

Illovo Sugar Africa

Illovo Sugar South Africa (Pty) Ltd Socio-
Economic Impact Assessment

Internal Management Report

October 2017

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Executive Summary

Illovo Sugar South Africa (Pty) Ltd (Illovo SA) is a significant contributor to South Africa’s economy. The company plays an important societal role, supporting significant direct and indirect employment in rural areas through its value chain, providing financial support, technical assistance and capacity building to smallholder farmers, and supporting the South African government’s development and land reform agenda. Illovo SA is also a significant producer of renewable energy and continues to reduce its environmental impact.

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

In 2016/17, Illovo Sugar’s socio-economic impacts in South Africa included:

Generating economic value

- Illovo SA is South Africa’s largest sugar producer, accounting for about 30% of the country’s sugar production. Revenues have grown over the last three years, even as production has fallen due to drought conditions.
- Illovo SA’s total economic impact – including direct, indirect and induced impacts – is estimated at ZAR 9.6 billion for 2016/17. This includes ZAR 1.4 billion in direct impacts (gross value added), and the remainder via multiplier effects within the supply chain and wider economy.
- Illovo SA’s total direct tax payments in 2016/17 amounted to ZAR 82.5 million, while indirect taxes totalling ZAR 174.2 million were collected on behalf of the government. Illovo SA also made payments of ZAR 4.2 billion to South African suppliers, and made capital investments of ZAR 149 million.

Creating employment opportunities

- Illovo is estimated to support at least 25,330 jobs in South Africa. For each of Illovo’s 3,500 direct employees in South Africa (including Illovo SA and Illovo’s corporate offices based in Durban), at least 6 jobs are estimated to be supported through outgrower communities and wider multiplier effects throughout the economy.
- Illovo SA paid ZAR 871 million in salaries, wages and benefits to employees in 2016/17. The company operates in rural areas where 77% of the population is estimated to live below the national poverty line. Illovo actively monitors remuneration against local and international benchmarks, with the lowest-paid employee earning 116% of the South African minimum wage in 2016/17.
- We estimate that the direct jobs provided by the company contribute to supporting the livelihoods of 13,292 people once families and dependants are taken into account. This is based on an average household size of 3.8 people in KwaZulu-Natal province¹.

Supporting farmer livelihoods

- Illovo SA’s supply chain includes nearly 3,000 outgrower farmers, in total supplying between 4 and 5.5 million tonnes of sugar cane every year. Large-scale commercial farms account for 76% of sugar cane procurement.
- Illovo SA is estimated to support over 17,600 jobs through outgrower farmers. In addition, the company provides significant technical, financial and capacity-building support to outgrowers, worth ZAR 5.3 million in 2016/17.
- Illovo SA has played an active role in the government’s land reform programme, and offers comprehensive technical, financial and capacity-building support to farmers on restituted land, also at industry level through its contributions to and participation in the South African Sugar Association’s land reform and farmer support programmes.

Investing in communities

- Illovo SA’s community investments totalled ZAR 0.8 million in 2016/17. The majority of this money is spent on capacity building projects and support for education, but it also includes healthcare and infrastructure among other investments.
- Illovo contributes to industry-level initiatives on community development through its contribution to the South African Sugar Association’s education and development programmes
- All employees and their families can access healthcare services through Illovo SA clinics and medical aid benefits. Furthermore, Illovo SA seeks to actively address HIV in the region through a wellness programme, with over 400 people currently enrolled, targeting those who are HIV positive.

Promoting environmental sustainability

- Two of the four Local Grower Councils who supply cane to Illovo SA have adopted the SusFarMS environmental management system, which was pioneered by growers who supply their cane to the Noodsberg factory, in partnership with WWF.
-

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

- 75% of Illovo SA's energy consumption is provided from renewable sources, primarily bagasse. The company has made significant investments in energy efficiency, including particularly the Coal and Energy Savings Project at Sezela.
- In 2016/17, 53% of water withdrawals was recycled and returned to source – up from 44% in 2015/16. In response to water scarcity issues, a formalised water strategy is being implemented by Illovo SA.

Responsible practices in the market place

- Domestically, direct consumers make up 12% of Illovo SA's sugar product sales, with the remaining 88% being sold to industrial customers manufacturing sugar containing products.
- Illovo works with the South African Sugar Association (SASA) to support the research and dissemination of science-based facts about sugar and nutrition. The stated aim is to provide science-based information about the role of sugar in the human body, to help consumers make informed choices.
- Illovo has a significant downstream economic impact, through the estimated 200,000 small retailers who sell Illovo SA products within South Africa. The associated economic and employment impacts are captured within the multiplier estimates in Section 1.

Our full recommendations for further enhancing Illovo's impacts are set out at the end of the report. These include a programme of focussed engagement amongst community stakeholders, particularly outgrower communities; a more structured approach to assessing and prioritising community needs; greater autonomy for decision-making on a local level; and more strategic interventions around education that can create a talent pipeline for the business, attracting the next generation of employees.

Introduction

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

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

About this report

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

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

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

Methodology

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

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

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

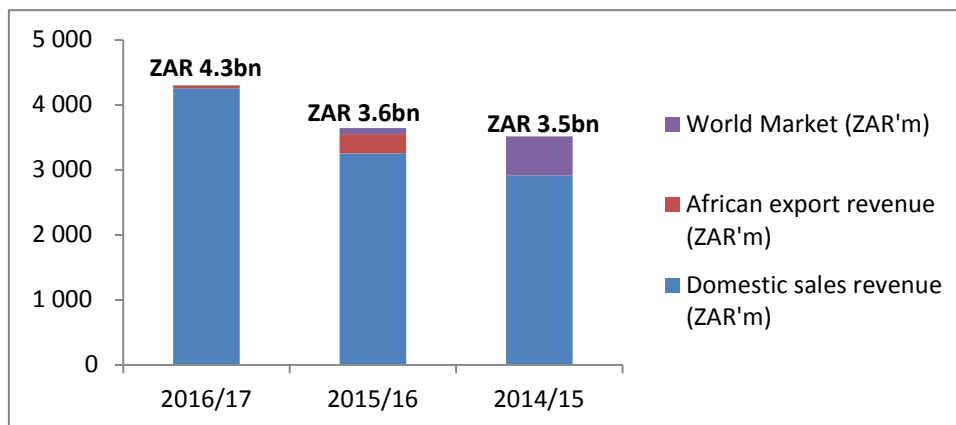
Illovo in South Africa

Situated in the province of KwaZulu-Natal since 1891, Illovo Sugar (South Africa) (Pty) Ltd (Illovo SA) is South Africa’s largest sugar producer, accounting for about 30% of the country’s production of sugar. It produces raw and refined sugar, syrup and downstream products for domestic and export markets.

Illovo SA is a wholly-owned subsidiary of the Illovo Sugar Africa group. The company owns and operates three agricultural estates, four sugar mills, one sugar refinery, six off mill-site warehouses, three downstream processing plants and a 50% share in an alcohol distillery. The company also has a 30% investment in a further sugar factory and refinery and generates its own electricity. Illovo’s group corporate offices are also located in South Africa.

99% of sugar sales were to the domestic market in 2016/17, with the remainder sold to African regional and world markets.

Illovo South Africa: break down of sales in the market place



Downstream products accounted for 23% of Illovo SA’s sales revenues in 2016/17. This includes the sale of ethanol, furfural and syrup.

South Africa Country Data (2016 est.) ²	
Economic Indicators	
GDP (purchasing power parity)	\$739.1 billion
GDP per capita (PPP)	\$13,500
Annual GDP growth rate	0.5%
Labour Market Indicators	
Population	54.3 million
Labour force	21.7 million
By occupation (2014)	Agriculture 4.6% Industry 23.5% Services 71.9%
Population location (2015)	Rural 35% Urban 65%
Unemployment rate	26.8%
Poverty Indicators	
Population living below \$1.90 per day (2011 PPP) ³	16.56%
Rural population living below national poverty line (2010) ⁴	77%
Adult literacy rate	94.3%
Life expectancy at birth	63.1 years

² [CIA World Factbook for South Africa](#)

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

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

A unique operating context

Rural poverty and the land reform programme are two of South Africa's greatest national challenges, which are particularly relevant to the sugar industry. Since the government's land reform programme began in 1994 in order to address inequality in land ownership, the initiative has not stimulated the anticipated levels of development and job creation in targeted rural areas, according to the South African Government's Financial and Fiscal Commission.⁵ As the restitution of land to dispossessed communities changes the profile of landowners and farmers in the country, the stability of sugar cane growers is critical to the future sustainability of the sugar industry.

During our site visit to Illovo Sugar's operations in South Africa, Corporate Citizenship met with a variety of Illovo stakeholders, including employees, small scale and commercial farmers, members of industry associations, union leaders, local government representatives and an NGO partner. The interviews provided a picture of the company's engagement with its stakeholders in response to both business and broader development challenges, such as land reform, as well as its wide-ranging impacts in other areas.

Illovo SA has demonstrated its commitment to supporting the South African government's social and economic development agenda by:

- supporting the productivity and sustainability of redistributed land as part of the land reform programme;
- meeting or exceeding the target score in the Broad-Based Black Economic Empowerment (BBBEE) categories of Land ownership, Enterprise development and Socio-economic development;
- providing support services to commercial and small scale growers, helping to improve the livelihoods of rural communities.

Illovo SA's future success will largely depend on ongoing capacity development of land reform beneficiaries who are new to the industry and relationships with both new and established growers.

