



# Illovo Sugar

**Malawi Socio-Economic Impact Assessment**

**Internal Management Report**

**April 2014**

# Contents

---

Executive summary	1
Introduction	6
Methodological note	6
Section 1: Sugar in Malawi	7
Malawi's economic structure	7
Section 2: Supporting economic growth	10
Total economic impacts	11
Distributing wealth	13
Investing in the future	14
Contributing to public finances	15
Trade challenges	16
Section 3: Creating jobs and supporting livelihoods	18
Direct employment overview	18
Additional benefits	21
Contributing to health and wellbeing	22
Improving diversity	23
Developing skills and talent	24
Section 4: Value chain impact – suppliers	25
Illovo Sugar Malawi's supply chain	25



Supporting employment in the supply chain	27
Combating rural poverty	27
Promoting Fairtrade	28
Land issues	29
Supporting farmer productivity	30
Standards in the supply chain	30
Supporting local and small businesses	31
Section 5: Value chain impact – customers	32
Serving customers	32
Providing high-quality, affordable products	33
Supporting downstream employment	34
Section 6: Social responsibility and community investment	35
Investing in local communities	35
Section 7: Environmental sustainability	37
Promoting access to water	37
Water stewardship	37
Protecting land and biodiversity	38
Energy use and emissions	39
Waste	39



## Executive summary

<b>Illovo Sugar Malawi has:</b>
<p>Contributed an estimated ZAR 3 billion to Malawi's economy in 2012/13, including direct, indirect and induced impacts. This is equivalent to about 10% of Malawi's GDP, or about 35% of the country's agricultural sector.</p>
<p>Directly employed 11,552 people in Malawi (including seasonal and non-permanent workers), supported an estimated 3,434 people through outgrowers, and supported further estimated indirect and induced employment of between 2,997 and 12,888. In other words, for every direct employee of Illovo Sugar, between 0.6 and 1.4 workers are supported in the wider economy.</p>
<p>Estimated to support the livelihoods of between 82,722 and 128,220 people, including dependents, through direct, indirect and induced employment (based on national average household sizes).</p>
<p>Paid over ZAR 254 million in taxes to the Government in 2012/13. It is the single biggest taxpayer in the country. The company has received awards from the Government for being the country's "number one compliant taxpayer".</p>
<p>Invested ZAR 108 million on factory upgrades in 2012/13, double that of the previous year. Illovo Sugar Malawi is also embarking on a significant upgrade of its packing facilities in 2013/14 which will enable it to expand production of speciality sugars for export to Europe.</p> <p>These investments demonstrate a long-term commitment by the company to Malawi, helping to secure jobs for the future.</p>
<p>Spent ZAR 251 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 Malawian population where 82% live at or below the poverty line of \$2 per day.</p>
<p>Spent ZAR 159 million (9% of total revenues) in 2012/13 procuring sugar cane from independent farmers, local to the estate. 90% of Illovo outsourced cane is supplied by over 1,800 smallholder farms.</p> <p>Spent ZAR 1,136 million with non-cane suppliers in 2012/13, about 30% of which was</p>

spent with companies in Malawi and around 270 small-scale businesses.
Spent ZAR 45 million on social investment in 2012/13. Helped to set up the Kaombe Community Farm Trust in collaboration with the local community, which sells sugar cane to Illovo's Nchalo mill with profits invested in local demand-driven community projects.
Supported the government's strategy to help reduce infant and maternal mortality by fortifying all sugar for domestic consumption with Vitamin A (under government legislation).
Self-generated 19% of its energy from renewable biomass sources.

#### Illovo in Malawi:

- **Illovo Sugar Malawi is the country's only sugar producer and miller. The company is the country's largest single private-sector employer and largest taxpayer.** Sugar is Malawi's third-largest agricultural industry and third largest agricultural export commodity after tobacco and tea.
- Illovo Group holds a 76% stake in Illovo Sugar Malawi. The company is listed on the Malawi Stock Exchange, with the remaining shares held by a variety of institutional and private investors. Illovo operates two sugar estates in Malawi: 13,300 ha at Dwangwa, in central Malawi, and 20,925 ha at Nchalo, in the south.
- Malawi is classified as one of the world's Least Developed Countries, ranking 170 out of 186 on the UN Human Development Index. Inflation of over 20% and low GDP per capita result in extremely high poverty levels, particularly in rural areas.

#### Contributing to Malawi's economy:

- **Illovo Sugar Malawi contributed an estimated ZAR 3 billion to Malawi's economy in 2012/13, including direct, indirect and induced impacts.** This is equivalent to about 10% of Malawi's GDP, or about 35% of the country's agricultural sector. Illovo Sugar Malawi'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 Malawi.** Illovo Sugar Malawi directly added ZAR 1.1 billion of gross value to Malawi's economy. 20% of the company's total value added went to employees as salaries, wages and benefits. In 2012/13, ZAR 159 million or 9% of revenues were paid to outgrowers.
- **Illovo Sugar Malawi is the country's single largest private sector employer** directly employing 11,552 people in Malawi and further supporting an estimated 3,434 workers through outgrowers, and further estimated indirect and induced employment of between 2,997 and 12,888. In other words, **for every direct employee of Illovo Sugar between 0.6 and 1.4 workers are supported in the wider economy.** Based on an

average household size of 4.6, **Illovo Sugar is estimated to support the livelihoods of between 82,722 and 128,220 people throughout Malawi** (inclusive of dependents).

- **The company paid over ZAR 254 million in tax during 2012/13 making it the single biggest taxpayer in the country.** Its direct and indirect tax payments amount to about 3.5% of the government's total tax revenues and are equivalent to nearly 90% of the Malawian Government's total spending on roads, or nearly double the amount spent buying maize for hunger reduction. The Malawi Revenue Authority (MRA) regularly commends the company for complying with all relevant taxes, and making payments voluntarily and on time.
- **In 2013/14 the company is embarking on a significant upgrade of its packing facilities,** which will enable it to expand production of speciality sugars for export to Europe and the USA. These investments demonstrate a long-term commitment by the company to Malawi, helping to secure jobs for the future.

#### **Investing in employees**

- **Illovo Sugar Malawi spent ZAR 251 million (14% of total revenues) 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. Food allowances are also provided for seasonal agricultural workers.
- **The company is building future capacity through its strong training and development at all levels of the organisation.** Illovo Malawi spent over ZAR 6 million on training and up-skilling its workforce in 2012/13. The company actively promotes the employment and development of local talent through apprenticeships and its management development programmes. In 2012/13, 57% of the senior management were citizens of Malawi.
- **Illovo Sugar follows best practice international standards when it comes to health and safety.** All of Illovo's cane-growing and factory operations in Malawi 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**

- Illovo Sugar Malawi spent ZAR 159 million (9% of its total revenues) procuring sugar cane from farmers local to its estate. The vast majority (90%) of this outsourced cane comes from local smallholders, 1,888 of which currently supply the company. This represents **a significant support to the livelihoods of small, rural farmers, their families, and local communities.**

- In addition, Illovo Sugar Malawi spent ZAR 1,136 million with non-cane suppliers in 2012/13, about 30% of which was with companies in Malawi. The company also estimates it purchases from around 270 small businesses.
- **The company is a strong supporter of smallholder schemes.** It assisted the Kasinthula and Lakeshore Cane Growers Associations in achieving Fairtrade certification, helping to improve the farmers' standard of living as well as ensuring internationally recognised standards through regular audits. It has been pivotal in the success of the Nchalo Business Linkages Project, which has established a community trust farm employing 159 households and providing benefits to the wider community.
- **Illovo Malawi takes a proactive approach to eliminating child labour within its operations and supply chain.** At a National Child Labour conference, the Malawi government commended the company's efforts to empower children and eliminate child labour.

