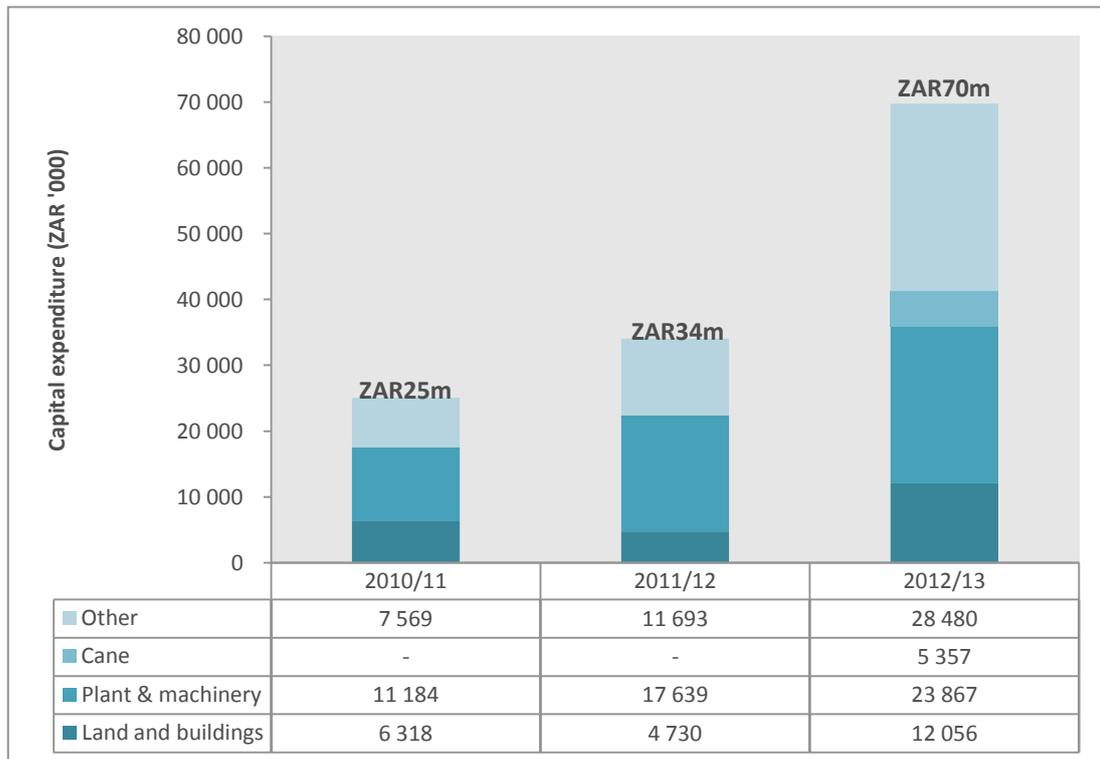
2000 to 69,435 in 2010. Meanwhile, the population of the wider Mazabuka constituency increased by 3.3% per year, compared to a national average of 2.8%. Although no data is available on local unemployment rates, the company estimates that unemployment in Mazabuka is far lower than for much of the rest of Zambia.

In 2008/9, Zambia Sugar carried out a major ZAR 1.6 billion expansion of its factory and estate at Nakambala, which increased annual cane production by 50%, and sugar production to over 400,000 tonnes of sugar. At the same time, the company acquired an 85% stake in the nearby Nanga Farms, where it also undertook projects to expand capacity. These investments represent a significant long-term commitment to the local economy, expanding employment and benefiting local businesses and the wider community.

In 2012/13, Zambia Sugar’s capital expenditure totalled almost ZAR 70 million, doubling its spending in 2011/12. This total includes spending on land and buildings, plant and machinery, and sugar cane.

The company is currently operating at close to full production capacity, and is examining options for a further factory expansion which would increase capacity to 440,000 tonnes. In the longer-term, a proposed ZAR 1 billion investment would see Zambia Sugar diversify into producing ethanol for the beverage, medical and chemical industries, similar to Illovo’s operations in South Africa and Tanzania, and would also increase the factory’s refined sugar output from 40,000 to 80,000 tonnes. Such additional expansion would represent a significant on-going commitment to local employment and the wider community.

**Zambia Sugar capital expenditure, 2011-13**



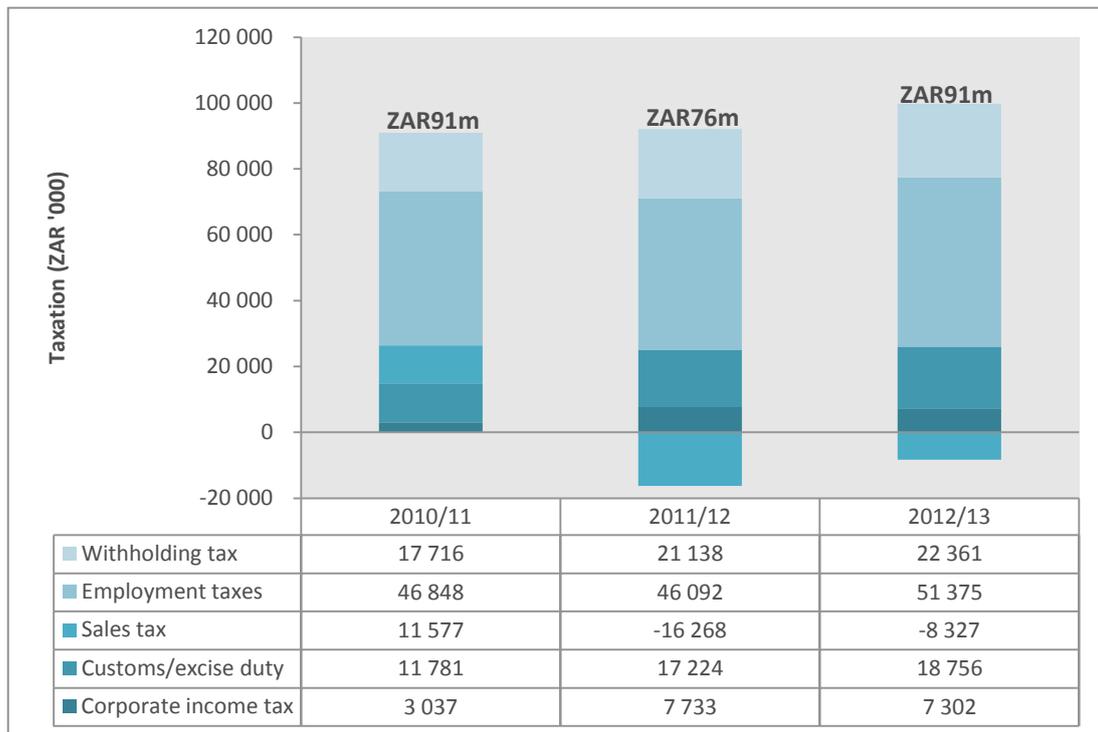
## Contribution to public finances

Zambia Sugar paid ZAR 91 million in taxes in 2012/13. Corporate income tax amounted to ZAR 7 million (2.6% of pre-tax profit), with the majority of the company’s tax contribution coming through indirect taxes, such as duty and employee taxes and withholding taxes on dividends. The Zambian government also receives dividends through its 15% stake in Zambia Sugar’s subsidiary, Nanga Farms.

Zambia Sugar complies with all tax regulations imposed by the government. The company’s corporate income tax rate has been 10% since 2012, and in addition the company has been granted substantial capital allowances by the Zambia Development Agency deriving from the expansion project completed in 2009, which will expire in 2015/16. Zambia Sugar also receives tax benefits in terms of management fees and dividends remitted to other Illovo subsidiaries.

In recent years, Zambia Sugar has roughly doubled the amount of sugar that it exports, with the result that fewer sales are now standard-rated for VAT. This has resulted in Zambia Sugar paying a negative amount of VAT for the past two years, due to VAT refunds on inputs outstripping VAT payments on sales.