⁵ Policy Brief: [National Land Reform Programme and Rural Development](#), 2016

Section 1: Generating economic value

Headline messages:

- Illovo SA's total economic impact – including direct, indirect and induced impacts – is estimated at ZAR 9.6 billion for 2016/17. This includes ZAR 1.4 billion in direct impacts (gross value added), and the remainder through multiplier effects within the supply chain and wider economy.
- Illovo is estimated to support at least 25,330 jobs in South Africa. For each of Illovo's 3,500 direct employees in South Africa (including Illovo SA and Illovo's corporate offices based in Durban), at least 6 jobs are estimated to be supported through outgrower communities and wider multiplier effects throughout the economy.
- Illovo SA's total direct tax payments in 2016/17 amounted to ZAR 82.5 million, while indirect taxes totalling ZAR 174.2 million were collected on behalf of the government. Illovo SA also made payments of ZAR 4.2 billion to South African suppliers, paid ZAR 871 million in salaries, wages and benefits to employees, and made capital investments of ZAR 149 million.

Overview

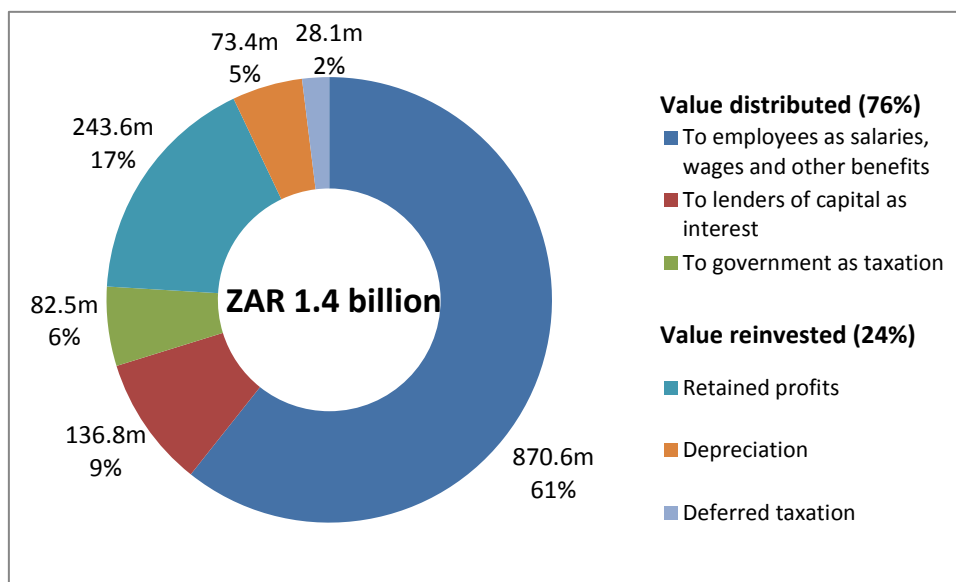
- Illovo SA makes a valuable contribution to South Africa's economy. Due to the relative labour intensity of sugar production, compared to other agricultural crops, as well as the large number of smallholder farmers in the value chain, the economic multiplier effects are significant. Much of this is felt by the rural populations who grow and harvest the sugar cane, as well as the supporting industries that supply to Illovo and small local businesses that have grown around the sugar estates (e.g. transportation, retail and food).
- South Africa is Illovo Sugar Africa's biggest country of operation, producing over 500,000 tonnes of sugar (33% of the company's total sugar production in 2016/17), despite the negative impact of droughts).
- Revenues in 2016 were over ZAR 5.5 billion – up from ZAR 4.7 billion the previous year. Illovo SA is making significant investments in future growth, and payments to South African suppliers and the government are increasing.
- Illovo's contribution to the economy of South Africa has been estimated below in terms of gross value added. The company has impacts on a wide range of stakeholders in the local community and the wider economy, through three main channels:
 - **Direct** impacts, through Illovo's direct employment of workers on farms and in factories, as well as tax payments, interest spending, shareholder dividends, investments and other payments;

- **Indirect** impacts in the value chain, through sourcing sugar cane from farmers and payments to suppliers and distributors, as well as impacts on those selling Illovo products or using them in their businesses;
- **Induced** impacts, through spending by direct and indirect employees, leading to increased consumption and employment elsewhere in the economy.
- Additional, secondary impacts that result from Illovo’s presence in South Africa include the provision of infrastructure such as roads, power, water, schooling and healthcare. These are described in this report, but are not quantified financially.

Creating economic value

- Illovo SA’s direct contribution to the economy of South Africa, measured in terms of gross value added, was ZAR 1.4 billion in 2016/17. This number is calculated as the difference between revenues and outgoings, and is a measure of the company’s contribution to GDP. 76% was distributed to stakeholders – including employees and the government – while 24% was retained in the business.
- The sugar industry in southern Africa is noted in a number of studies for its large multiplier effects⁶. Illovo South Africa’s total economic impact – including direct, indirect and induced impacts – is estimated at ZAR 9.6 billion for 2016/17. This is the equivalent of about 0.2% of South Africa’s GDP⁷, or about 10.1% of the size of South Africa’s agricultural sector⁸.

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

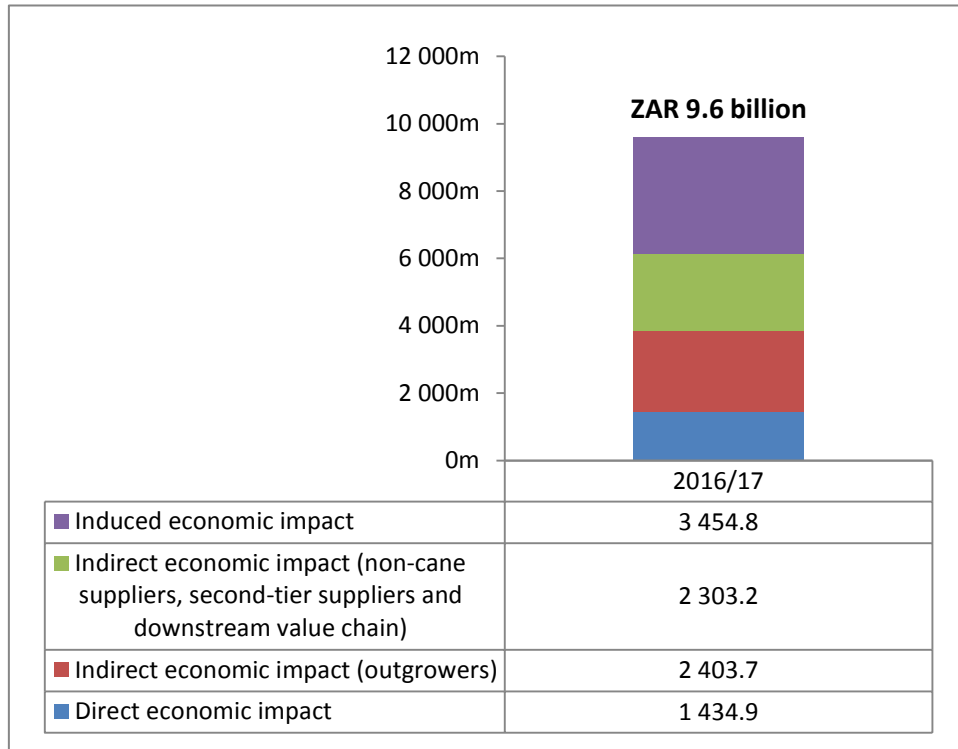


⁶ This is due to the relative labour intensity of production as well as the large number of smallholder farmers in the value chain. Sugar cane must be milled as soon as possible after harvesting, meaning significant economic impacts are felt by rural populations. As well as consuming inputs such as fertiliser,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

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

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

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



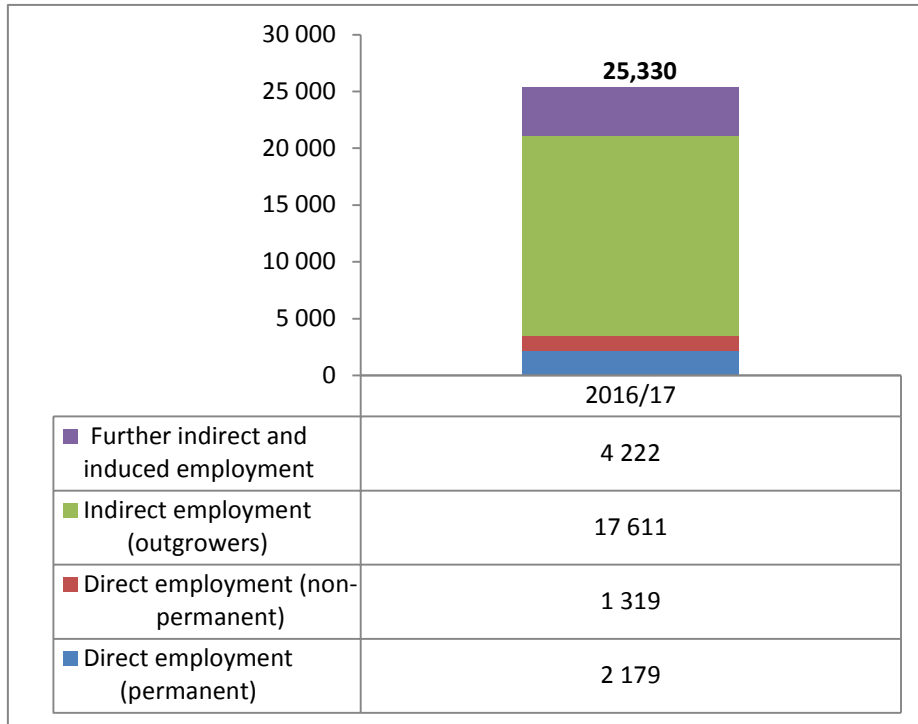
Total employment impacts

- While Illovo’s direct employment impact is important, its indirect employment impact continues to be far more significant, with many more jobs supported in the value chain.
- Illovo is estimated to support at least 25,330 jobs in South Africa. This includes permanent employment (including Illovo SA and Illovo’s corporate offices based in Durban) of 2,179 people, non-permanent (including peak seasonal/fixed contract) employment of 1,319 people, and an estimated 17,611 people whose employment is supported through outgrower farms. In addition, indirect and induced employment, based on a conservative multiplier for the sugar industry, is estimated to be at least 4,222⁹.
- In other words, for every direct employee of Illovo SA, at least 6 workers are supported through outgrower communities and in the wider economy, reflecting the company’s large amount of sourcing from outgrowers.
- Based on an average household size of 3.8 people in KwaZulu-Natal province (see Appendix 1), Illovo is estimated to contribute to supporting the livelihoods of at least 27 people for every direct employee of the company. The amount to which Illovo supports livelihoods will vary between households – for some, such as direct employees and outgrowers, Illovo SA may well be the main contributor to

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

household income, while in other cases, Illovo SA support will be a factor among many.