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

- **Illovo Sugar Malawi spent ZAR 45 million on social investment in the community in 2012/13.** It supports around 8 community schools on its estates which are attended by more than 13,000 pupils. It provides access to healthcare for its local communities, at a nominal fee, through the 12 clinics located on its estates as well supporting local government hospitals. Illovo Sugar grows maize on its estates to help address severe food shortages. It distributed about 370 tonnes of maize to 5,000 local households as well as a number of hospitals and orphanages.
- **Illovo Sugar is partnering with government, NGOs and other community organisations to address development issues facing communities in Malawi.** It has fortified all sugar for direct consumption within Malawi with vitamin A, as part of an initiative run with the government, UNICEF and other donor agencies. It has convened donors and NGOs to identify opportunities to work together for greater impact.
- **Illovo Sugar Malawi has maintained biodiversity corridors throughout its sugar estates.** The company owns and maintains the 350-hectare Nyala Park Reserve. In 2012/13, Illovo Malawi generated 19% of the electricity that it used on-site using bagasse, a renewable by-product of the cane-crushing process.

#### Future considerations based on observations from site visit

It is evident that Illovo Sugar Malawi has significant positive impacts in the communities 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, there is a more detailed management presentation outlining key observations and recommendations for Illovo at the group-level.

### Local enterprise development

- Illovo Sugar Malawi has taken some steps to promote local enterprise development, for example outsourcing services such as cane-cutting, transport and maintenance. 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 Illovo Sugar could have an even greater impact by focusing on specific aspects of local sourcing and enterprise development. The company should:
  - **Identify opportunities across the value chain** – engage directly with local suppliers to understand their key challenges and where Illovo could have greatest impact.
  - **Define Illovo Sugar’s role** – identify core activities to build capacity. From our observations we believe there is an opportunity to support with capacity building of local suppliers i) providing mentoring, education 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 further 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 Illovo is having.

### Community investment - measurement

- Illovo Sugar Malawi has a long history of social investment in the community and it is clear its activities are having an impact. While there was some data on outputs (numbers of people reached/benefitting from a program or investment) there was limited information on the impact of this investment. A greater focus on measuring the impact of social investment will help Illovo with:
  - **Management** – promoting better understanding and management of programmes.
  - **Strategy** - informing forward planning, helping to select appropriate partnerships and directing funds to where they make the most difference.
  - **Communication** - providing the material necessary to build a compelling narrative about what Illovo does, why and what difference it makes.

### Gender

- Women’s participation is increasingly important for the development agenda and NGOs, as evidence suggests economically active women help build stronger communities. We are aware of some good examples of female 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 Malawi, as well as its indirect and wider impacts through its value chain (outgrowers, suppliers and customers).

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

## Methodological note

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

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

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

## Section 1: Sugar in Malawi

### Headline messages:

- Malawi is classified by the UN as a Least Developed Country, ranking 170 out of 186 on the UN Human Development Index.
- Increased agricultural output and manufacturing drove economic growth of 1.9% in 2012, however inflation is currently over 20% and low GDP per capita results in extremely high poverty levels.
- Agriculture accounts for 30% of Malawi's GDP and 90% of export revenues. Sugar is the country's third largest agricultural export commodity after tobacco and tea, valued at \$61 million USD.<sup>1</sup>
- Illovo Sugar (Malawi) is the country's only sugar producer and miller, accounting for 100% of production in the third largest agricultural industry after tobacco and tea. The company is the largest single private-sector employer in country and the largest taxpayer.

### Malawi's economic structure

Malawi is ranked 170 out of 186 on the 2012 UN Human Development Index and is classified as a Least Developed Country.

#### Economic outlook

Malawi's economy grew by 1.9% in 2012. The country's GDP has grown annually since 2002. However, perpetually high inflation (currently over 20%), and low GDP per capita result in extremely high poverty levels. Malawi relies heavily on foreign investment from the IMF, World Bank and donor countries.

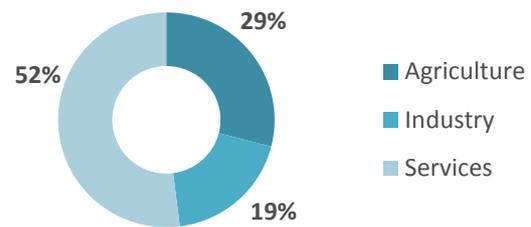
Agriculture is a key component of the

Malawi Country Data <sup>2</sup>	
<b>Economic Indicators (2012 est.)</b>	
GDP (purchasing power parity)	\$14.5 billion
GDP per capita	\$900
Annual GDP growth rate	1.9 %
Annual inflation rate	21.4 %
<b>Labour Market Indicators</b>	
Population	16.8 million
Labour Force	5.7 million (2007)
By occupation	Agriculture 90% Industry and Services 10% (2003 est.)
Population location	Rural 84% Urban 16% (2011)
Unemployment	NA %
<b>Poverty Indicators</b>	
Population living at or below \$2 per day (PPP)	82% (2010)
Adult literacy rate	56%
Life expectancy at birth	52 years (2013 est.)

<sup>1</sup> [Natural Resources Institute \(2010\) Longitudinal Impact Assessment Study of Sugar Producers in Malawi](#)

<sup>2</sup> CIA (2013) *World FactBook: Malawi*

GDP breakdown by sector



economy and accounts for nearly 30% of GDP and 90% of export revenue. Sugar is the country's third largest agricultural export commodity after tobacco and tea, valued at \$61 million USD.<sup>3</sup>

The vast majority of Malawi's population (85%) lives in rural areas where unskilled agricultural work is the main source of income. The average adult stays in education for only 4.2 years<sup>4</sup> and Malawi could soon face a labour skills shortage.

### Development challenges

Approximately 85% of the population lives in rural areas and rural poverty rates are estimated at 56%. Approximately 20% of the rural population have no access to an improved drinking water source and 49% have no access to improved sanitation.<sup>5</sup> Irrigation is limited and the restriction of rainfall to a single season puts subsistence farmers at risk of food shortages. 9.5% of the population is estimated to be at risk of severe food insecurity.<sup>6</sup>

Over-cultivation and poor farming practices, mainly by subsistence farmers, have led to the degradation of much of Malawi's agricultural land, with soil erosion and river pollution further reducing agricultural productivity.

### Illovo in Malawi

Illovo operates in Malawi through its subsidiary, Illovo Sugar (Malawi) Limited, in which it holds a 76% stake. The company is listed on the Malawi Stock Exchange, with the remaining shares held by a variety of institutional and private investors.

Illovo Sugar Malawi is Malawi's only sugar producer and miller, the largest single private-sector employer in country, and the largest taxpayer. The company produced about 300,000 tonnes of sugar in 2012/13 and is one of the world's lowest-cost sugar producers. It has two sugar estates: one at Dwangwa, in central Malawi, and one at Nchalo, in the south. The company also operates five distribution centres for sugar sales throughout Malawi.

Over half of the company's total sugar production is sold within Malawi. The remainder is shipped to regional markets in Africa or exported to the EU under the Everything But Arms Arrangement, which allows least development countries to have duty-free, quota-free access to the EU markets.

<sup>3</sup> [Natural Resources Institute \(2010\) Longitudinal Impact Assessment Study of Sugar Producers in Malawi](#)

<sup>4</sup> [UNDP \(2013\) International Human Development Indicators: Malawi](#)

<sup>5</sup> CIA (2013) *World FactBook: Malawi*

<sup>6</sup> WorldBank (2013) *Country Overview: Malawi*

The EU has invested over 11 million euros from 2011-2013 in the Malawian sugar industry aiming to support small growers, to improve farmer livelihoods and the sustainability of the industry.

## Section 2: Supporting economic growth

### Headline messages:

- Illovo Sugar Malawi contributed an estimated ZAR 3,144 million to Malawi's economy in 2012/13, including direct, indirect and induced impacts. This is equivalent to about 10% of Malawi's GDP, or about 35% of the country's agricultural sector.
- Illovo Sugar Malawi directly employs 11,552 people in Malawi, supports an estimated 3,434 workers through outgrowers, and supports further estimated indirect and induced employment of between 2,997 and 12,888. In other words, for every direct employee of Illovo Sugar Malawi, between 0.6 and 1.4 workers are supported in the wider economy.
- Illovo Sugar Malawi is the single biggest taxpayer in Malawi, and has received awards for being the country's "number one compliant taxpayer". In 2012/13, Illovo Sugar Malawi's direct and indirect tax payments amounted to about 3.5% of the government's total tax revenues. This is equivalent to nearly 90% of the Malawian Government's total spending on roads, or nearly double the amount spent buying maize for hunger reduction.