### Zambia Sugar taxation, 2011-13



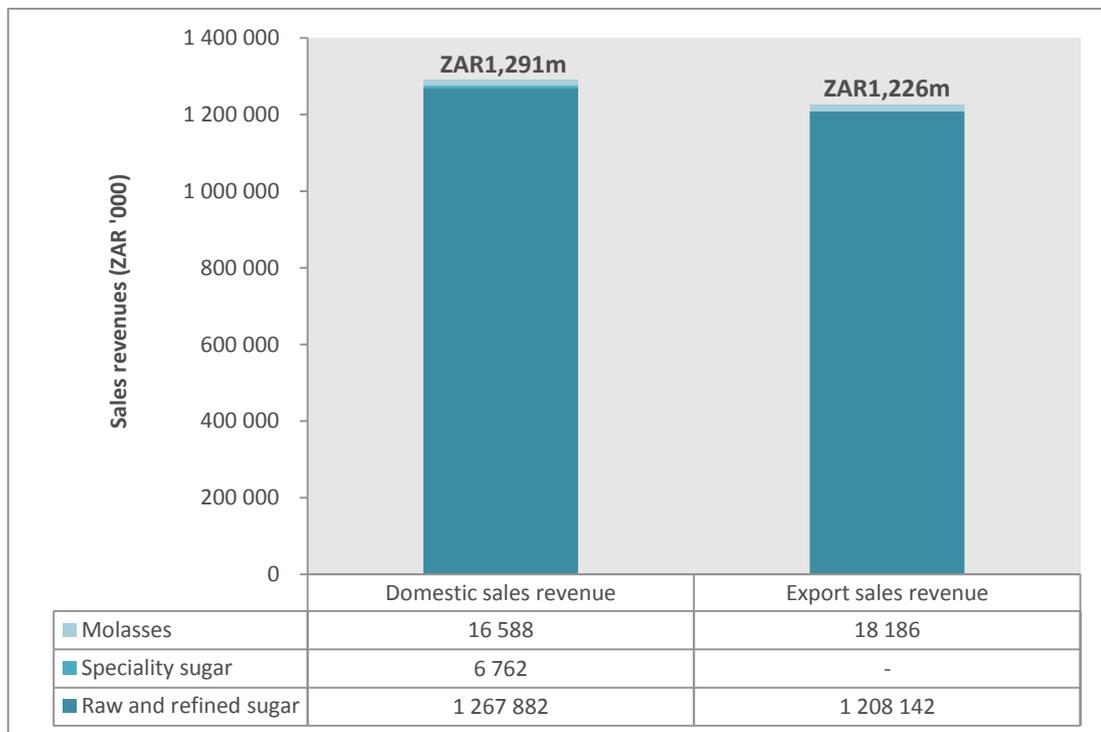
Zambia Sugar does not receive any grants or subsidies from the Zambian government.

## Contribution to trade

Zambia Sugar sells about half of its sugar within Zambia, both directly to consumers and to other businesses. Domestic sales revenues, primarily from sugar and syrup, were ZAR 1,291 million in 2012/13.

A favourable exchange rate and high demand for sugar in the region, combined with record shipments to the European Union, have led to booming exports in recent years. Exports have a positive impact on Zambia’s balance of trade, increasing flows of foreign revenues into the country. In addition to its direct exports of ZAR 1,226 million, the company also indirectly enables further exports through its sales to industrial customers in Zambia. With imports of about ZAR 400 million and remitted profits of ZAR 88 million, Zambia Sugar has a significant positive impact on Zambia’s balance of payments.

**Zambia Sugar domestic and export sales revenues, 2012/13**



## Section 3: Creating jobs and supporting livelihoods

### Headline messages:

- Zambia Sugar directly employs a total of 6,014 people, including 5,169 people on its Nakambala estate and 845 at the Nanga estate. It supports the livelihoods of 28,867 people when family members and dependents of its employees are included.
- In 2012/13, Zambia Sugar spent a total of ZAR 462 million on employee salaries and benefits. All employees are paid above the statutory minimum wage, providing an income above the globally recognised poverty line of \$2 per day (PPP).
- In addition to a basic salary, the company provides access to benefits such as housing and healthcare, significantly contributing the livelihoods of employees and their families.
- Gender diversity remains a challenge for Zambia Sugar. However, the company does have some good examples of female representation across the company, including 3 women (50%) on the senior management team.
- Zambia Sugar is committed to developing local talent and offering lifelong learning. The company's spend on training has more than quadrupled in the last three years.

### Direct employment overview

Creating direct and indirect employment opportunities is one of the most powerful ways in which Zambia Sugar impacts peoples' livelihoods. The company is the largest employer in the Mazabuka district, which has the highest population in the Southern Province of Zambia. At the last census in 2010 the population of Mazabuka was 261,268 and growing<sup>12</sup>.

Zambia Sugar directly employs a total of 6,014 people. On the Nakambala estate company employs 5,169 people, which includes 1,721 permanent staff, 2,979 seasonal agricultural workers, and 469 other non-permanent workers<sup>13</sup>. On the Nanga estate it employs 845 people, which includes 233 permanent staff and 612 seasonal agricultural workers<sup>14</sup>.

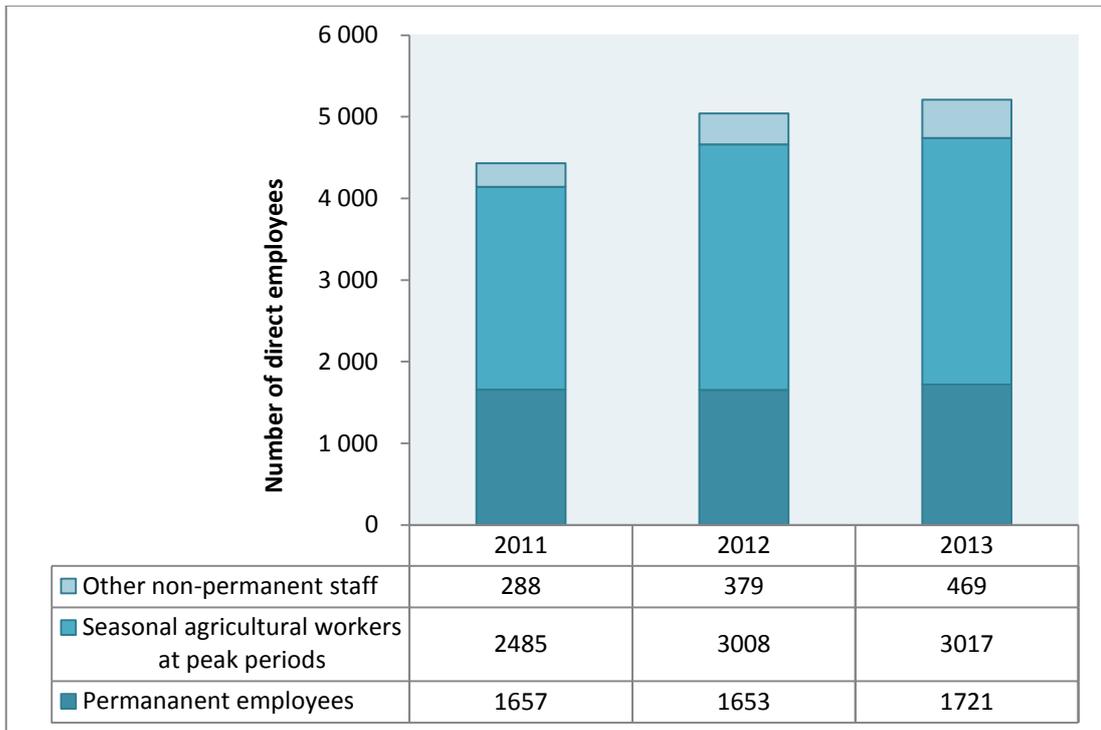
<sup>12</sup>

[http://unstats.un.org/unsd/demographic/sources/census/2010\\_phc/Zambia/PreliminaryReport.pdf](http://unstats.un.org/unsd/demographic/sources/census/2010_phc/Zambia/PreliminaryReport.pdf)

<sup>13</sup> Employment figures may differ from those reported in the Illovo Integrated Report due when the headcount on employee numbers was conducted.