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



Investing in the future

- Since the last assessment, Illovo SA has spent over ZAR 550 million on capital investments. This is an increase on the ZAR 322 million invested between 2010 and 2013, covered in our last study.
- This includes significant investments in projects designed to reduce the company’s environmental footprint and increase energy efficiency. This includes a ZAR 158 million investment in a major Coal and Energy Savings Project at the Sezela mill (see Section 5). Other significant infrastructure investments include a packing station and warehouse at the Eston mill (ZAR 49 million). Illovo SA is currently exploring the potential for further energy investments, including small-scale co-generation projects at Eston and Sezela.
- Illovo SA has also made a ZAR 33 million investment in the Illovo Technical Academy. Located next to the Eston mill, the Academy offers skills development and training to frontline managers on both factory and farm processes. The facilities are also used by other divisions of the business for workshops and training programmes.

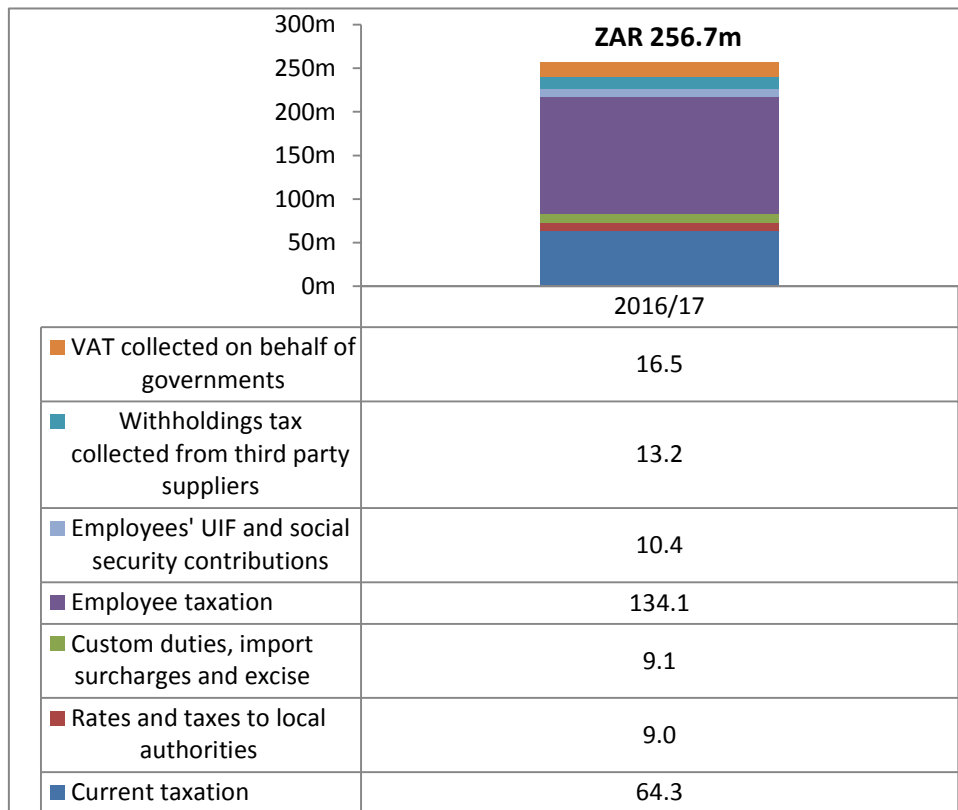
Contributing to public finances

- Illovo SA’s total direct tax payments in 2016/17 amounted to ZAR 82.5 million, while indirect taxes totalling ZAR 174.2 million were collected on behalf of the

government. Indirect taxation includes sales tax (VAT) and employee taxes. The total direct and indirect tax contribution represents a 91% increase on total tax payments just four years previously (as reported in our previous study), reflecting growing revenues and profits.

- Illovo received government support on its environmental investments in 2016/17 – ZAR 25 million for the Sezela energy efficiency project, and ZAR 4.1 million for an effluent plant at Sezela.

Illovo South Africa tax payments, 2016/17

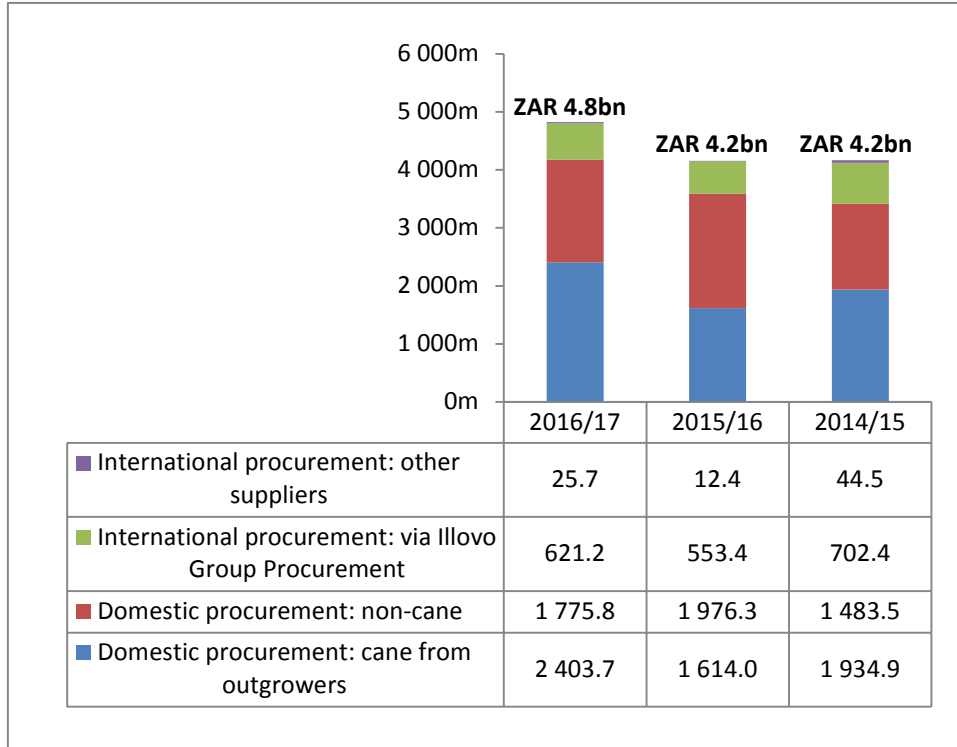


Spending with suppliers

- In 2016/17, Illovo SA spent over ZAR 4.8 billion with suppliers. 87% of this was spent with suppliers in South Africa. Supplier spending has grown significantly since our last study, reflecting the growth in the business. Illovo SA spent about 17% more with South African suppliers in 2016/17 than in 2012/13.
- Spending with South African suppliers includes ZAR 2.4 billion (50%) on sugar cane from outgrower farmers (see Section 3), and nearly ZAR 1.8 billion (37%) with other South African (non-cane) suppliers. Some of the biggest categories of non-cane sourcing from South African suppliers include chemicals, fuel, packaging and agricultural inputs.
- Illovo SA estimates that it sources sugarcane from 2,268 small-scale suppliers in South Africa. South Africa’s Broad-Based Black Economic Empowerment (BBBEE) Act scores companies on their support for the empowerment of previously

disadvantaged groups. Illovo SA has a preferential procurement policy in place that favours BBBEE-accredited suppliers in the tendering process.