Illovo Sugar Malawi adds value to the economy of Malawi by taking raw sugar cane, milling it, and producing raw and refined sugar. The company's impacts on its region and the wider economy take three major forms:

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

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

In order to estimate Illovo Sugar Malawi'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. Sugar provides opportunities to sectors such as transport, retailing and hospitality, as well as food processing and beverage companies and suppliers of fertiliser, fuel and manufacturing equipment.

## Total economic impacts

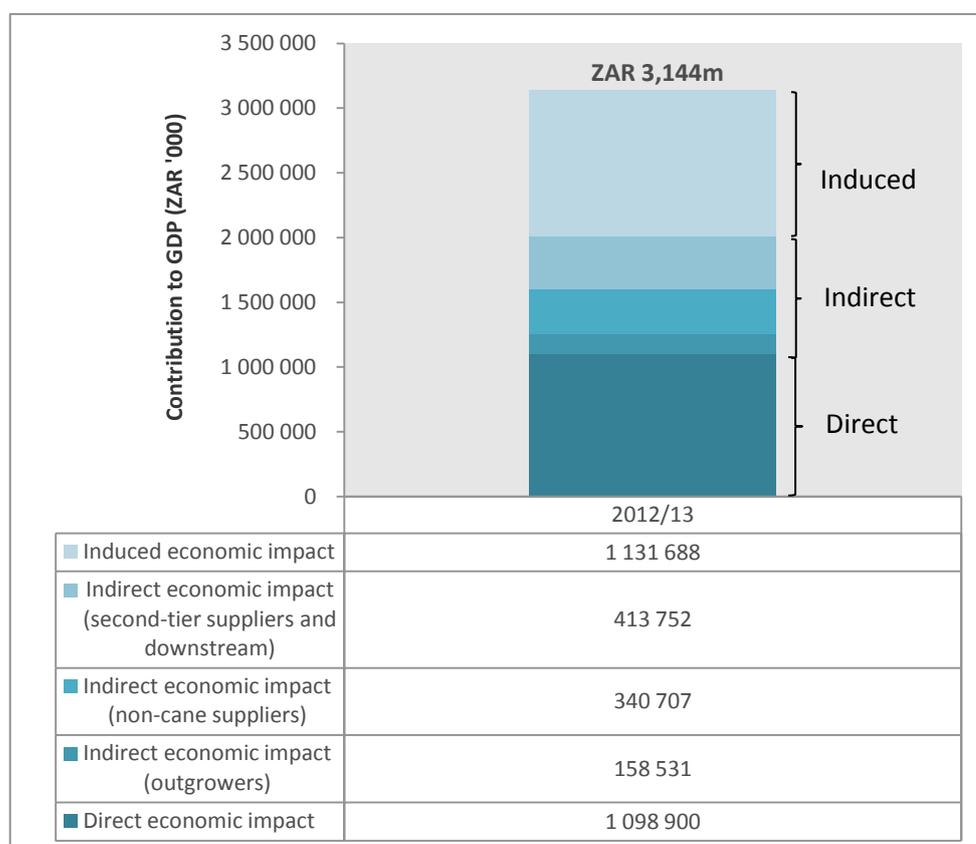
Illovo Sugar Malawi's direct contribution to Malawi's economy, measured in gross value-added (the difference between revenues and input costs), was ZAR 1,099 million in 2012/13. The company's additional indirect impacts are estimated at ZAR 913 million<sup>7</sup>, and its induced impacts at ZAR 1,132 million.

Illovo Sugar Malawi's total contribution to Malawi's economy, including direct, indirect and induced impacts, is therefore estimated at ZAR 3,144 million, equivalent to about 10% of Malawi's GDP, or about 35% of the country's agricultural sector<sup>89</sup>.

<sup>7</sup> Including spending with outgrower farmers of ZAR 159 million and non-cane procurement spending in Malawi of ZAR 341 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>8</sup> [IMF World Economic Outlook Database](#), Malawi gross domestic product, current prices, 2012

<sup>9</sup> [CIA World Factbook for Malawi](#), GDP - composition, by sector of origin

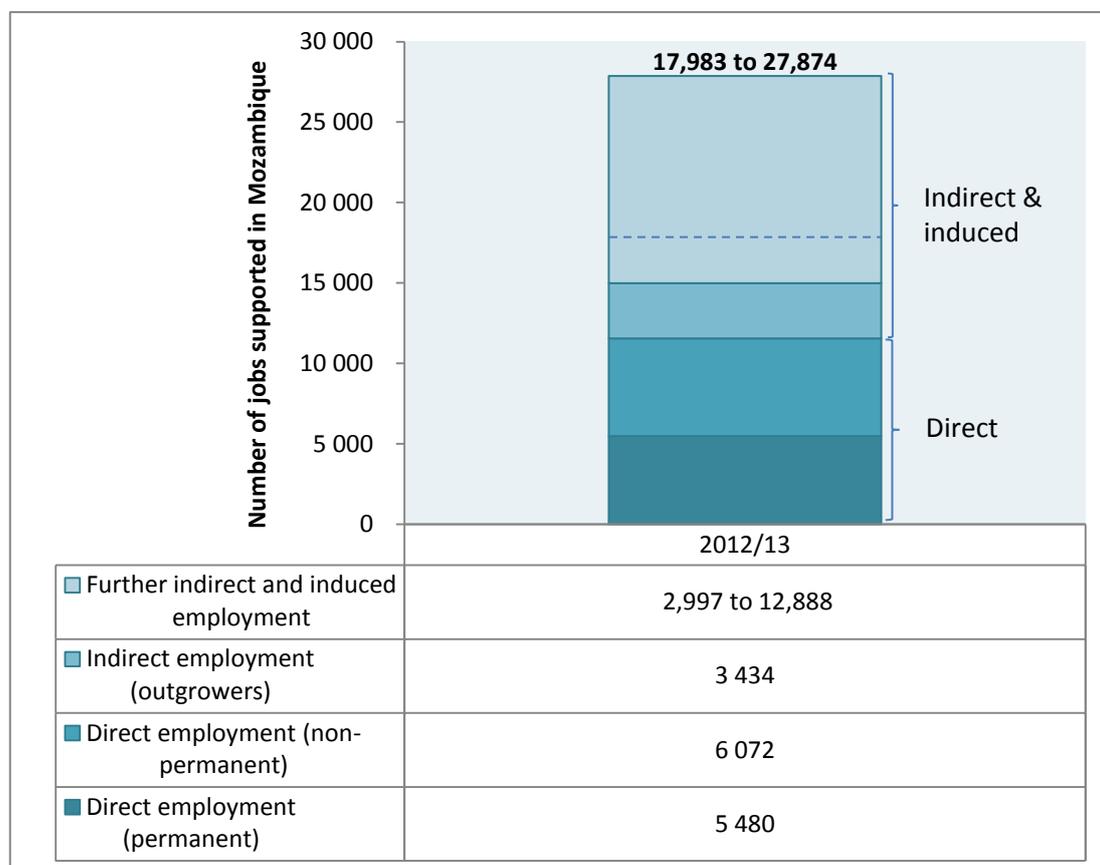
**Illovo Sugar Malawi: Total economic impacts in Malawi (estimated), 2012/13****Contribution to employment**

Illovo Sugar Malawi is estimated to support between 17,983 and 27,874 jobs in Malawi. This includes direct employment of 11,552<sup>10</sup>, an estimated 3,434 workers supported through outgrower farms, and further estimated indirect and induced employment of between 2,997 and 12,888<sup>11</sup>. In other words, for every direct employee of Illovo Sugar Malawi, between 0.6 and 1.4 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 Illovo Sugar Malawi's total employment impact, since some informal employment may not be accounted for.