The total number of jobs provided by the company has steadily increased over the last three years, with employee turnover averaging 6.1% in 2011 and 2012, and dropping to 1.6% in 2013.

**Zambia Sugar direct employment, 2011-13**



In Zambia, over 46% 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 4.8 in Zambia (see Appendix 1) it is estimated that through providing direct employment, Zambia Sugar supports the livelihoods of 28,867 people, including the family members and dependents of employees.

**Extended impact of direct employment**



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

## Competitive income levels

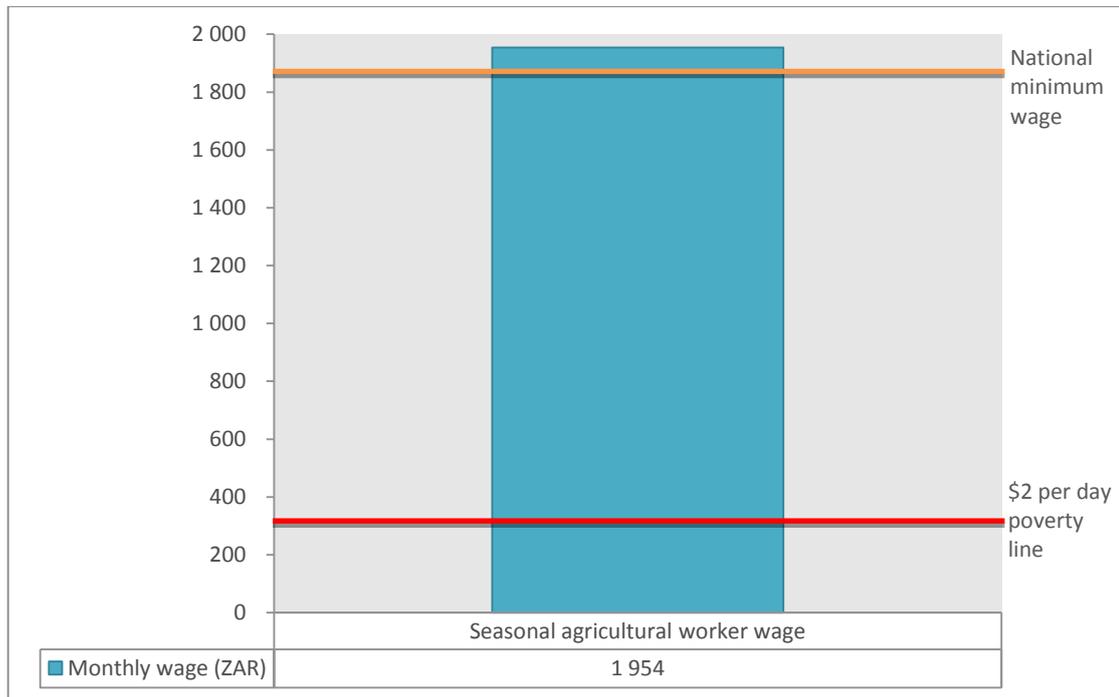
Employment by Zambia Sugar represents a stable source of income and access to important benefits such as housing and healthcare. In 2012/13, the company spent a total of ZAR 462 million on employee salaries and benefits<sup>15</sup>.

The company has faced some pressure from government and unions to raise wages, partly in response to the recent rise in public sector wages across the country.

### Paying a living wage

The lowest paid Zambia Sugar workers receive a monthly salary of ZAR 1,954, above the country’s statutory minimum wage of ZAR 1,856 per month. According to a 2010 study, 86.6% of the Zambian population lives below the poverty line, on less than US\$2 a day (PPP)<sup>16</sup>. The wages of all Zambia Sugar employees are sufficient to support themselves above the globally recognised poverty line of US\$2 per day. However, the income of the lowest paid workers becomes stretched if we assume that they are the sole earners of a typical household<sup>17</sup>. This does not take into account the additional benefits such as healthcare, education allowances and housing which employees (although some of these do not apply to the lowest-paid employees).

### Zambia Sugar monthly wages, 2013:



<sup>15</sup> For the purposes of consistency, this is based on the amount included within the detailed country value added breakdown provided for the Integrated Report.

<sup>16</sup> <http://data.worldbank.org/indicator/SI.POV.2DAY/countries/ZM?display=graph>

<sup>17</sup> The poverty line is calculated at ZAR 348 per person per month (2013 prices), or ZAR 1,670 per household per month (see Appendix 2 for further detail)

## Employee relations

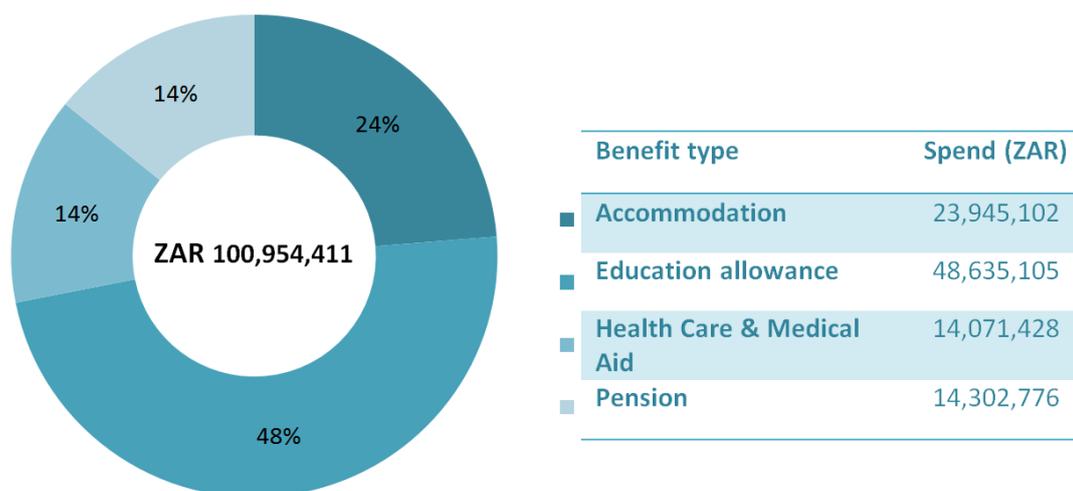
Sugar cane harvesters, particularly those who work on a seasonal basis, are some of the most vulnerable workers in Zambia Sugar's value chain. Strong and active unions play an important role in protecting workers' interests, and ensuring labour standards. In 2012/13, approximately 87% of Zambia Sugar non-management employees were members of a trade union, up from 79% in the previous year. However, during wage negotiations 2012/13 industrial action did take place, which affected operations for seven days.

## Additional benefits

In addition to providing a basic wage, Zambia Sugar supports the livelihoods of its employees through the provision of benefits. All permanent employees and their registered dependents receive access to healthcare and medical aid, as well as either accommodation or an accommodation allowance, and an allowance for education. Employees are also eligible for performance-related bonuses, and 1,721 employees are registered under the company's pension fund.

The company's 2,979 seasonal workers receive a housing allowance and access to healthcare services whilst they are engaged by Zambia Sugar. However, their families and dependents are not covered for any healthcare or medical aid. Seasonal workers also receive a payment of 15% of total basic salary at the end of each season, and are also members of the National Pension Scheme, to which the company contributes 5% of the monthly income.

The accommodation that Zambia Sugar provides includes municipal-type services such as potable water, sanitation services, refuse removal, recreational facilities, security, and road maintenance.

**Zambia Sugar breakdown of spend on main employee benefits, 2013<sup>18</sup>****Contributing to health and wellbeing****Provision of health care and medical aid**

Zambia Sugar recently completed the construction of a new company medical centre supporting employees and their dependents, and also provides support to local hospitals. In 2011/12, the company supported the construction of a maternity ward and the rehabilitation of two other wards at Mazabuka District Hospital. At Monze Mission Hospital, Zambia Sugar provides a generator set that helps to safeguard the lives of patients on life support, as well as those undergoing operations and premature babies in neonatal units.