Illovo South Africa supplier spending, 2014/15 - 2016/17



Section 2: Creating employment opportunities

Headline messages:

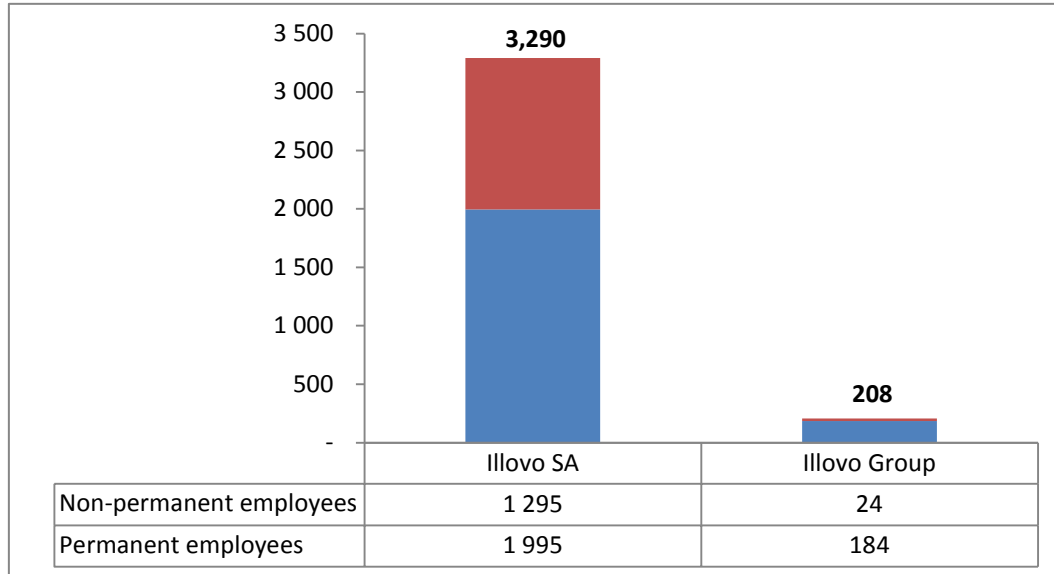
- Illovo employs 3,498 people directly in South Africa (including employees of Illovo SA and Illovo's corporate offices based in Durban), of which 2,179 are permanent and 1,319 are non-permanent positions. Based on average household sizes, we estimate that through this direct employment, Illovo contributes to supporting the livelihoods of 13,292 employees and dependants.
- Illovo paid ZAR 871 million in salaries, wages and benefits to employees in 2016/17. The company actively monitors remuneration against local and international benchmarks, with the lowest-paid employee earning 116% of the local minimum wage in 2016/17.
- Investment in training has decreased over the past three years, from 6.3% of payroll in 2014/15 to 1.71% last year. Increasing training for employees, especially in the group policies on child labour, forced labour and other human rights issues, should be a focus area for Illovo SA in the coming years.

Overview

- Our assessment finds that Illovo continues to be an important direct and indirect employer in the region, particularly as unemployment remains a significant challenge for South Africa.
- What is also important is the quality of jobs provided. For example, ensuring that employees receive a fair wage, have representation and collective bargaining rights, as well as access to training and development to help them progress in careers.
- Illovo in South Africa (including Illovo SA and Illovo's corporate offices based in Durban) provides employment for 2,179 permanent employees and 1,319 seasonal workers at peak periods. The company is committed to ensuring employees receive a fair wage and since our last assessment has started to conduct annual market salary surveys to ensure pay and benefits in each country are monitored. The company continues to provide a comprehensive range of benefits, going above and beyond statutory requirements. Illovo values its seasonal workers and takes measures to ensure its labour standards and working conditions protect their human rights.

Direct employment

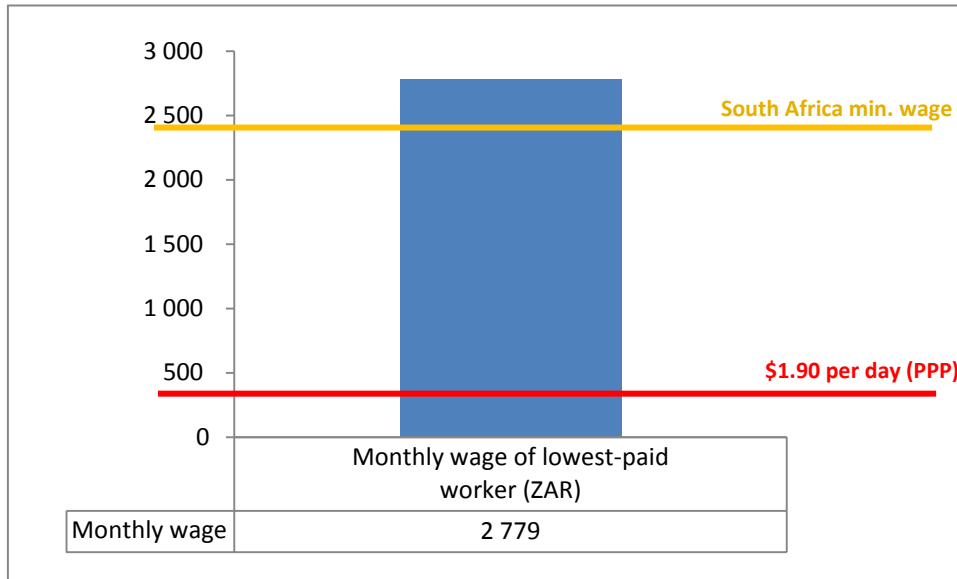
Illovo in South Africa: Direct employment, 2016/17



- The 3,290 people directly employed by Illovo SA includes 1,995 permanent employees, and 1,295 non-permanent (including peak seasonal and fixed-contract employees). Separately, 208 people are employed by Illovo group corporate functions. The number of Illovo SA's permanent employees has remained stable over the past three years, however the number of non-permanent employees has decreased from over 1,600 in 2015/16 due to adverse climatic conditions.
- We estimate the direct jobs provided by Illovo in South Africa support the livelihoods of 13,292 people once families and dependents are taken into account. This is based on an average household size of 3.8 people in KwaZulu-Natal province¹⁰.
- Illovo SA paid a total ZAR 870.6 million to employees, which is spread across direct salaries and wages and other benefits. All employees are compensated above the standard minimum wage, with the entry wage standing at 116% of the local minimum wage last year, and significantly higher than the World Bank poverty line of \$1.90 dollars per day.
- Illovo SA monitors salary levels to ensure that it is compliant with in-country legislative requirements. The company is continuing to evaluate its wages against global best practise.

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

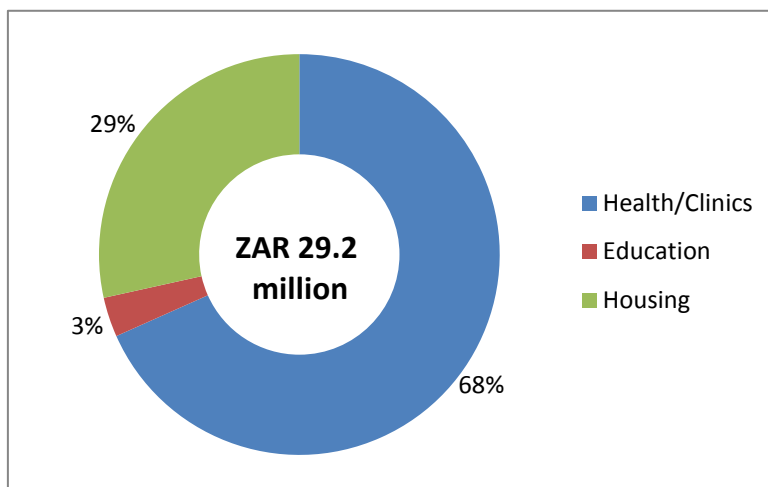
Illovo South Africa: Monthly minimum wage, 2016/17



Employee livelihoods

- Illovo Sugar SA employees are entitled to a number of benefits in addition to their salaries and wages. These include a performance-based bonus scheme membership to a retirement fund for permanent employees, financial support towards continuing studies and an annual wellness programme administered to employees at each of the operational sites and at the group corporate office.
- In total, the value of the social benefits provided to employees in South Africa in 2016/17 amounted to over ZAR 29 million.

Illovo SA: Employee benefits, 2016/17



- Furthermore, pre-employment medicals are conducted for all new employees prior to joining the company and annual medicals are conducted for employees in operational positions. Clinics are available at all sites to support primary health care & occupational health requirements.

Case study: Nurturing talent and developing people: Mark's journey

Illovo SA has played an important role in Mark Gounder's life – from childhood to his career progression from cost clerk to his current role as Finance Director. Mark's father was an employee of Illovo SA for 36 years. Growing up the son of an Illovo employee, Mark enjoyed the benefits provided to the family of employees, including housing, transportation, and education support.

When Mark joined Illovo as a B1 cost clerk, his hard work and determination was recognised. He was mentored and supported as he furthered his studies and completed his B Com degree, with Illovo paying the cost of his tuition. Mark worked his way up through the ranks and became a management accountant all in the space of five years. Mark is now a qualified Chartered Accountant, serving as Financial Director at Illovo SA. Mark attributes his success to Illovo's well-structured approach to looking after employees, as well as family values and determination.