Illovo Sugar Malawi's impact on livelihoods extends beyond workers themselves. The average household size in rural Malawi is 4.6 and it is likely that most households in rural areas have only one wage-earner. Illovo Sugar Malawi is therefore estimated to support the livelihoods of between 82,722 and 128,220 people throughout Malawi, equivalent to up to 10 people for every direct employee of the company.

<sup>10</sup> 5,480 permanent employees, plus 6,072 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.

<sup>11</sup> See Appendix 1 for an explanation of the multipliers used.

**Illovo Sugar Malawi: Total employment impacts in Malawi (estimated), 2012/13****Distributing wealth**

Illovo Sugar Malawi is a successful and growing business that benefits many stakeholders within Malawi. In 2012/13, the company's gross revenues were ZAR 1,830 million, a significant increase over the previous two years that has resulted from growth in exports. Pre-tax profits also increased substantially, from ZAR 539 million in 2011/12 to ZAR 869 million in 2012/13. The high profitability of the business means that while Illovo Sugar Malawi accounts for 17% of the Illovo Group's total sugar production, it accounts for about 53% of total profits.

**Illovo Sugar Malawi wealth creation, 2012/13**

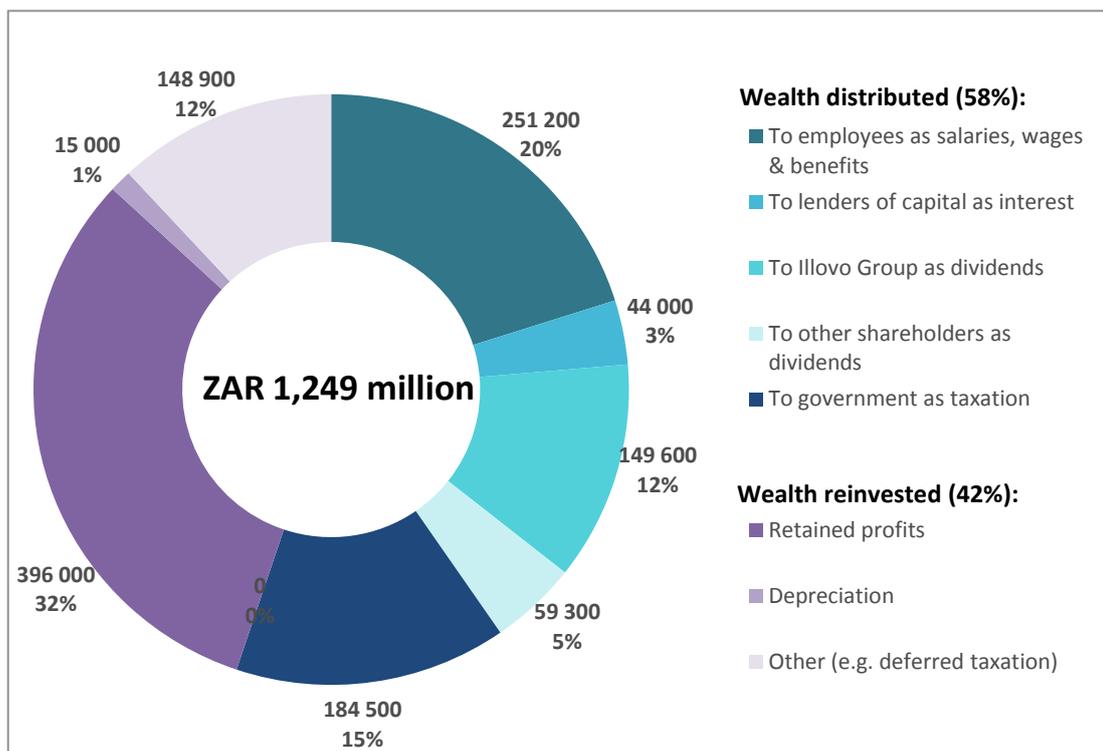
Revenue	ZAR 1,830 million	
Dividend income	ZAR 0.7 million	
Paid to outgrower farmers	(ZAR 159 million)	9%
Manufacturing costs	(ZAR 424 million)	23%
<b>Total value-added</b>	<b>ZAR 1,249 million</b>	<b>68%</b>

The majority of Illovo Sugar Malawi’s value-added total of ZAR 1,249 million is distributed to its stakeholders, with some retained by the business for reinvestment. In 2012/13, 55% of value added was distributed to employees, providers of capital and the government and 45% reinvested in the business.

Dividends to Illovo Group account for about 12% of gross value-added. The remaining dividends go to private external shareholders, many within Malawi. After dividends to Illovo Group are subtracted, this leaves a total direct value-added contribution to Malawi’s GDP of about ZAR 1,099 million.

Amongst Illovo Sugar Malawi’s input costs, 9% of the company’s revenues went to outgrower farmers. The company spends less with outgrower farmers than other Illovo Group businesses, however the money that it does spend has a significant impact on the livelihoods of poor, rural smallholders.

**Distribution of Illovo Sugar Malawi value-added, 2012/13**



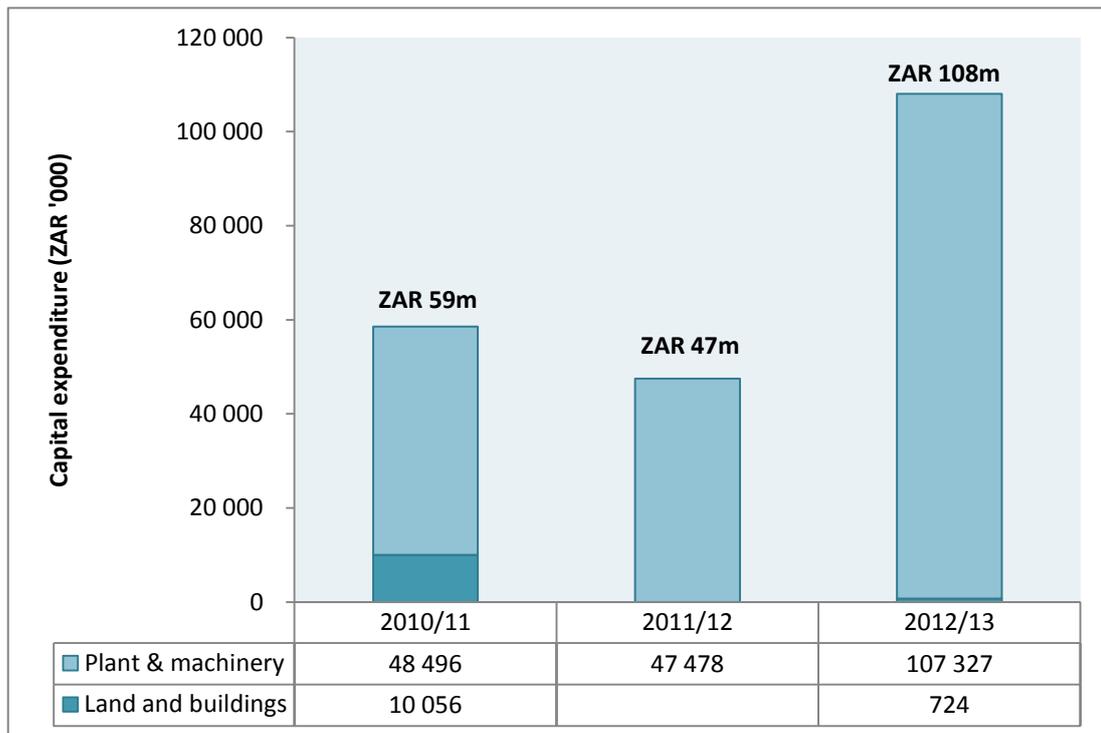
**Investing in the future**

Illovo Sugar Malawi’s presence in Nchalo and Dwangwa has a significant impact on their local economies. The rapid development of the estates has made them “islands of prosperity” and attracted large amounts of migration. The disparity in incomes between the estates and their surrounding areas is a motivating factor for Illovo Sugar Malawi’s smallholder initiatives and community investments.