At 13.5%, Zambia's rate of HIV/AIDS is the sixth highest in the world. The company's strategy on HIV and AIDS is aligned with that of UNAIDS, referred to as the "Triple Zero" strategy: zero new cases of HIV, zero deaths amongst people living with HIV and AIDS, and zero discrimination. Current efforts are aimed at identifying employees who are HIV-negative and helping them to stay that way, ensuring those that are HIV-positive receive suitable medical support, and working to reduce stigma and discrimination around HIV and AIDS.

A key success for Zambia Sugar in recent years has been the virtual elimination of malaria transmission on the company's estates, and the elimination of malnutrition among children under five through education programmes.

**Occupational health and safety**

Zambia Sugar follows best practice international standards when it comes to health and safety. All of Illovo's cane-growing and factory operations in Zambia have four-star

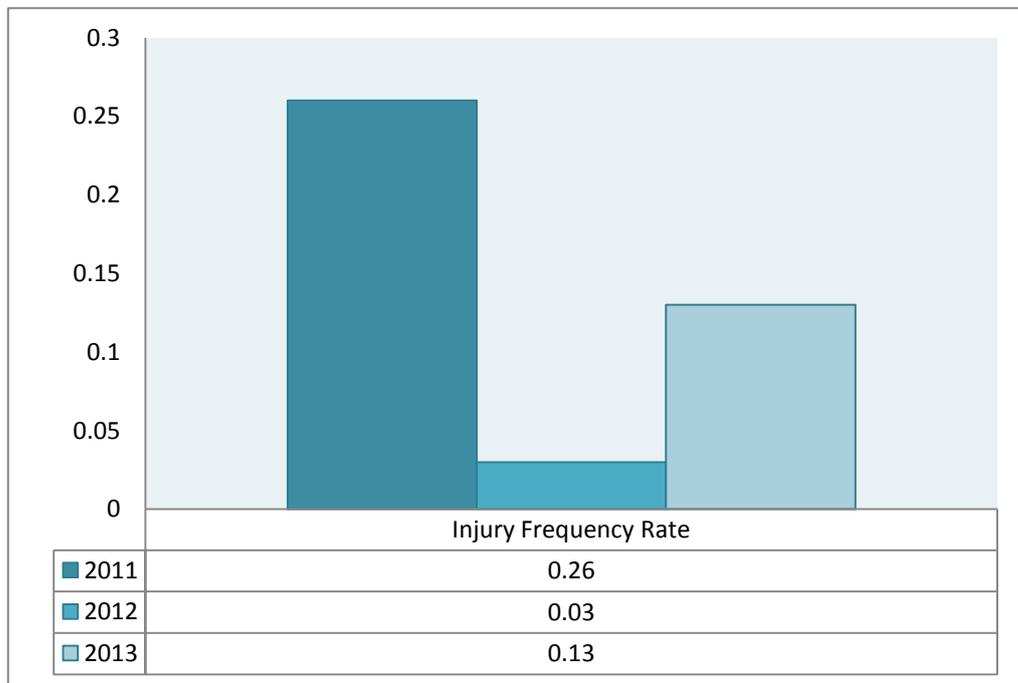
<sup>18</sup> Due to differences in the calculation of benefits, these figures may differ from what is included in the Illovo Integrated Report, 2013.

accreditation under the NOSA Integrated Five-star System covering safety, health and environmental management.

Sugar cane harvesting is inherently dangerous and behavioural safety remains a challenge that Zambia Sugar is taking steps to address. In 2012/13, the company provided health and safety training to over 3000 of its employees, which covers fire fighting techniques, First Aid training, SHE system training and Safety induction.

Drivers who work for Zambia Sugar face hazardous road conditions, which constitute a significant safety risk for the company. The company sustained one fatality in 2011, as a result of a road traffic accident.

**Zambia Sugar Injury Frequency Rate, 2011-13**



**Improving diversity**

The number of women working in agriculture remains an issue across Zambia. Like other employers in the sector, Zambia Sugar faces challenges around promoting equal opportunities.

While there does not appear to be a formalised diversity strategy in place, we observed some good examples of women in different roles across Zambia Sugar. Three out of six senior management team are female, and the company actively tries to recruit women across all areas of the business. Additionally, nine social clubs for women have been created on the Zambia Sugar estate, to provide training and opportunities for female dependents. There is an opportunity for Zambia Sugar to do more in this area by developing a more formalised diversity strategy.

**Zambia Sugar workforce profile by gender, 2013**

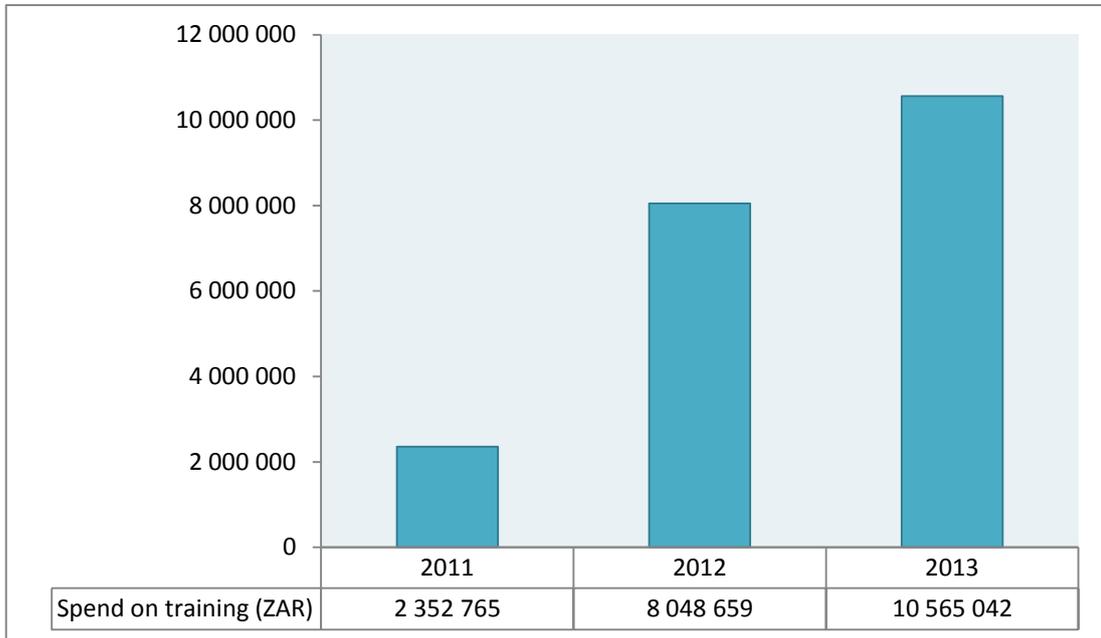
Position	Male:	Female:	Percentage female:
Senior Management	27	3	10%
Management	50	3	6%
Skilled	1086	143	12%
Others	3099	449	13%

**Developing skills and talent**

Whilst labour is available in Zambia, the real challenge for Zambia Sugar is attracting skilled labour. Addressing the skills gap in the country, developing local talent and offering lifelong learning are key parts to Zambia Sugar's strategy for ensuring the growth and sustainability of the business. Zambia Sugar is actively supporting the government's localisation agenda and has taken steps to develop a local senior management team and reduce the number of expatriates.

We observed a strong focus on training and development for employees at all levels of the company. This is supported by data which shows spend on training has increased significantly over the last three years, to ZAR 10.6 million in 2012/13.