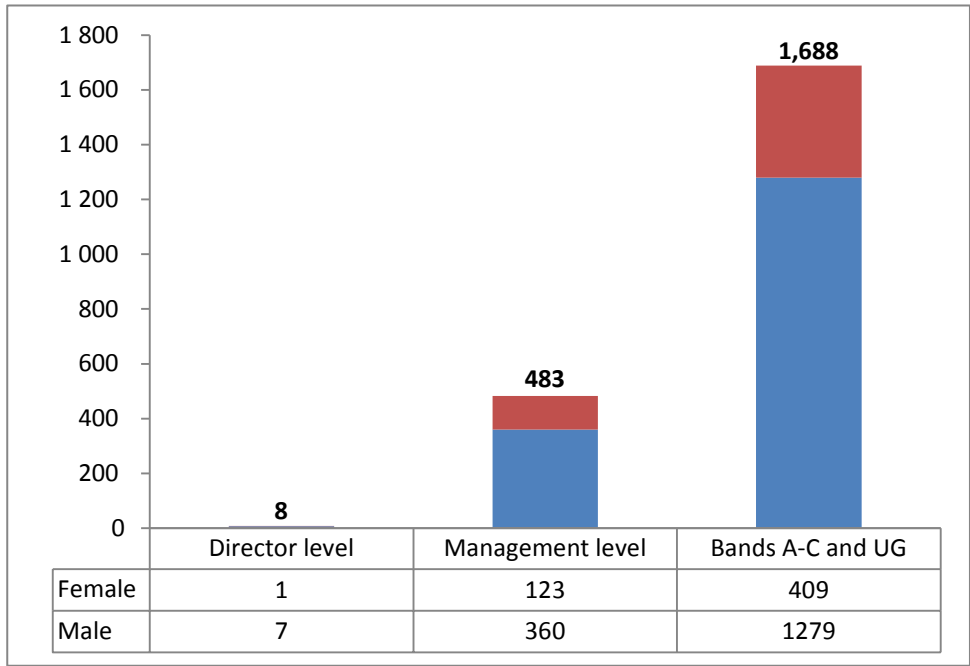
Human rights and labour standards

- Through established collective bargaining agreements with unions and in house country dispute resolution mechanisms, employees are able to raise grievances through formal means. In Illovo SA, 79% of employees are covered by collective bargaining agreements, a number that has remained very consistent over the past two years.
- Regular union-management meetings with two officially recognised unions take place monthly and focus on improvement of organisational climate, change management and wage negotiations.
- An area of improvement for Illovo SA will be to provide training to ensure that employees understand and adhere to group's policies on child labour, forced labour and other human rights issues, as defined in the Code of Conduct and Business Ethics.
- Illovo SA invested ZAR 28.9 million in safety training in 2016/17. However, the lost time injury frequency rate has increased from 0.14 LTIs per 200,000 hours worked in 2015/16 to 0.20 in 2016/17, which is above the target of 0.15 set by group.

Gender diversity

- Illovo has 533 permanent female employees in South Africa, representing 24% of total permanent employees. Women currently represent only 4% of the company's technical roles and 25% of total management positions.
- To prevent gender based incidents in the workplace, sexual harassment prevention training has been conducted with women in the Agricultural team to begin with, which will eventually be rolled out to all employees by the end of the 2017/18 year.

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



Training and development

- Illovo SA invested ZAR 6.02 million in training and development in 2016/17 involving 1,733 employees. As a percentage of payroll, investment in training has decreased quite significantly over the past three years, from 6.3% in 2014/15 to 1.71% last year. This is in part due to a reduction in non- strategic training interventions due to the challenging conditions in the agriculture sector.
- Illovo SA supports young people locally, through the provision of bursaries, engineer traineeships and apprentices. All participants on these programmes receive mentoring from existing employees to support them in their roles.
- For mid-level and senior management, Illovo has management and leadership programmes to support successful employees to achieve their potential within the organisation.

Training offered	Description	Attendees in 2016/17
Apprenticeships	Structured formal trainee programmes, mainly for artisans to provide work experience and develop skills	26
Bursaries	Mainly for the engineering discipline, to further their tertiary education in preparation for inclusion into the Management Trainee Programme	21
Engineers in training	Structured formal trainee programmes to help employees further develop skills.	27
Management and leadership programmes	Targeting high potential middle, senior, general and executive managers and delivering group-based management development programmes, aimed at both first-line and upper management.	75

Section 3: Supporting farmer livelihoods

Headline messages:

- Illovo SA's supply chain includes nearly 3,000 outgrower farmers, in total supplying between 4 and 5.5 million tonnes of cane every year. Large-scale commercial farms account for 76% of cane procurement.
- Illovo SA is estimated to support over 17,600 jobs through its supplying outgrower farmers. In addition, the company provides significant technical, financial and capacity-building support to outgrowers through its dedicated officers, worth ZAR 5.3 million in 2016/17.
- Illovo SA provides a variety of supply incentives and subsidies to growers, amounting to ZAR 95.9 million, and which are paid in addition to the minimum cane price set by the industry. In particular, black growers receive targeted support to help increase their yields.

Overview

- Some of Illovo SA's most significant economic and social impacts are made through the agricultural supply chain. The company's purchases of sugar cane support employment and incomes in rural areas, where 77% of the South African population lives below the national poverty line¹¹. During our interviews with outgrowers, they emphasised how Illovo's support helped them to professionalise their farm management practices, improved production yields and also provided stable incomes.
- Just 6% of the sugar cane used by Illovo SA comes from the company's own land – the remaining 94% is supplied by independent farmers from the areas surrounding Illovo's mills. This proportion is the highest of any company within Illovo Sugar Africa, meaning that South Africa is a focus for many of the group's most innovative programmes for farmer outreach and engagement.
- Since our last report, Illovo has increased its strategic focus on outgrowers through a new "optimise outgrowers" scheme. Each country is developing a strategic action plan on outgrower development. While this is still in its early stages, the initiative will help Illovo to develop a longer-term approach to securing its future supply of cane and improving outgrower livelihoods.
- The government's land reform programme in South Africa is made up of two components:
 - land restitution – refers to the process whereby land has been returned to people who have previously lost their land holdings as the result of past discriminatory practices; and

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

- o land redistribution - refers to the redistribution of land by companies such as Illovo with large agricultural land holdings to previously disadvantaged sectors of the community. Illovo commenced proactively its land redistribution programme in 1996 by subdividing a number of its farms and selling them to black farmers as going concerns, well before the government had formalised its current land reform programme and the objectives that went with it.

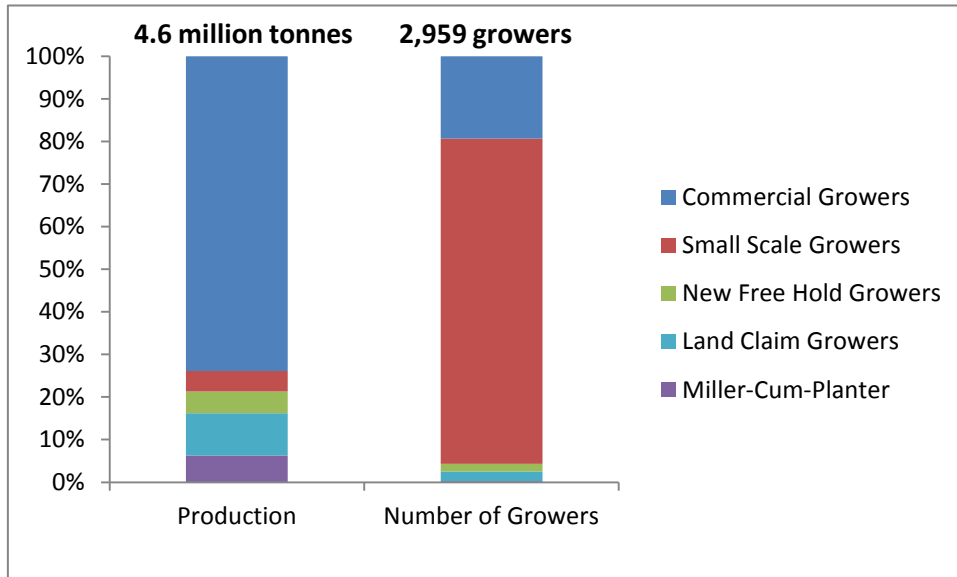
Illovo SA has played an active role in the government's land reform programme, and offers comprehensive technical, financial and capacity-building support to farmers on restituted land. Land reform will continue to increase the proportion of Illovo's cane that is supplied by small-scale farms, making this work ever more vital to the future success of the business.

Outgrower sourcing

- Illovo SA's supply chain includes nearly 3,000 outgrower farmers, in total supplying between 4 and 5.5 million tonnes of cane every year¹². The largest proportion of these are small-scale growers – 2,258 farmers in all, accounting for about 5% of outgrower production.
- In addition, around 570 large-scale commercial farms account for 76% of cane procurement.
- Medium-scale growers make up the remainder of Illovo SA's cane sourcing. These include land claim and new freehold growers – black growers who own and farm former Illovo company farms, under South Africa's land reform legislation.

¹² Note: this is significantly lower than the 5,700 outgrowers stated in our previous report for 2012/13. This is because of a change in the way these growers have been counted. In the previous report, the figure included all growers registered to supply Illovo. However, it is important to note that not all small-scale growers deliver sugarcane every season (crop cycles generally exceed 12 months and can be up to 24 months). In this report, therefore, only those growers actively supplying Illovo SA with cane in the reporting year have been counted.

Illovo South Africa: outgrower sourcing, 2016/17



Case Study: Jobs fund

South Africa’s small-scale grower sector has been in decline for the past two decades. At its peak, more than half a million tonnes of sugar was delivered to Illovo SA sugar factories by small-scale growers alone. Land reform has changed the profile of outgrowers, with new (and inexperienced) beneficiaries entering the sugar cane industry. There are vast tracts of communal land that may be redeveloped to sugar cane in order to rejuvenate South Africa’s rural economies.

In addressing the above opportunity, Illovo SA will partner with the South African National Treasury’s Jobs Fund initiative to develop 3,000 hectares of uncultivated communal fields into sugar cane farms owned and operated by the community, as part of a three-year project.

The project will generate employment opportunities for communities in farming as well as secondary activities associated with crop husbandry, crop removal and logistics.

While the beneficiary community is the main target group, the wider local community will benefit from the increased economic activity. Agricultural input suppliers will benefit from additional trade and Illovo SA will receive additional cane supply to strengthen the sugar supply chain.

Supporting outgrower employment

- Illovo supports significant indirect employment through outgrower farmers. The number of jobs has been estimated, using employment on Illovo’s own farms as a proxy, at 17,611¹³.