In 2013/14 the company is embarking on a significant upgrade of its packing facilities, compliant with the ISO 22000 food management and ISO 9001 quality management standards, in order to expand its exports of speciality sugars to Europe. However, Illovo Sugar Malawi has no plans to increase its production capacity. This is due to its already significant size, both in terms of its contribution to Illovo Group profits and in terms of its dominance of the Malawian sugar industry and wider economy.

In 2012/13, Illovo Sugar Malawi's capital expenditure totalled over ZAR 108 million – over double that of the previous year. This consisted mainly of spending on plant and machinery. In 2012, the company introduced a new “Continuous Improvement” programme, focused on technical and process improvements, and the development of skills. Investments in 2012/13 included new centrifugal machines and juice heaters, new equipment for handling effluent, and improvements to dams, drains and irrigation.

### Illovo Sugar Malawi capital expenditure, 2011-13



### Contributing to public finances

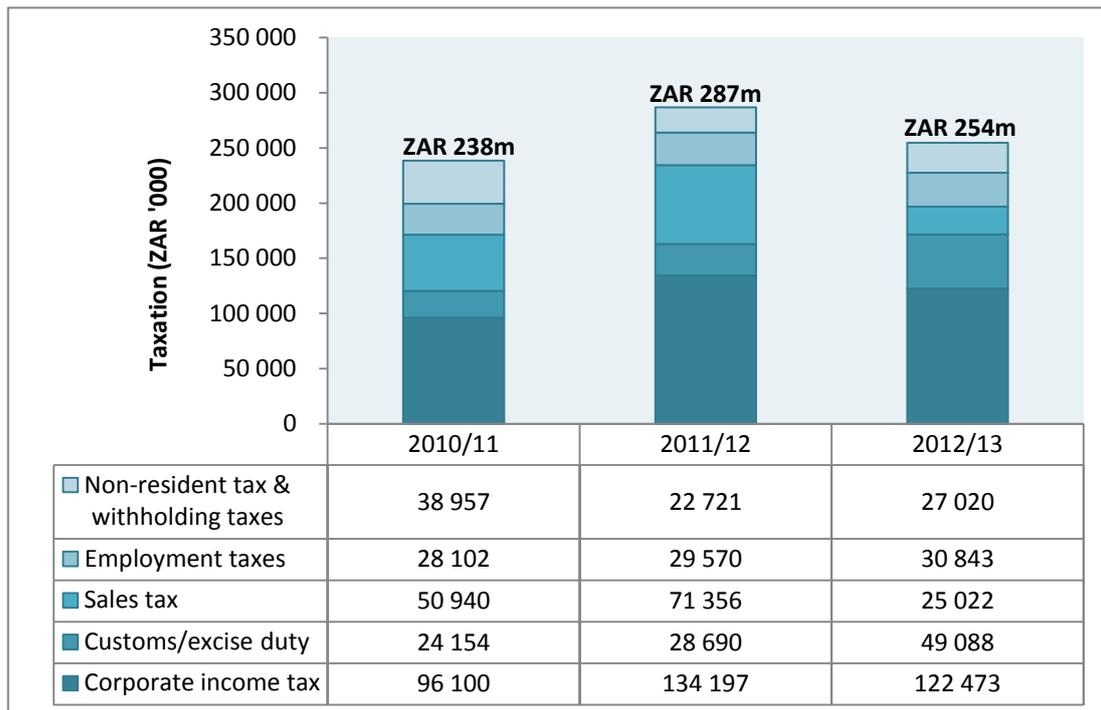
Illovo Sugar Malawi is the single biggest taxpayer in Malawi, with total direct and indirect tax payments in 2012/13 of over ZAR 254 million. Corporate income tax amounted to almost half of this, at ZAR 122 million (14% of pre-tax profit), with the remaining tax payments through indirect taxes, including duty, employee taxes and withholding taxes on dividends.

In 2012/13, Illovo Sugar Malawi's direct and indirect tax payments amounted to about 3.5% of the government's total tax revenues. This is equivalent to nearly 90% of the Malawian

Government's total spending on roads, or nearly double the amount it spends buying maize to reduce hunger<sup>12</sup>.

Illovo Sugar Malawi is regularly commended by the Malawi Revenue Authority (MRA) for complying with all relevant taxes, and making payments voluntarily and on time. It has received awards for being the country's "number one compliant taxpayer". The company's tax payments are often presented to the MRA at a ceremony attended by the Malawian press.

### Illovo Sugar Malawi taxation, 2011-13



## Trade challenges

The devaluation and flotation of Malawi's currency, the Kwacha, in May 2012 has created challenges for Illovo Sugar Malawi. The devaluation increased the price of inputs, particularly electricity, fuel and maintenance materials, and put pressure on export revenues. The company has increased its prices, and has also raised wages on several occasions to help employees cope with inflation. Improved exports have helped the company to maintain its profit margins.

In 2013, the Kwacha appreciated somewhat in dollar terms, enabling the company to reduce prices. The company states that it does not abuse its monopoly position, and prices for its sugar are in fact lower than those in neighbouring countries.

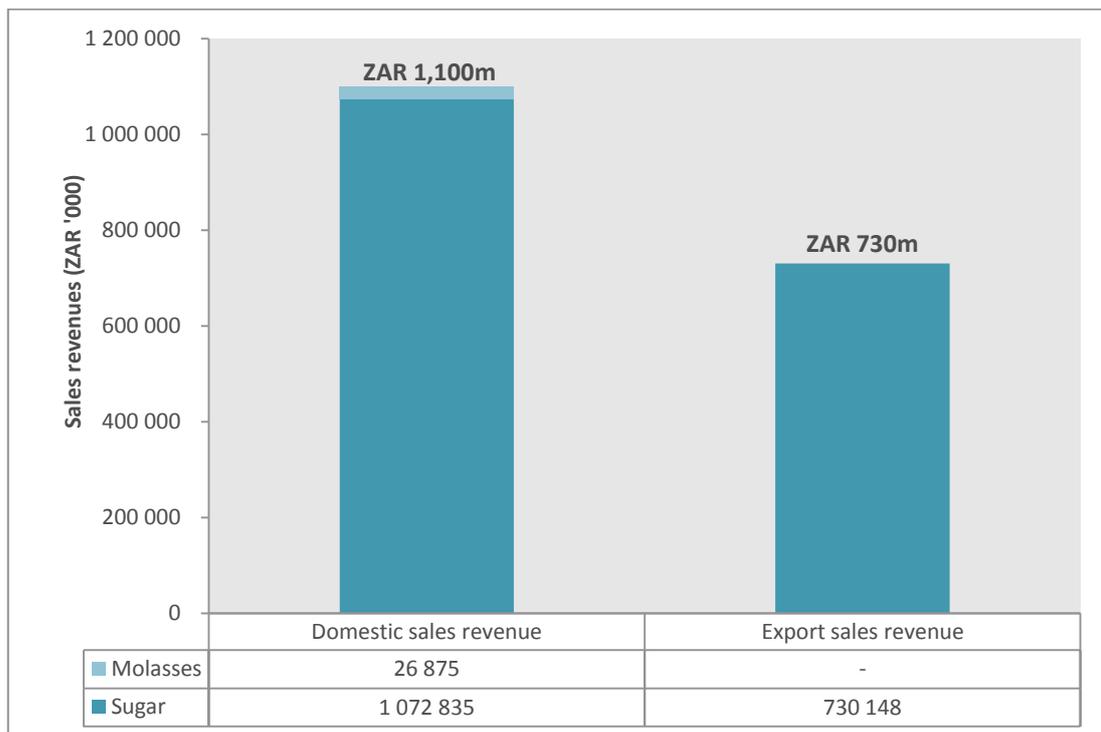
<sup>12</sup> Ministry of Finance, *Draft 2013/14 Financial Statement*

Sales of sugar into domestic markets benefit local consumers and help reduce the country's dependence on imports. Meanwhile, Illovo Sugar Malawi's exports increase flows of foreign revenues into the country.

About 60% of Illovo Sugar Malawi's sales are within Malawi, both directly to consumers and to industrial customers. In total, domestic sales revenues from sugar and syrup were ZAR 1,100 million in 2012/13.