**Zambia Sugar spend on training**



**Zambia Sugar training figures**

Training type	Description	2010/11	2011/12	2012/13
<b>Apprenticeships</b>	Structured formal technical trainee programmes, mainly from the engineering discipline.	4	11	5
<b>Management-in-trainees</b>	Delivery of group-based management development programmes, aimed at both first-line and upper management.	8	10	11

## Section 4: Value chain impact – suppliers

### Headline messages:

- In 2012/13, Zambia Sugar spent ZAR 488 million (19% of total revenues) procuring sugar cane from independent farmers local to its mills, including 254 smallholder farmers. This was in addition to the ZAR 132 million paid to Zambia Sugar’s subsidiary Nanga Farms.
- In addition, Zambia Sugar spent ZAR 1,265 million with non-cane suppliers, 68% of which was spent with 410 companies in Zambia.
- Zambia Sugar’s presence in Mazabuka has contributed to a thriving local economy. Where possible, Zambia Sugar gives preference to local, Mazabuka-based businesses, and pays a premium of up to 10% for locally-sourced goods and services.
- Smallholder farmers mainly supply Zambia Sugar through the KASCOL scheme, a long-standing local initiative described as a “pioneering example of smallholder empowerment”. The company aims to increase the proportion of sugar cane from smallholders by supporting new, similar schemes.

### Zambia Sugar’s supply chain

Through its procurement of sugar cane, Zambia Sugar has a significant impact on the livelihoods of small, rural farmers, their families, and local communities. Zambia Sugar paid ZAR 488 million to independent sugar cane farmers in 2012/13, who supplied 40% of the cane used by the company (1.3 million tonnes). Nanga Farms supplied an additional 11% (353,000 tonnes), at a cost of ZAR 132 million, with the remainder grown on the company-owned Nakambala estate.

Zambia Sugar buys cane from two main types of growers:

- **Small-scale growers:** smallholder farmers who supply Zambia Sugar through donor-funded smallholder schemes (see below). These comprise 254 smallholder farmers, who together supply about 12% of the total cane procured from outgrowers.
- **Large-scale growers:** commercial farmers with over 50 hectares of land under cane. Zambia Sugar buys cane from 16 of these, including Nanga Farms, representing about 88% of total tonnage from outgrowers.

Smallholders supply Zambia Sugar mainly through the KASCOL scheme, a local initiative set up over thirty years ago. In recent years, Zambia Sugar has looked to increase the amount

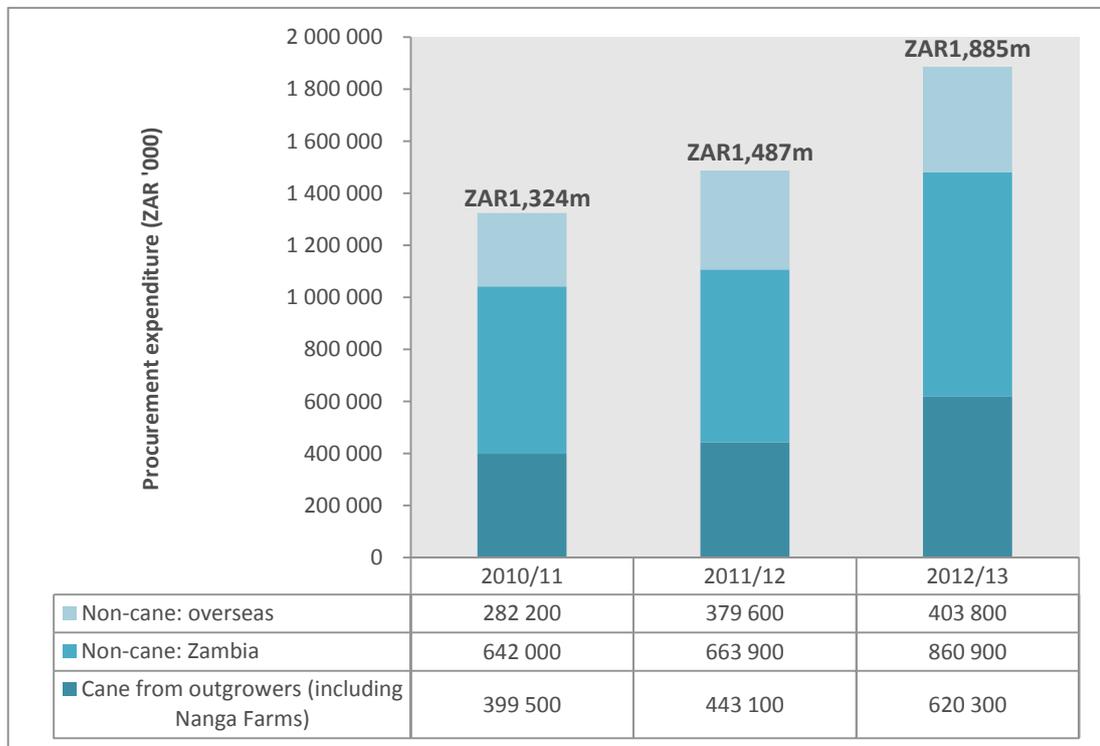
of sugar it sources from smallholders through two new donor-funded schemes. These are described in further detail below.

**Non-cane procurement**

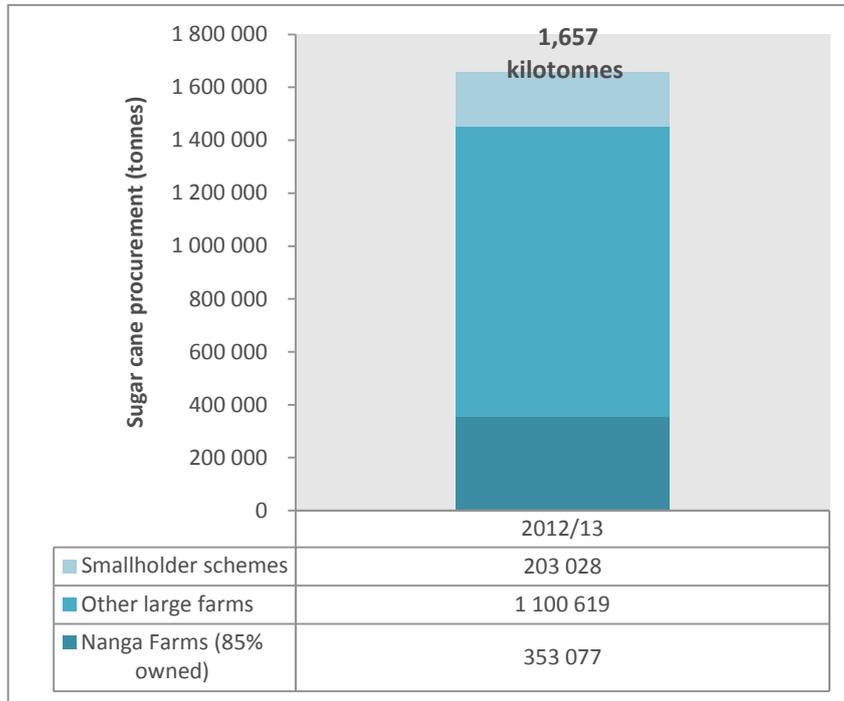
In addition to buying cane, the company spent ZAR 1,265 million on non-cane procurement: maintenance, fuel, other raw materials, packing, transport and marketing. About 68% of this was spent with 410 companies in Zambia.

Over the last three years, cane and non-cane sourcing has steadily increased, helping to bring further economic benefit to businesses in Zambia.

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



**Zambia Sugar: Tonnes of cane by size of outgrower farmer, 2012/13**



**Supporting employment in the supply chain**

**Outgrower employment**

Zambia Sugar provides significant indirect employment through its spending with 270 outgrower farmers. This includes workers who plant, fertilise, weed and harvest crops for these farmers. Detailed surveys would be required to give a precise estimate of the total employment that this represents. However, a rough estimate of the impact can be projected from the figures available for Zambia Sugar’s own farms.

Taking agricultural employment at Nanga Farms in 2012/13<sup>19</sup> and scaling this by the tonnage of sugar cane procured from large- and small-scale outgrowers gives an employment estimate of 3,120<sup>20</sup>, and adding the 270 farm owners brings the total estimate of employment through independent outgrowers to 3,390.