¹³ Combining Illovo’s fixed-term and casual agricultural employment of 222 with peak seasonal agricultural employment of approximately 1,086 gives an estimate of 0.25 jobs per hectare harvested. This compares

- Based on an average household size of 3.8 people in KwaZulu-Natal province (see Appendix 1), Illovo is estimated to contribute to supporting the livelihoods of 66,920 people through its sourcing of sugar cane from outgrowers in South Africa.
- Sugar is noted for its contribution to female employment¹⁴. Illovo SA estimates that approximately 45% of small-scale growers are women, and approximately 42% of employees on larger outgrower farms are women – similar to employment on the company’s own farms.
- Ethnic participation in the supply chain, in line with South Africa’s BBBEE legislation, is one of Illovo SA’s focus areas. Illovo SA’s current BBBEE rating is level 2, where Illovo scored 10 out of 10 points on enterprise development. The company has an Agricultural Extension Department, whose sole purpose is to assist black growers to become sustainable sugar cane farmers. Furthermore, the Jobs Fund project (see case study above) will also benefit small-scale black growers by creating additional employment opportunities and opportunities to earn price premiums through the Fairtrade programme.

Payments to outgrowers

- Illovo SA’s outgrowers are paid according to a cane quality-based formula set by the South African Sugar Association (SASA), which divides net industry proceeds between millers (approximately 33%) and growers (approximately 67%). The average price paid to growers in 2016/17 was ZAR 553.5 per tonne of cane
- In order to support the sustainability of small-scale growers, these growers receive a supplementary payment of ZAR 35 per tonne of cane, plus a VAT rebate of ZAR 45 per tonne, from SASA, funded from industry proceeds. In total, this represents a supplementary payment of ZAR 8 million to small-scale suppliers, of which the company indirectly funds ZAR 3 million through levies paid to SASA.
- Illovo SA provides a variety of other targeted supply incentives and subsidies, such as a transport subsidy to enable more distant growers to supply cane to its mills. In total, these equated to ZAR 95.9 million paid to growers in 2016/17.
- Illovo SA’s Noodsberg mill sources a small amount of cane (approximately 2,000 tonnes) from two Fairtrade-accredited smallholder co-operatives. These farmers are paid the Fairtrade premium of ZAR 600 per tonne of sugar – equating to approximately ZAR 55 per tonne of cane. Illovo SA has supported 7 co-operatives and two have received Fairtrade accreditation, enabling them to access Fairtrade premiums.
- According to the South African Cane Growers’ Association, workers’ wages represent approximately 30% of larger farms’ costs. The South African minimum wage for farm workers in 2016/17 was ZAR 2,779 per month.
- Approximately 21% of Illovo SA’s outgrower cane is sourced from black growers.

favourably to estimates by the South African sugar industry and Conningarth Economists (see Appendix 1) of between 0.17 and 0.23 jobs per hectare.

¹⁴ Levin and Mhamba (2007) – see Appendix 1.

Case study: Enhancing livelihoods through Fairtrade support

Illovo supports the set-up of outgrower co-operatives, encouraging and helping them to acquire Fairtrade accreditation. A comprehensive range of support is provided, including helping the co-ops to obtain funding to purchase farming inputs and providing training and advice on farm management, along with partners (WWF, SEDA, and other development agencies). Illovo also helps the co-ops with the day-to-day management of their farms, from checking soil samples to planting, harvesting and milling.

In an interview with one of the , Fairtrade accredited co-operatives that Illovo had supported, the growers shared their initial hesitation to get involved in sugarcane farming because they didn't think of sugarcane as a profitable venture. However, with Illovo's support they have learned proper planting techniques and how to professionalise their business. Through Illovo they have learned skills such as business management, governance, Fairtrade requirements, first aid, and health and safety. Sugar cane farming has made a huge difference to their livelihoods. From her income, the Chairperson of the co-op has been able to send her child to school and build a house.

Supporting smallholder farmers

- Illovo is a strategic partner of the National Department of Rural Development and Land Reform and Provincial Department of Agriculture and Rural Development to coordinate, administrate and implement sugarcane development projects. Illovo SA provides ZAR 5.3 million in direct support to such projects, which include a mentorship scheme for small-scale and new freehold growers.
- Other smallholder support, to which Illovo SA contributes, includes:
 - Capacity building and training (ZAR 5.7 million): this includes field days hosted around demonstration plots to showcase production techniques, training funded by the sugar industry Grower Development Account, and access to development finance through Umthombo Agricultural Finance (a division of SASA).
 - Production support and mentorship (ZAR 4 million): Illovo's extension officers provide crop production support, explanation of cane statements, confirmation of crop estimates, harvesting and delivery co-ordination.
 - Fairtrade training (ZAR 0.5 million): training for Fairtrade compliance, coordination of application for certification and audits, interpretation of audit findings and development of action plans.

Case study: Tim Sibisi doubles his land

Tim is a land claim beneficiary of the government’s Land Restitution programme, and a successful farmer who has doubled the size of his cane enterprise with Illovo’s support. When Tim acquired land through restitution in 2013, he did not have the capital to pay workers, transport them to the farm, and acquire the farming inputs he needed to develop the land. Illovo provided technical support, leasing him equipment to get started, and assigned a mentor to support him.

With Illovo’s help, Tim has not only succeeded in maintaining the high production level of his original land claim, but has been able to acquire additional land on commercial terms to double the size of his cane enterprise. Tim says that without Illovo’s support he would not be where he is today.

Human rights and labour standards

- The seasonal nature of the agricultural industry means a heightened risk of labour abuses such as low wages or dangerous working conditions. In order to mitigate human rights risks, all Illovo cane procurement staff has been trained on the Illovo Code of Conduct, land rights and human rights. This is applied in grower engagements, and grower union leadership have been specifically informed of Illovo’s policies.
- The Illovo Group Code of Conduct and Business Ethics is written in line with the UN Guiding Principles on Business and Human Rights, the International Bill of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. It commits Illovo to supporting and respecting human rights, and requires all suppliers to do the same.
- Two of the four Local Grower Councils whose outgrower members supply sugarcane to Illovo SA, in Eston and Noodsberg, have adopted the SusFarMS environmental management system (see Section 5). The tool includes declarations regarding compliance with national employment legislation, which is fully aligned with Illovo’s code. The National Department of Labour inspectors frequently visit farms to confirm compliance with South African labour law.
- Fairtrade-certified growers are also assisted to understand and embed human rights principles in their operations.

Land rights

- Since our last assessment, the issue of land rights has continued to rise in importance, both globally and in southern Africa in particular. Illovo has responded by developing a more formalised approach through the development of its [Guidelines on Land and Land Rights, which](#) commit Illovo to a zero tolerance approach to land grabs, and require that all suppliers do likewise.
- Illovo has brought in external stakeholders as part of a Land Policy Roundtable committee. Illovo is working in partnership with NGO experts such as Landesa, a non-profit organisation that partners with governments and local organisations to

secure legal land rights for the poorest communities, to establish leading practices on land rights

- Illovo has appointed a “local land champion” for each of its operations, who are responsible for implementing the Guidelines and conducting land rights assessments using the new framework.
- Illovo SA actively supports the government’s land reform process. The company provides a GPS-based mapping service on communal land, and small-scale growers are required to hold a valid Permission to Occupy certificate. Illovo SA’s dedicated extension officers provide comprehensive production support to beneficiaries of restituted properties and land reform projects.
- To help tackle the challenge of food security, Illovo SA also supports the government’s “one household, one hectare” programme, which assists households in acquiring land on which to plant food crops, and which is still in its early stages.
- Beyond technical support, we found that Illovo also provides wider community support by helping to facilitate inclusive multi-stakeholder dialogue with communities. Managing the many views and voices involved in land restitution is critical to maintaining peace and harmony within these communities and ensuring a successful transition process,

Section 4: Investing in communities

Headline messages:

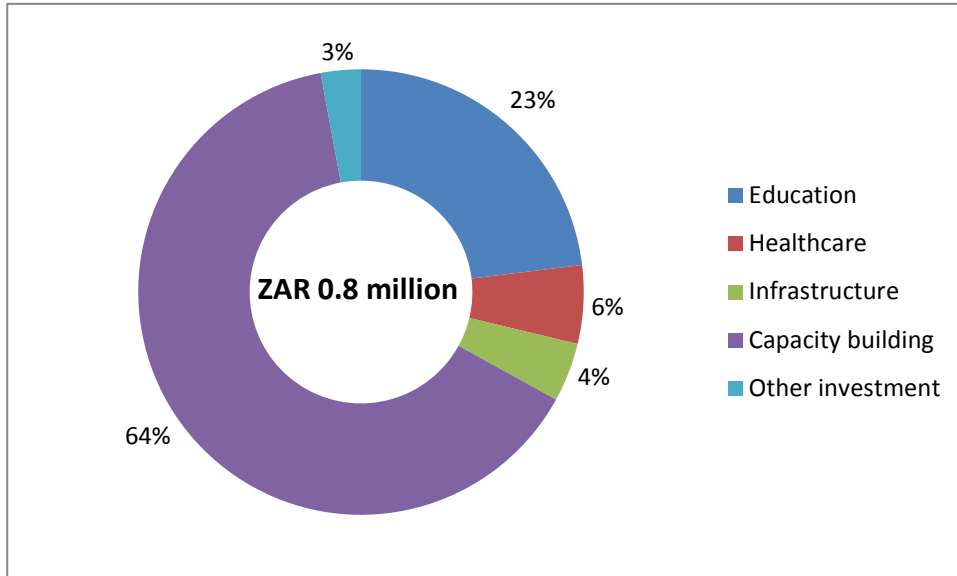
- Illovo SA's total community investments totalled ZAR 835,624 in 2016/17. The majority of this is spent on capacity building projects and support for education, but it also includes healthcare and infrastructure among other investments.
- All employees and their families can access healthcare services through Illovo SA clinics and medical aid benefits. Furthermore, Illovo SA seeks to actively address HIV in the region through a wellness programme, with over 400 people currently enrolled, targeting those who are HIV positive.