The remaining 40% of sales revenues (ZAR 730 million) were from exports of sugar. Much of this (25% of total sales revenues) was through exports to the EU, where trade agreements give access to sugar markets on preferential terms. Comparing export revenues with Illovo Sugar Malawi's imports of about ZAR 793 million and remitted profits of about ZAR 460 million shows that Illovo Sugar Malawi had an overall moderately negative impact on Malawi's balance of payments, mainly due to the relatively large amount of non-cane procurement which comes from overseas.

#### Illovo Sugar Malawi domestic and export sales revenues, 2012/13



## Section 3: Creating jobs and supporting livelihoods

### Headline messages:

- In 2012/13, Illovo Sugar Malawi directly employed 11,552 workers. Through this direct employment, the company supports the livelihoods of over 53,000 people (including dependents based on average household sizes).
- The company spent close to ZAR 251 million on employee remuneration and benefits in 2012/13. All employees, including agricultural and factory workers, earn above the national minimum wage, and receive enough money to support themselves above the World Bank's poverty line of \$2 per day (PPP).
- Illovo Sugar Malawi takes a proactive strategy to eliminate child labour within its operations and wider value chain. At a National Child Labour conference, the Malawi government commended the company's efforts to empower children and eliminate child labour.
- The company operates 12 of its own clinics on its estates, which are fully staffed with qualified health personnel, including 2 medical doctors. Furthermore, in the fight against HIV/AIDS, Illovo Sugar Malawi provided almost 7 000 employees and their dependents with voluntary counselling and testing.
- Gender diversity remains a challenge for Illovo Sugar Malawi and an area where the company hopes to make further progress. The company currently has approximately 8% female representation.
- Illovo Sugar Malawi spent over ZAR 6 million on training and up-skilling its workforce in 2012/13. The company is also looking to further develop and utilise local talent, and well over half the company's senior management are local citizens.

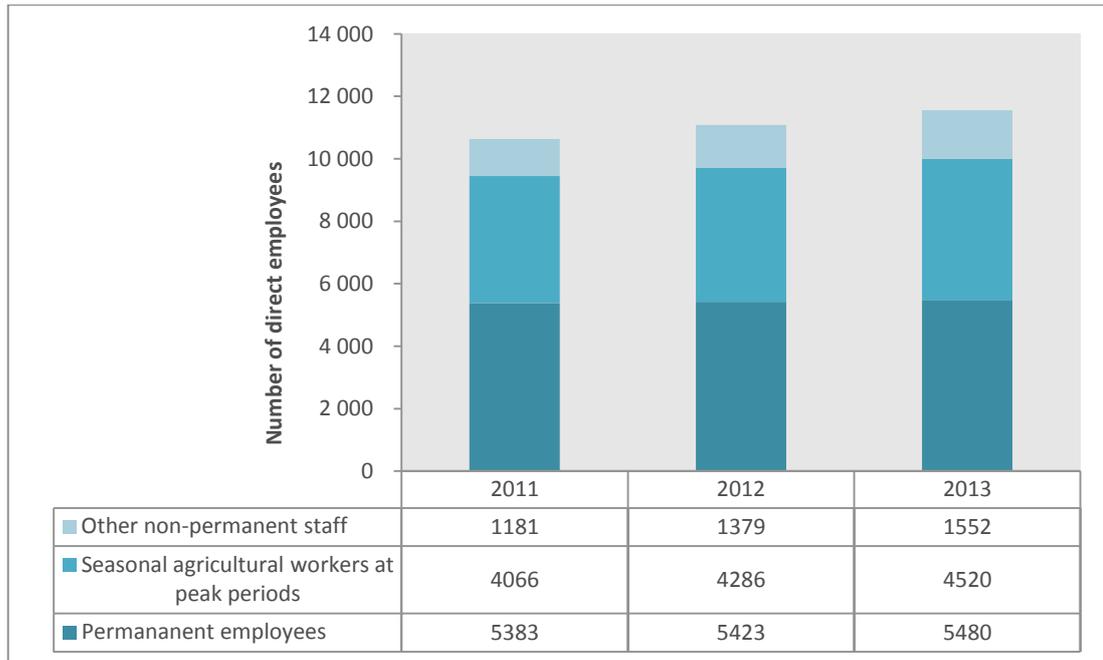
### Direct employment overview

Agriculture is the main source of employment in Malawi, accounting for approximately 90% of the labour force. As the country's only sugar producer and processor, creating direct and indirect employment opportunities is one of the most significant ways in which Illovo Sugar Malawi impacts peoples' livelihoods in the country.

Illovo Sugar Malawi employs a total of 11,552 people. This is made up of 5,480 permanent employees, 4,520 seasonal agricultural workers at peak, and 1,552 other non-permanent/fixed contract employees<sup>13</sup>.

Illovo Sugar Malawi’s employee numbers have increased by around 8% in three years. Employee turnover at the company was 4.9% in 2012/13, up from 4.5% the previous year<sup>14</sup>.

**Illovo Sugar Malawi’s direct employment, 2011-13**



In Malawi, almost 45% of the population is aged 0 to 14 years and dependent on family members to provide for them<sup>15</sup>. Many families have only one wage-earner, and based on the average rural household size of 4.6, we estimate that Illovo Sugar Malawi supports the livelihoods of 53,139 people through its direct employment.

**Extended impact of direct employment**



Direct employment represents only one aspect of Illovo Sugar Malawi’s support for livelihoods. The company also indirectly

<sup>13</sup> Employment figures may differ from those reported in the Illovo Integrated Report due to timing differences in when headcount data has been provided.

<sup>14</sup> Data sourced from the Illovo Integrated Report, 2013.

<sup>15</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/mi.html>

supports livelihoods through jobs in the wider value chain.

Illovo Sugar Malawi provides both a stable source of income and access to benefits such as housing and healthcare. In 2012/13, the company paid a total of ZAR 251 million in wages and benefits.

In the financial year 2012/13, the lowest paid worker received a monthly salary of ZAR 644, substantially above the national minimum wage at ZAR 226 a month. Comparison of salaries year-on-year is difficult in Malawi, as in 2012 the government devalued the local currency (Kwacha) by 33%. In order to combat inflation Illovo Sugar Malawi raised employee salaries several times within the year.

All permanent and non-permanent employees of Illovo Sugar Malawi receive enough money to support themselves above the median poverty line for the developing world, which is defined by the World Bank at \$2 (PPP) per person a day. However, the income of the lowest paid worker becomes stretched if we assume that they are the sole earner of a typical household<sup>16</sup>. This does not take into account additional benefits such as the value of housing and healthcare. According to a 2010 study, 82% of Malawians live on or below US\$2 a day (PPP)<sup>17</sup>.

#### Illovo Sugar Malawi monthly wages, 2012/13



<sup>16</sup> The \$2 a day (PPP) has been calculated as ZAR 348 per person per month (2013 prices), or ZAR 1,549 per household per month (see Appendix 2 for further detail)

<sup>17</sup> <http://data.worldbank.org/indicator/SI.POV.2DAY/countries/MW?display=graph>

## Employee relations and human rights

Sugar cane harvesters, who work on a seasonal basis and may be without formal contracts, are some of the most vulnerable workers in Illovo Sugar Malawi's value chain. Trade unions provide collective bargaining power and a communication channels to make the voice of workers heard. In 2012/13, approximately 91% of Illovo Sugar Malawi's non-management employees were members of a trade union; this is down slightly from 92% in the previous year.

Illovo Sugar Malawi has a proactive strategy for eliminating child labour within its operations and wider value chain, and does not knowingly employ any child labour within its operations. A National Child Labour conference in 2012/13 commended the company's efforts to eliminate child labour, and recommended other industries in the Southern African region follow Illovo's best-practice on child labour interventions. Attendees at the conference included the International Labour Organisation (ILO), the Food and Agriculture Organization of the United Nations (FAO), together with representative government ministries and all agricultural players in Malawi.