<sup>19</sup> 845 (233 permanent workers, plus 612 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. Seasonal workers are hired according to the milling season of 6-9 months, so receive a significant proportion of their incomes from the company.

<sup>20</sup> This estimate depends on a number of assumptions, the main one being that other large-scale growers have similar productivity rates (in terms of workers per tonne) to Nanga Farms. If other farms are more productive than Nanga Farms, then this figure will be an overestimate. However, this is unlikely given the farms’ proximity to Nanga Farms and the consequent likelihood of similar growing environments.

The average household size in rural Zambia is 4.8 people, although the total number of dependents supported by rural farmers is often higher. Zambia Sugar is therefore estimated to support the livelihoods of 16,272 people through its purchases from independent outgrowers in Zambia, although this figure may well be an underestimate.

### **Further supply chain employment**

Zambia Sugar also supports further indirect employment through its spending with non-cane suppliers, such as providers of haulage, distribution, machinery and maintenance. Barloworld Logistics, which provides warehouse management and transportation services to Zambia Sugar, has an estimated 481 employees. Remote Site Solutions and Rolling Thunder, who provide on-site services and haulage, have an estimated 60 and 80 employees respectively. These employees and those in other companies are largely supported through the business provided by Zambia Sugar.

The company also supports induced employment, via spending by indirect employees, which leads to increased consumption and employment throughout the economy.

## **Supporting outgrower livelihoods**

By providing incomes and support to outgrower farmers, Zambia Sugar reduces rural poverty and helps farmers to scale up from subsistence levels.

All of Zambia Sugar's outgrowers are covered by a common cane supply agreement, with growers receiving 59.1% of net divisible proceeds in 2012/13, equivalent to about ZAR 374 per tonne of sugar cane. In addition, smallholders at Kaleya (see below) are certified under the Fairtrade scheme, which provides them with a premium on the price of cane, for investment in social, environmental or economic development projects. Interviews with smallholders by Corporate Citizenship confirmed that these create significant benefits for local communities, including investments to improve local school classrooms, purchase an ambulance and provide domestic water.

Food security is a significant issue for the rural poor in Zambia, especially subsistence farmers. While sugar cane may be grown on land which would otherwise have been used for food, it can have a net positive impact on farmers' food security. Sugar cane is an important cash crop, providing farmers with an income of about \$1,500 per hectare, compared to \$1,000 per hectare for maize, the main alternative crop for smallholders. The additional income from growing sugar cane can be used to fund consumption of food and other goods, as well as inputs such as fertiliser, which lead to greater yields and allow a greater variety of food crops to be grown.

The area surrounding Zambia Sugar's estate has seen some disputes over land, especially close to roads and canals. However, there is generally a large amount of land still available for farming. Zambia Sugar has never evicted people from its own land without a court order. In 2001 a court order was obtained for the eviction of a group of people who had settled near one of the company's canals.

Outgrower farmers also have access, for a fee, to the schools and clinics on Zambia Sugar's Nakambala estate, and benefit from roads and other infrastructure provided by the company.

## Empowering smallholder farmers

Sourcing sugar cane from smallholder farmers is one of the most significant ways in which Zambia Sugar shares its proceeds with poor and disadvantaged communities. However, the company also supports smallholder farmers through other means. For over thirty years, the company has supported small-scale farmers through the Kaleya Smallholders Company (KASCOL) scheme (see box below), a pioneering initiative which today includes 160 smallholder farmers, all supplying cane to Zambia Sugar.

About 10% of the company's outgrower cane came from smallholders in 2012/13, and the company aims to increase this proportion by supporting new smallholder schemes. The Magobbo smallholder scheme was established in 2010 using a €3 million grant from the European Union, in addition to €2 million provided by the local Mazabuka Sugar Cane Grower Trust. The investment has funded the development of an irrigation system, and provided training and capacity building to 94 previously small-scale or subsistence farmers, as well as initiatives to address issues of HIV/AIDS and gender equality in the local community.

The Magobbo scheme has produced extremely high yields, providing Zambia Sugar with nearly 72,000 tonnes of cane in 2012/13. This has provided a significant boost to farmers' incomes, and allowed the scheme to recently expand its area of land under cane. Zambia Sugar guarantees to purchase sugar cane from the farmers, and has also provided access to fertilisers and other inputs at bulk discounts, while Nanga Farms has been engaged to provide training and technical support. All of the growers involved also open bank accounts to receive payments from Zambia Sugar, which enables them access to finance for further investments.

Another new smallholder scheme at Manyonyo, funded by the African Development Bank and Finnish government, is due to start production in the near future. Unlike Kaleya, where the land is owned by the management company, and Magobbo, where it is owned by a trust established by the farmers, most of the land at Manyonyo will continue to be owned by farmers themselves. Zambia Sugar is providing material and technical support to the scheme, which aims to benefit 164 smallholders previously involved in rain-fed maize production. As in Mazabuka, Zambia Sugar will guarantee to purchase cane from the scheme, and KASCOL will supply training and technical support.

### **KASCOL: a thirty year commitment to smallholders**

The Kaleya Smallholders Company Limited (KASCOL) has been described as a “pioneering example of smallholder empowerment”<sup>21</sup>, and for many years was the only successful smallholder scheme in Zambia.

KASCOL was founded in 1983 by Zambia Sugar, the Commonwealth Development Corporation (CDC), the Development Bank of Zambia and Barclays Bank Zambia. The scheme was established on land provided by the Zambian government close to Mazabuka.

At first, KASCOL included just eight smallholder farmers. Over time, their number has increased to 160, each managing around 6-7.5 hectares. This includes 1.5 ha each allocated for vegetable and maize production, in order to ensure food security. The rest of the land is operated as an estate by KASCOL. While Zambia Sugar no longer provides technical support to the scheme, it continues to provide irrigation water via a pipeline, and buys all of the sugar cane produced by the smallholders, which amounted to 131,175 tonnes in 2012/13.

Zambia Sugar no longer owns a stake in the company, having donated its 25% share to create the Mazabuka Cane Growers Trust, which supports farmers in the region. The KASCOL farmers’ association formed a trust, the Kaleya Smallholder Trust, which now owns 13.25% of the company, and KASCOL employees also formed a consortium to buy shares.

KASCOL stands out among other similar schemes in terms of its long-term sustainability, and now includes second and third-generation farmers. Cane yields from smallholders have remained consistently higher than those from the rest of the KASCOL estate, and are comparable to yields at Zambia Sugar’s own estate at Nakambala.

The success of the scheme is attributed to its flexible structure, which has allowed smallholders to increase their participation, governance role and ownership over time<sup>22</sup>. KASCOL continues to be held up as an example of a successful smallholder scheme, and a model for others to follow.

## **Standards in the supply chain**

Maintaining ethical standards amongst suppliers and sub-contractors is an important element of Zambia Sugar’s impact. Challenges in the sugar industry worldwide include the use of child labour; forced or compulsory labour; poor working conditions and long hours.

Zambia Sugar and its outgrowers receive regular social audits through an external agency, on behalf of Zambia Sugar’s large multinational customers such as Coca-Cola and Pepsi.

<sup>21</sup> AgWater Solutions (2012), [Smallholder Outgrowers in Irrigated Agriculture in Zambia](#)

<sup>22</sup> IFAMA (2012), [Integration of Smallholders in Modern Agri-food Chains: Lessons from the KASCOL Model in Zambia](#)

These generally take place about once every two years. In addition, smallholders at Kaleya have attained Fairtrade certification, which not only provides them with an additional premium on the price of cane, but also requires independent audits on internationally-recognised standards for best practice. Zambia Sugar does not conduct any additional monitoring or auditing of outgrowers.

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.

The rights of freedom of association and collective bargaining are essential to ensuring the empowerment of poor and rural workers. All of Zambia Sugar's outgrowers are represented by the Zambian National Farmers Union.

## Supporting local businesses

Zambia Sugar's presence in Mazabuka has contributed to a thriving local economy, with low unemployment and a booming population. The relative prosperity is evident from the shops, fuel stations, hotels and bank in Mazabuka, features that do not exist in many other rural communities.