Overview

- Illovo SA invested over ZAR 0.8 million in supporting the local communities in and around its operations in 2016/17. The majority of this was spent on capacity building projects and support for education, but also includes healthcare and infrastructure, amongst other investments. Employee-related benefits (Section 2) and outgrower development spending (Section 3) are excluded from this total.
- We interviewed the Head Principal at one of the primary schools that Illovo has supported, as well as Project Build, an NGO specialising in educational infrastructure, who has partnered with Illovo SA on school renovations for a number of years. Both stakeholders recognised the impact of the company's support in the community – having adequate classrooms and facilities allows more children to attend and creates a better learning environment for both children and teachers, which helps with retention rates for both.
- Community challenges persist as increasing populations place a strain on available resources and existing infrastructure. There is greater pressure on Illovo, seen as a key economic player and contributor to national imperatives, to address these challenges.
- To avoid perpetuating a cycle of patronage and dependence, Illovo is developing a more strategic approach to community investment, with greater focus on empowerment. Across all six countries, Illovo is exploring ways to address societal needs and challenges through models that simultaneously address social and business needs in a manner that creates sustainable shared-value impact.
- Examples of shared-value programmes in South Africa include cane development projects, water harvesting to help communities become more water-efficient and developing skills of school principals to improve results. As implementation of these programmes is at an early stage, it has not yet been possible to assess the impacts of these.

Community citizenship & social investment

Illovo South Africa: Total investment in the community, 2016/17



- In total, over 100 local community organisations received funding from Illovo SA in 2016/17, such as schools, churches, social and sport organisations and further non-profits. Working with local organisations, such as the Sugar Industry Trust Fund for Education (SITFE), Illovo SA provides communities with support for basic healthcare, education, housing infrastructure and other requirements.
- Illovo’s spending on capacity-building programmes, including self-help programmes and other community initiatives, increased from ZAR 0.1 million in 2015/16 to ZAR 0.5 million in 2016/17. However, this rise was offset by a reduction in spending on educational and environmental causes, meaning that the total fell from ZAR 1.2 million to ZAR 0.8 million.
- All employees and their families can access healthcare services through Illovo SA clinics and medical aid benefits. Furthermore, Illovo SA seeks to actively address HIV in the region through a programme, with over 400 people currently enrolled, targeting those who are HIV positive. During World AIDS day, all Illovo SA employees participate in HIV prevention programmes such as wellness tests, and HIV testing. Wider initiatives to support education include a partnership with SITFE, where Illovo SA has funded a community resource centre with science laboratory equipment at Izingolweni.
- Members of the community are supported with educational development through the provision of individual bursaries (21 of which were funded last year), and infrastructure development of classrooms and renovations that reach a much wider group of students. In 2016/17, Illovo SA built one classroom for Bulawayo Primary school, benefitting over 200 students, and renovated Vusisizwe Primary School, benefitting over 320 students. Over the past 3 years, Illovo SA’s investment in bursaries and infrastructure development in schools has boosted the educational capacity of almost 800 individuals in the community.

Case Study: Project Build

Illovo has worked with Project Build to expand classrooms in rural schools that have little to no support. Project Build is a Durban-based NGO working in educational infrastructure, and they have partnered with Illovo for a number of years.

In the true spirit of community building, Project Build contract people from the communities where the schools are located to help with the build, under the supervision of master builders. By doing so the transfer knowledge and skills to local communities. Illovo employees also get involved in supporting their local communities. Each year, on Mandela Day, teams of Illovo employees volunteer to participate in Project Build projects .

Project Build values Illovo’s contribution to rural schools and views the company not just as another client but as a close associate given the healthy relationship which exists between these two Durban-based organisations.

- Illovo SA has invested more than ZAR 8 million in accommodation, benefitting over 200 people. Illovo SA invested in wider infrastructure projects in 2016/17 that benefited the broader local populations, such as general building maintenance, redeveloping flood damaged roads and constructing a bridge over local stream.
- Examples of employees participating in Illovo SA’s community programmes include employees volunteering time for the Sezela Women’s Forum, raising ZAR 19,000 for the South African Cancer Association, Ifafa Childrens Feeding Scheme, and Khanya Hospice.

Community & stakeholder engagement

- Illovo SA consults a broad range of stakeholder groups on specific community issues or community investment projects that are already underway. These stakeholder groups include community based organisations, the tribal authority in the region, educational principals, and other community representatives such as councillors.
- As the biggest sugar producer in South Africa, communities look towards Illovo SA to support some of their basic social needs such as employment and improving living conditions. Not unsurprisingly given the economic context in South Africa, unemployment was raised as the biggest issue when interacting with stakeholder groups.
- A particular emphasis was given to Illovo SA’s procurement policy towards community based businesses owned by women, youths and the black population. A future challenge for Illovo SA will be to ensure that its investment in society reaches the right beneficiary groups, focussing on the issues that people think are most important.

Section 5: Promoting environmental sustainability

Headline messages:

- Two of the four Local Grower Councils who supply cane to Illovo SA have adopted the SusFarMS environmental management system, which was pioneered by growers at Noodsberg in partnership with WWF.
- 75% of Illovo SA's energy consumption is provided from renewable sources, primarily bagasse. The company has made significant investments in energy efficiency, particularly the Sezela Coal and Energy Savings Project.
- In 2016/17, 53% of water withdrawals was recycled and returned to source – up from 44% in 2015/16. In response to water scarcity issues, a formalised water strategy is being implemented by Illovo SA.

Overview

- Since our last assessment, Illovo SA has continued to focus on embedding high standards of environmental sustainability into the business, underpinned by a culture of continuous improvement. Promoting environmental best practice is closely linked with Illovo's social and economic impacts. Environmental issues have a direct impact on the quality and productivity of land, and affect the livelihoods of farmers, workers and the wider community.
- Sugar cane cultivation is associated with a number of environmental impacts, in particular water, a resource that must be carefully managed. The potential for over-use of fertilisers and pesticides also affects the protection of land and biodiversity.
- Sugar cane offers excellent opportunities for the production and use of renewable energy, generated using bagasse – the renewable fibrous residue that remains after sugar cane crushing – and other biomass. By producing its own renewable energy, Illovo can cut costs and reduce reliance on the national grid, while helping to mitigate the impacts of climate change.
- Illovo SA has invested over ZAR 161 million in environmental initiatives over the last three years. The vast proportion of this (ZAR 158 million) was spent on the Sezela Coal and Energy Savings Project, installed between 2015 and 2017. The project involved the installation of a new 2.5MW turbine at the site and included various steam saving initiatives. In total, the project expects to save more than 10,000 tonnes of coal and 21GWh of imported electricity each year.

Case Study: Continuous progress in SA

The business continues to challenge itself to even higher standards than required, by harmonising its approach to compliance with environmental standards and certifications. A review in 2014/5 revealed that Illovo was compliant with all standards it was required to uphold. With a view to creating a more efficient audit process, Illovo developed an in-house combined assurance programme, setting a higher standard to aim for. The programme combines aspects of OSHAS, ISO14000, UNGC principles, and other best practice guidelines into one programme for the basis of future audits. Audits will therefore be more comprehensive and efficiently managed.

Land & biodiversity

- Illovo SA manages all of its own land according to the SASRI and SusFarMS conservation guidelines. SusFarMS was pioneered by the growers association that supports Illovo's Noodsberg mill, in partnership with WWF. The Group Agricultural Operational Support Function conducts follow-up SusFarMS audits as part of internal agricultural reviews.
- Illovo SA is also actively encouraging outgrowers to expand cane enterprises. This means working closely with them to restore lapsed cane fields and convert land previously used for timber, while complying with all environmental legislation and promoting sustainability best-practice. The training and assistance which Illovo SA provides to smallholder farmers (see Section 3), includes an in-depth focus on sustainable farming techniques.
- Two of the four Local Grower Councils whose outgrower members supply sugarcane to Illovo SA, in Eston and Noodsberg, have adopted the SusFarMS environmental management system. SusFarMS not only requires compliance with relevant legislation, but also requires detailed land use and surface water management plans.