## Additional benefits

The benefits provided by Illovo Sugar Malawi make an important contribution to employees' livelihoods. Accommodation is provided for both permanent and non-permanent employees at the company. And all employees, including seasonal workers, receive healthcare and medical aid. Healthcare is also made available to spouses and up to five other dependents for each worker. Education allowances are provided for up to four children for permanent employees. Funeral assistance is provided to both permanent and seasonal employees and includes cover for a spouse and up to seven dependants. Food allowances are also provided for seasonal agricultural workers.

### Illovo Sugar Malawi breakdown of spend on main benefits, 2013

Benefit	Spend (ZAR )'000	Employees covered
Accommodation	13,000	5751
Health Care	11,000	9178
Education	10,000	402

## Contributing to health and wellbeing

### Provision of health care and medical aid

With poor access to medical facilities in many rural areas, Illovo's provision of healthcare has a significant positive impact. The company operates 12 of its own clinics on its estates, which are fully staffed with qualified health personnel, including 2 medical doctors.

HIV/AIDS, represents an on-going challenge for Malawi, despite a recent decline in the infection rate. The company's HIV strategy aims to identify which employees are HIV negative and help them to stay that way, to ensure the ones that are HIV-positive receive suitable medical management programmes, and to reduce stigma and discrimination around HIV and AIDS. This approach is deliberately aligned with UNAIDS 'Triple Zero' strategy of zero infections, zero deaths and zero discrimination.

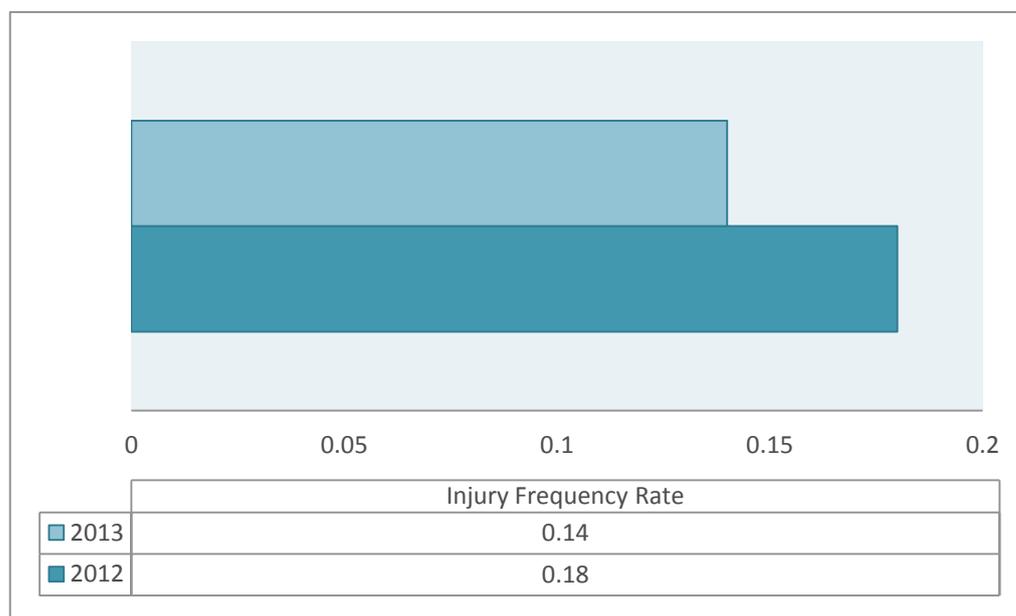
During the year almost 7,000 employees and their dependents attended HIV and AIDS voluntary counselling and testing.

### Occupational health and safety

Illovo follows best practice international standards when it comes to health and safety. All of Illovo's cane-growing and factory operations in Malawi have four-star accreditation under the NOSA Integrated Five-star System covering safety, health and environmental management.

The company spent ZAR 1 million on safety related training in 2012/13, which included activities such as a group risk management conference, Safety, Health and Environment (SHE) representative training, fire team member training and first aid amongst others. As a result of these efforts, the company's disabling injury frequency rate has dropped from 0.18 in 2011/12 to 0.14 in 2012/13. Illovo Sugar Malawi experienced one fatality in November 2012, the first for several years.

### Illovo Sugar Malawi Injury Frequency Rate, 2011-13



### Improving diversity

Although diversity within the workplace and amongst senior management is a group-wide priority for Illovo, the number of women working in agriculture remains a challenge. The sugar industry traditionally has a strong gender bias with women facing barriers to accessing land and credit, earning income and developing skills.

Illovo Sugar Malawi employs a total of 896 women, including two female senior managers. This total equates to approximately 8% of the workforce. It is made up of 231 women in permanent positions and 665 in temporary or seasonal work.

#### Illovo Sugar Malawi workforce profile, 2012/13:

Position	Male:	Female:	Percentage female:
Senior Management	42	2	5%
Management	202	27	12%
Skilled	751	107	12%
Other	4254	95	2%
Seasonal agricultural workers	4304	216	5%
Other non-permanent staff	1103	449	29%

## Developing skills and talent

The availability of skilled labour is a key issue in Malawi, with a particular skills gap in engineering. Employee development is part of Illovo Sugar Malawi's strategy for ensuring the growth and sustainability of its business. The company spends roughly ZAR 6 million each year on training and up-skilling its workforce, which provides approximately 7 days of training per employee.

Illovo Sugar Malawi provided 41 apprenticeships for artisans in 2012/13, and as in previous years many of these will go on to be employed by the company. Illovo Sugar Malawi also provides management and leadership development training, with 25 employees participating in manager-in-training in 2012/13.

The company actively promotes the employment and development of local talent. In 2012/13, 57% of the senior management were citizens of Malawi, this is down slightly from 59% in the previous financial year.

The company operates two main categories of management and leadership development programmes, one category focuses on management development for trainees recruited as recent graduates (from the University of Malawi), and the other category is aimed at continuously enhancing the competencies and career advancement opportunities of existing managers.

The following data, provided by Illovo Sugar Malawi, demonstrates the success of its programmes which started in 1998, soon after Illovo acquired the company in 1997.

	<b>Status just before Illovo take over in 1997</b>	<b>Status in 2013</b>
1	Expatriates constituted 49% of the entire management staff at Dwangwa and Nchalo estates	Expatriate constitutes 7%
2	57 Malawians at Front Line Management level	158 Malawians at Front Line Management Level
3	18 Malawians at Middle Management level	71 Malawians at Middle Management Level
4	7 Malawians at Senior Management level	24 Malawians at Senior Management Level

## Section 4: Value chain impact – suppliers

### Headline messages:

- In 2012/13, Illovo Sugar Malawi spent ZAR 159 million (9% of total revenues) procuring sugar cane from farmers local to its estate. 90% of Illovo Sugar Malawi's outsourced cane is supplied by 1,888 smallholder farms.
- In addition, Illovo Sugar Malawi spent ZAR 1,136 million with non-cane suppliers in 2012/13, about 30% of which was with companies in Malawi.
- Illovo Sugar Malawi has funded a range of initiatives aimed at improving the capacity of local farmers to supply cane to the company, including the Nchalo Business Linkages Project, which has established a community trust farm employing 159 households and providing benefits to the wider community.

### Illovo Sugar Malawi's supply chain

Illovo Sugar Malawi buys 14.6% of its sugar cane (about 359,000 tonnes) from independent outgrower farmers, by far the lowest proportion within Illovo Group. The remaining 85.4% of cane is grown on company land. Illovo Sugar Malawi spent ZAR 156 million with local outgrowers in 2012/13, buying 358,733 tonnes of cane.