In 2012/13, Zambia Sugar spent ZAR75 million (about 6% of its total non-cane procurement) with 126 small businesses in Mazabuka. Local businesses primarily provide on-site maintenance, construction, land maintenance and haulage.

Illovo has policies at Group level which favour sourcing from local businesses, even where they may be more expensive, since it brings benefits in terms of shorter supply chains and faster response times. Where possible, Zambia Sugar gives preference to local, Mazabuka-based businesses, and pays a premium of up to 10% for locally-sourced goods and services. It also provides preferential terms, such as 30% upfront payments to assist with suppliers' cashflow and financing, to help tackle the problems of high interest rates and the need for collateral which small businesses often face when lending from banks. To this end, Zambia Sugar has begun a relationship with the District Business Association (DBA), through which invitations to tender are sent to local businesses. So far, about 37 local businesses have benefited from preferential terms. An interview with the DBA highlighted some of the challenges small local businesses face in supplying a company such as Zambia Sugar as well as an opportunity for the company to take a more active role in promoting local enterprise, for example through providing business mentoring and skills training.

The amount spent by Zambia Sugar with local businesses has grown steadily in recent years, reflecting local economic growth. As the number of local companies tendering for projects has moved into the hundreds, this has created a significant administrative task for the company. Zambia Sugar is therefore in the process of creating a more formal system of preferred suppliers, in order to be able to provide a greater level of financial and technical

assistance to these businesses. For example, the company is currently in the process of negotiations with Citibank, to provide greater access to finance for its suppliers.

Zambia Sugar is also considering allowing contractors to sub-contract to other local businesses, in order to continue to support a wide range of local companies while reducing the administrative load.

## Section 5: Value chain impact – customers

### Headline messages:

- The majority of Zambia Sugar’s production, both within Zambia and internationally, is sold for direct consumption rather than industrial uses.
- All sugar sold for direct consumption in Zambia is fortified with vitamin A, under government legislation. Zambia Sugar therefore plays a valuable role in helping to reduce infant and maternal mortality in the country.
- The availability of Zambia Sugar’s products has been key to attracting a number of foreign investments, including the construction of a Pepsi bottling plant in Lusaka.

### Serving customers

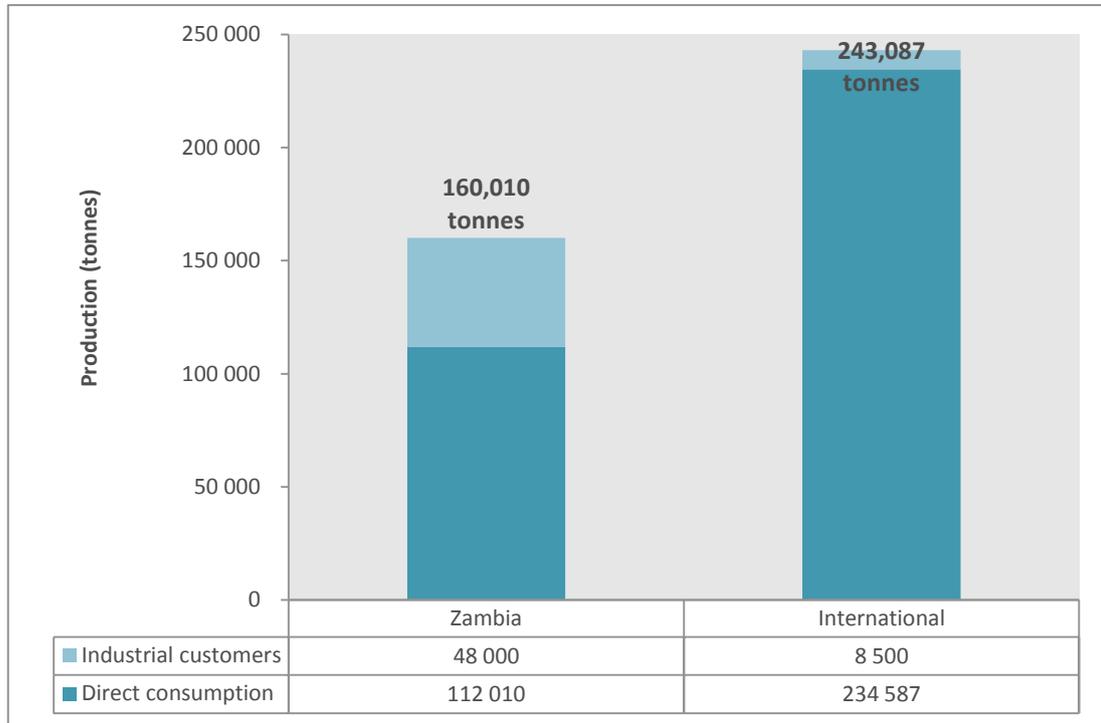
The wide range of customers for Zambia Sugar’s products means that the company has significant downstream impacts in the economy. Zambia Sugar sells sugars and syrup to customers in Zambia and international markets, with products sold both for direct consumption and industrial uses in food and beverage industries.

In 2012/13, Zambia Sugar produced 403,097 tonnes of raw, refined and speciality sugars. About 40% of this was sold into the domestic market, with about 30% going to preferential markets in the EU and USA, and the remainder going to neighbouring African countries.

Within Zambia, the company operates a distribution network including an in-house distribution company employing 59 people, and distribution centres in Nakambala, Lusaka and Ndola. These sell to wholesalers and retailers across the country.

The majority of Zambia Sugar’s production, both within Zambia and internationally, is sold for direct consumption, as the chart below shows.

**Zambia Sugar production by destination, 2012/13**



**Providing high-quality, affordable products**

As a virtual monopoly, Zambia Sugar has a responsibility not to abuse its position by overpricing. The company states that it sets the price of its products to ensure that the business remains profitable, whilst in-line with market prices. The company also guarantees a country-wide price, subsidising distribution to ensure that people in remote areas are not penalised with higher prices.

All sugar sold for direct consumption in Zambia is fortified with vitamin A under government legislation to combat vitamin A deficiency, which is a particular problem in rural areas. Zambia Sugar therefore plays a valuable role in helping to reduce infant and maternal mortality, with one study showing that the vitamin A status of Zambian children has improved “markedly” as a result of supplementation and sugar fortification<sup>23</sup>. The company bears the cost of fortification, but has been supported by grants from USAID, and also receives trade protection from non-fortified imports.

Zambia Sugar produces a small amount of Fairtrade-certified sugar (280 tonnes in 2012/13) using sugar cane from the Kaleya Smallholders Company.

<sup>23</sup> Kafwembe et al. (2009), [The vitamin A status of Zambian children in a community of vitamin A supplementation and sugar fortification strategies as measured by the modified relative dose response \(MRDR\) test](#)

Zambia Sugar ensures the quality and safety of its products using the internationally approved certifications schemes ISO 9001 (quality management systems) and FSSC 22000 (food safety systems). The company's products are also certified kosher and halal.

## Supporting downstream employment

Zambia Sugar supports indirect employment through downstream activities in its value chain, including jobs at wholesalers, retailers, re-packers, and industrial customers. Zambia's industrial sector has seen phenomenal growth in recent years, and the availability of Zambia Sugar's products has been key to attracting a number of foreign investments. For example, availability of sugar was a condition of Pepsi's construction of a bottling plant in Lusaka in 2009, which is estimated to have employed 214 people and created 600 indirect jobs.

The company also supports induced employment through its downstream operations, via spending by indirect employees that leads to increased consumption and employment throughout the economy.

## Section 6: Social responsibility and community investment

### Headline messages:

- Zambia Sugar has contributed of ZMK 7.5 billion to the Mazabuka Sugarcane Growers Trust, which supports around 250 families growing cane in the region.
- Zambia Sugar supports multiple community initiatives including local government schools, sports and recreation facilities as well as the local radio station.
- The company also provides potable water to the 16,000 residents of Nakambala Estates. Furthermore, it supplies bulk raw water to the Water Utility firm for distribution to the town of Mazabuka which has more than 250,000 residents.