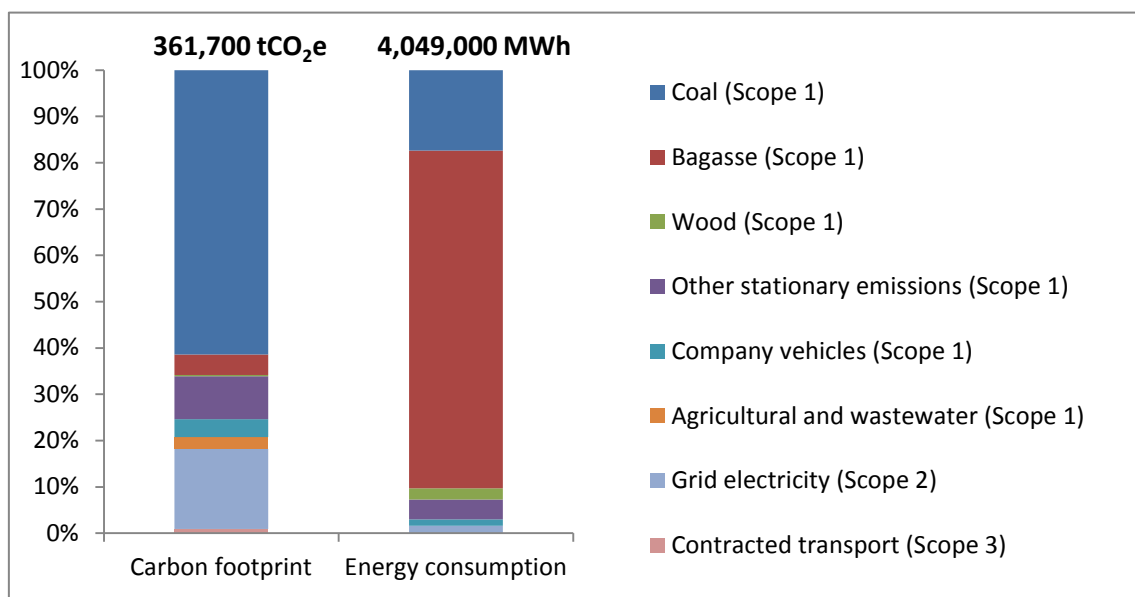
Energy and climate change

- A number of studies have predicted positive impacts of climate change on sugarcane yields in southern Africa. However, these also note the uncertainty of predicting future rainfall patterns, such as more intense rainfall with longer dry spells¹⁵. For Illovo, there are significant benefits in the short- and medium-term from improving the energy and water security of company operations and suppliers.
- The opportunities for renewable energy generation afforded by the sugar production process allow Illovo to minimise its carbon footprint. Energy use primarily takes place during the cane-crushing season, meaning that Illovo has a ready supply of renewable fuel. 75% of Illovo SA's energy consumption is provided from renewable sources – primarily bagasse (1.3 million tonnes in 2016/17, accounting for 73% of total energy consumption), supplemented by about 27,000 tonnes of wood.

¹⁵ See Jones MR and Singels A (2014), *A preliminary assessment of mid-century climate change impacts on sugarcane production in South Africa*.

- Illovo SA and the Group head office were responsible for over 50% of the group’s total carbon emissions in 2016/17. This is primarily due to significant coal use – about 61,000 tonnes in 2016/17. The Sezela Coal and Energy Savings Project, which was completed in 2016/17, has already met its target of reducing coal usage by 25%. The impact on Illovo’s carbon footprint will be seen in future reporting periods.
- Self-generated electricity also gives Illovo access to an additional source of revenue, from selling electricity back to the national grid. In 2016/17, Illovo SA’s Eston site exported 6,736 MWh of electricity to the grid, providing revenues of ZAR 4.4 million. Illovo SA is currently exploring the potential for further energy investments, including small-scale co-generation projects at Eston and Sezela.

Illovo South Africa: Carbon footprint and energy consumption, 2016/17

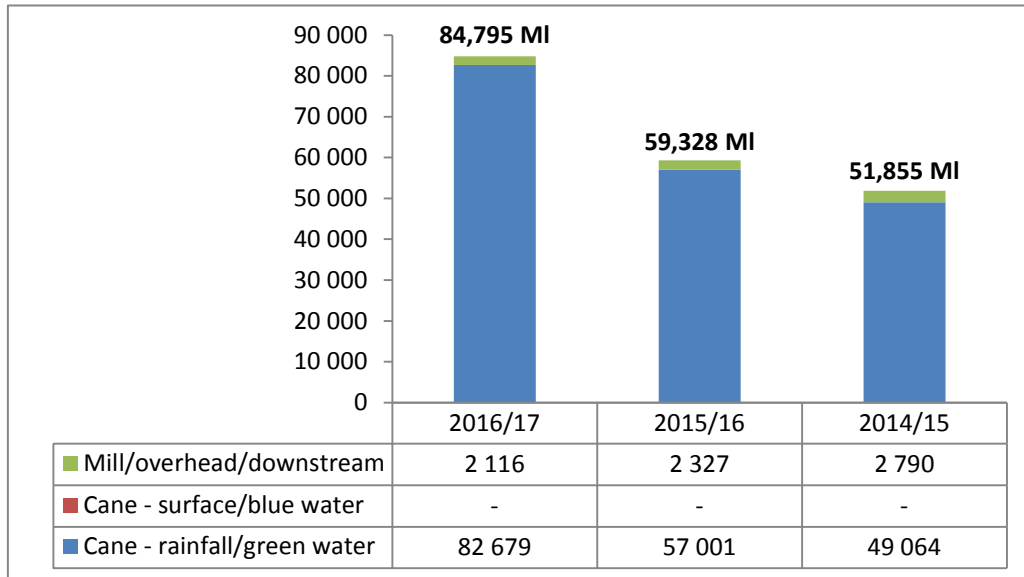


Water and waste

- Water is a vital resource both for Illovo’s operations and surrounding communities, meaning that responsible management is a business imperative.
- While water scarcity has not traditionally been a concern for Illovo SA – and all cane is rain-fed, rather than irrigated – droughts have become an increasing concern in recent years. Severe droughts in 2015 resulted in a reduced cane crop and the closure of the Umzimkulu Mill. In 2016/17, increased rates of rainfall led to significantly increased water consumption by Illovo’s farms¹⁶.

¹⁶ It is important to note that while all of the water used on Illovo’s farms is accounted for as water “consumption”, in reality much of it is returned to the same catchment. This therefore reflects a level of over-reporting on water consumption, as noted in Illovo’s environmental assurance statements.

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



- In response to water scarcity issues, a formalised water strategy is being implemented by Illovo SA to decrease the company’s water footprint. Illovo SA is also working with the Department of Water & Sanitation to verify and validate the company’s current water usage figures.
- The water consumption footprint of Illovo’s factories is generally neutral, with most water requirements for the sugar manufacturing process sourced from the cane itself. Much of the additional water is recycled and used for irrigation, in order to reduce the requirement for water abstraction. In 2016/17, Illovo SA’s mills and other non-cane operations withdrew 4,535 megalitres of water. Of this, 53% was recycled and returned to source – up from 44% in 2015/16.
- All operations are required to maintain a holistic and integrated waste management system. A majority of sites have implemented formal waste segregation and reclaim facilities. Opportunities for reducing waste include re-purposing of mill by-products as soil nutrients, as well as improvement targets on recycling (including composting).
- In 2016/17, Illovo SA’s Eston mill reported a significant increase in recycling rates, but Sezela reported a fall. Increasing recycling rates should remain a key priority for Illovo SA.

Section 6: Sugar in the marketplace

Headline messages:

- Illovo has worked with the South African Sugar Association (SASA) to support the research and dissemination of science-based facts about sugar.
- Illovo has a significant downstream economic impact, through the 200,000 small retailers who sell Illovo products within South Africa. The associated economic and employment impacts are captured within the multiplier estimates in Section 1.

Overview

- The downstream impacts of sugar relate predominantly to associated health impacts, as well as ensuring the safety and quality of products sold and its affordability given the local domestic markets Illovo operates in.
- Domestically, direct consumers make up 12% of Illovo SA's sugar product sales, with the remaining 88% going to industrial customers.
- Illovo has a significant downstream economic impact, as domestic sales involve many wholesalers, small grocers and table-top vendors, who act as resellers to consumers. Research completed in the last two years shows that approximately 200,000 small retailers sell Illovo products within South Africa, demonstrating the extent of the downstream impact of Illovo's production. The associated economic and employment impacts are captured within the multiplier estimates in Section 1.

Product impacts

Case study: The sugar debate

There are diverse views on the effects of sugar in the market place. In South Africa, this is reflected in ongoing debates about the effects of sugar on health and proposed legislation to introduce a sugar tax. As a sugar-producing company, Illovo advocates the promotion of a balanced and healthy lifestyle through its parent company AB Sugar's "Making Sense of Sugar" campaign (www.makingsenseofsugar.com), which aims to educate people about sugar and the role it can play in a healthy balanced diet. The stated aim is to provide science-based information about the role of sugar in the human body, to help consumers make informed choices. This is particularly important in countries such as South Africa where sugar can be an important source of dietary calories for the poor.

Illovo also works with the South African Sugar Association (SASA) to support the research and dissemination of science-based facts about sugar. The company has funded training and education of community-based healthcare workers in the townships and in rural areas, providing them with accurate information on nutrition that they can pass on to communities.

Nutrition education starts at a young age and is part of the curriculum for educators. Illovo provides information and tools to educators to help teach children about nutrition. Healthcare workers also get pamphlets on nutrition, and health issues such as diabetes along with other health issues.

- To help monitor the affordability of its products, Illovo conducts regular consumer immersions to inform itself of the price points required by consumers at various disposable income levels. Other measures include market research to check that retailers are selling Illovo products in line with the pricing strategy and bi-monthly evaluation of competitor behaviour.

Recommendations and challenges

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

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

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

- **Greater understanding and autonomy for mills to address context-specific challenges.**

Amongst outgrowers in different locations there was a sense that each mill and its surrounding community has a unique context concerning its needs and challenges, which should be factored into decision-making. These unique circumstances should be assessed and mills should be allowed greater autonomy in decision-making for the operation and its communities, keeping in line with Illovo's high standards.

To enhance Illovo SA's understanding of these challenges we recommend Illovo SA carry out a mill-community needs/impact assessment. This will inform a more targeted response to outgrowers and their communities. It can also help Illovo better align its efforts with more strategic community investment, accelerating the shift towards shared value initiatives.

Education is a fundamental to building sustainable communities and Illovo is seen as a key contributor and partner – whether through its support of employees' children or through supporting the rehabilitation of schools. However support in these areas has been rooted in a traditional CSR approach. We recommend more strategic interventions around education that can create a talent pipeline for the business, attracting the next generation of employees.

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