### Investing in local communities

Illovo's Group-wide strategy recognises that the prosperity and sustainability of the business is closely aligned with that of its surrounding communities. The company's primary impact on people's livelihoods and the sustainable development of the community is through the creation of jobs, directly and indirectly. However, Zambia Sugar also invests directly in supporting its local community.

Zambia Sugar spent almost ZAR 55 million supporting social initiatives in 2012/13. Some of this expenditure primarily benefits employees and their families (e.g. health clinics and housing) but other investment brings important benefits to the wider community. One good example of this is that the company recently sponsored a phased upgrade of the Mazabuka Community Radio Station, a non-profit service for the local community that serves a 150km radius, broadcasting to 1.8 million people in three provinces. The company also invests in education through sponsorship of schools, and supports a number of other traditional and cultural ceremonies, football clubs and community projects. Our interviews with a local head teacher and the community radio representatives highlighted the significant support that Zambia Sugar provides and the value they place on the relationship.

To date, the company has contributed ZMK 7.5 billion to the Mazabuka Sugarcane Growers Trust, which supports 250 local smallholder families.

The company provides potable water to the 16,000 residents of its Nakambala Estate. In addition, it provides untreated water to the local Water Utility firm to supply the 250,000 residents of Mazabuka.

**Zambia Sugar community investment, 2013**

Description	Value:
Education and schools	4,309,311
Health, hospitals and clinics	12,825,314
Development of housing	31,818,908
Environmental initiatives	855,352
Others areas of investment (E.g. sports, roads)	6,008,888

Sugar has an important impact on its local community. However, 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 Zambia Sugar's community investment. From discussions with management at the company, it seems that Zambia Sugar is currently reviewing its corporate responsibility strategy and refocusing the company's community activities.

## Section 6: Environmental sustainability

### Headline messages:

- Access to water and energy are the biggest environmental risks facing the company. Zambia Sugar abstracts over 215 million litres water almost exclusively from surface water sources. A water footprint assessment has been conducted to identify opportunities to decrease abstraction and devise a water strategy as access to water becomes more competitive.
- Zambia Sugar generates 30% of the energy it needs on-site from bagasse. The company plans to increase this amount following a significant failure of external energy supply during the year.
- Zambia Sugar owns 23,850 hectares of land, about 70% of which is under cane. The company protects wetlands on its own land and is involved in a number of government conservation initiatives.

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 is an issue of concern for the protection of land and biodiversity.

Promoting environmental best practice is closely linked with Illovo's social and economic impacts. Environmental issues have a direct impact on the quality and productivity of land, and affect the livelihoods of farmers, workers and the wider community.

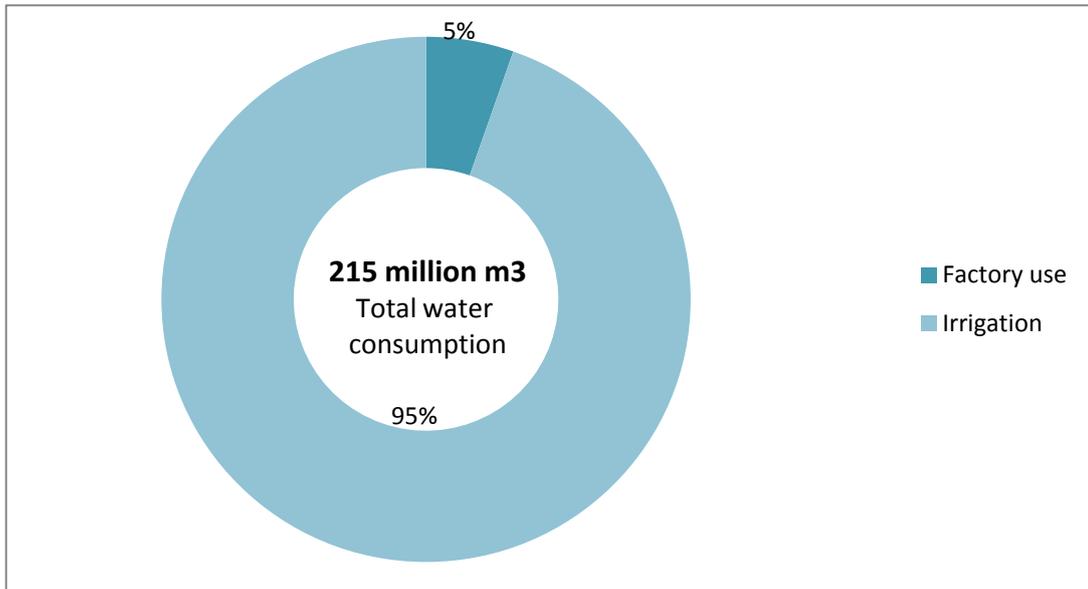
### Promoting access to water

Access to water for drinking, sanitation and farming is essential for rural community development. Zambia Sugar supplies potable water to the 2,900 housing units on the sugar estate as well as to several surrounding areas. In addition, the company supplies untreated water to the Southern Water and Sewage Company, which is used to supply to the entire Mazabuka District with potable and non-potable water.

### Promoting water stewardship

Zambia Sugar abstracts over 215 million litres of water for use in its operations, almost exclusively from surface water sources. Of the water abstracted, 95% is used to irrigate agricultural land and the remaining 5% is used in production. Zambia Sugar is looking to assess its water footprint and identify opportunities to minimise water consumption as access to water in its region becomes more competitive.

### Zambia Sugar water consumption by location (m<sup>3</sup>)



Zambia Sugar discharges approximately 8,541,200 m<sup>3</sup> of effluent into surface water sources. Effluent streams are treated prior to discharge in a series of ponds. No effluent is discharged to municipal sewers.

### Protecting land and biodiversity

In total, Zambia Sugar owns 23,850 hectares of land. This includes area under cane and factory sites. About 17,025 hectares (70%) of Zambia Sugar's land holdings are under cane.

Zambia Sugar takes several measures to protect land against degradation: it plants leguminous plants as filler crops and vetiver grass in open drains, uses filter press in ploughed out fields, and fallows lands for effective land regeneration.

Wetland areas are excluded from crop production in order to protect wildlife and biodiversity. Zambia Sugar also plants trees in open areas and leaves wildlife spaces between its centre pivot fields. The company works with the government on a number of conservation initiatives including tree planting, the protection of water systems, and support for local communities in forest conservation.

### Energy use and emissions

Zambia Sugar has identified energy security as a business risk following a significant interruption to its external energy supply that halted production during 2012/13 and decreased annual yields for the company. Outgrowers who rely on pumps for irrigation also experienced significant problems during the outage. Zambia Sugar plans to address this risk by increasing the amount of energy that it generates on-site from bagasse, a renewable by-product of the cane-crushing process.

In total, around 90% of Zambia Sugar's energy comes from bagasse sources. The remaining energy needs are met from a combination of electricity, steam, wood, petrol, diesel, LPG and acetylene.

Zambia Sugar operates within the air emission license conditions of the Environmental Management Act No. 12 of 2011 which include direction around pollution risk management, water use, waste water, and resource conservation. To reduce emissions, the company runs old boilers on auto to attain the required efficiencies, and ensures that all new equipment purchased complies with the set limits. Recently, a new boiler was purchased that uses wet scrubber technology to reduce air pollution. Old boilers will also be retrofitted with scrubbers over a phased period.

## Waste

Zambia Sugar produced a total of 3,034 tonnes of non-hazardous waste and 113 tonnes of hazardous waste in 2012/13. The company sells waste oil, waste rubber, sand scrap metal pipes, scrap batteries, and waste packaging material for re-use or recycling, accounting for 15% of all waste. Over 80% of waste is sent to landfill and the remaining waste is incinerated or stored on site.

To reduce chemical waste, Zambia sugar has replaced chemical filtration with non-chemical methods. Additionally, the company has switched to cleaning vessels by mechanical means.

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