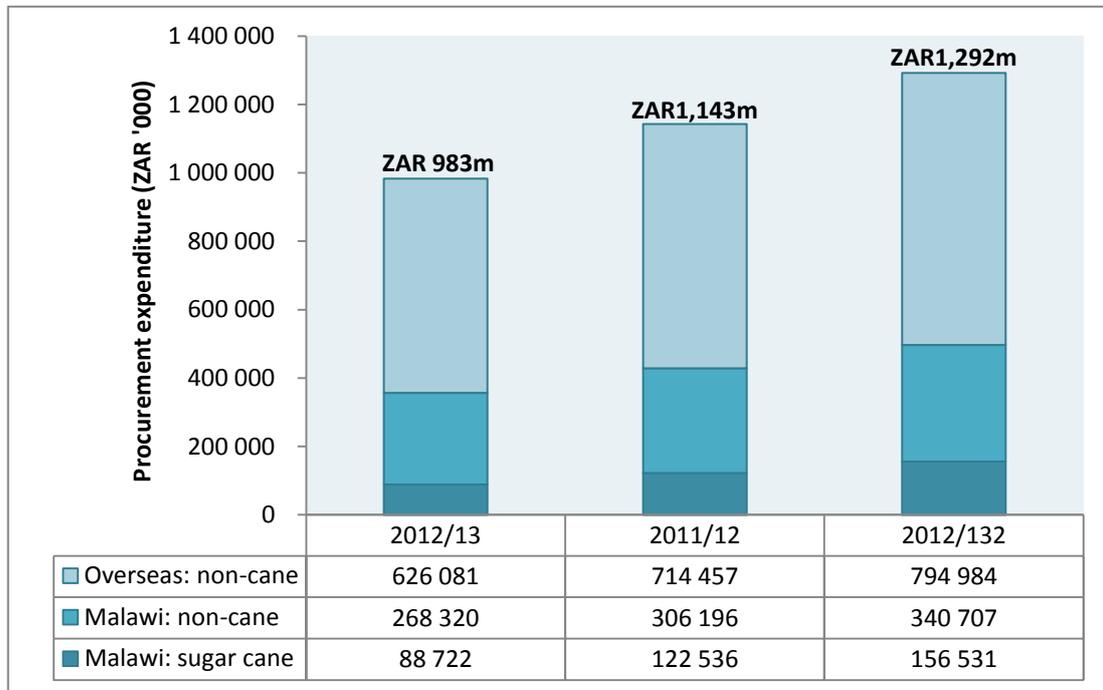
The company's relatively low spend with outgrower farmers is due partly to the lack of a broader sugar industry supporting larger farms, and partly due to the challenges of the climate in the south of the country and the need for irrigation. However, Illovo Malawi is seeking to increase the amount of cane that it buys from outgrowers.

Illovo Sugar Malawi's outsourced cane is supplied almost exclusively by 1,888 smallholder farms, many of them members of larger associations, including the Dwangwa Cane Growers Trust, Shire Valley Cane Growers Trust, Kasinthula Cane Growers Association and Lakeshore Cane Growers Association. In total, smallholder farms supply over 90% of Illovo Sugar Malawi's outgrower cane.

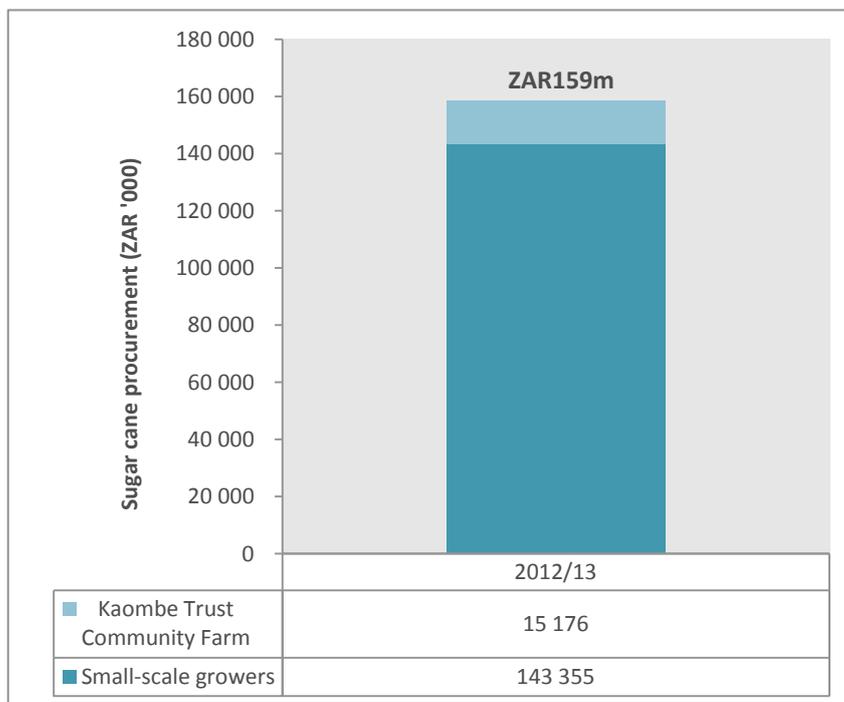
Initiatives such as the Nchalo Business Linkages Project, which supplies the remaining 10% of Illovo Sugar Malawi's cane, have a key role to play in the development of the supply chain. The Project is a donor-funded initiative, with matching contributions from the company, which has established a pivot-irrigated Community Trust Farm in Kaombe, near Illovo's Nchalo estate. The farm involves 159 households, and saw its first commercial harvest in 2012, achieving extremely good yields.

In addition to buying cane, Illovo Sugar Malawi spent ZAR 1,136 million on non-cane procurement in 2012/13, about 30% of which went to a total of 30 companies in Malawi.

**Illovo Sugar Malawi procurement spending, 2012/13**



**Illovo Sugar Malawi: Sugar cane procurement by size of outgrower farmer, 2012/13**



## Supporting employment in the supply chain

### Outgrower employment

Although Illovo Sugar Malawi sources a relatively small proportion of its sugar cane from outgrowers, the dominant role of smallholders within this supply chain creates a significant employment impact since small farms are generally more labour-intensive.

Illovo Sugar Malawi's indirect employment includes not only the 2,047 farmers from whom the company sources, but also the workers who perform tasks such as planting, fertilising, weeding and harvesting. 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 Illovo Sugar Malawi's own farms.

Taking agricultural employment on Illovo Sugar Malawi's own farms in 2012/13<sup>18</sup> and scaling this by the tonnage of sugar cane procured from independent outgrowers gives an employment estimate of 1,387<sup>19</sup>, and adding the 2,047 farm owners brings the total estimate of employment through independent outgrowers to 3,434.

The average household size in rural Malawi is 4.6, although the total number of dependents supported by rural farmers is likely to be higher. Illovo Sugar Malawi is therefore estimated to support the livelihoods of 15,797 people through its purchases from independent outgrowers in Malawi, although this figure may well be an underestimate.

### Further supply chain employment

Illovo Sugar Malawi's spending with non-cane suppliers in Malawi supports further indirect employment in the haulage, maintenance, and machinery sectors, with a total of 30 suppliers in Malawi.

## Combating rural poverty

Malawi is one of the world's poorest countries, with the majority of the poor living in rural areas<sup>20</sup>. More than 90 per cent of the rural population are smallholder farmers, mainly growing maize for subsistence. At times of floods or drought, severe food shortages are experienced<sup>21</sup>.

<sup>18</sup> 8,128 (3,608 permanent workers, plus 4,520 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.

<sup>19</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 Illovo Malawi. If other farms are more productive than Illovo's farms, then this figure will be an overestimate. However, this is unlikely given the farms' proximity to Illovo's own and the consequent likelihood of similar growing environments.

<sup>20</sup> <http://www.worldbank.org/en/country/Malawi/overview>

<sup>21</sup> <http://www.ruralpovertyportal.org/country/home/tags/Malawi>

By providing incomes and support to outgrowers, Illovo Sugar Malawi helps reduce rural poverty. Through its sourcing from small-scale growers and other initiatives, the company enables poor farmers to scale up their operations from subsistence levels.

Sugar is one of the best cash crops available to small farmers in Malawi. Outgrowers supplying Illovo Sugar Malawi occupy over 5,000 hectares of land, with about 94% of this used for sugar cane production. Illovo Sugar Malawi estimates that its outgrowers earn 99% of their incomes from selling sugar cane to the company, making food security a potentially significant issue. However, while sugar cane may replace food crops, especially for previously subsistence farmers, it can also have some positive impacts on food security. Income from sugar cane can be used to purchase food, and also to purchase fertiliser that supports greater yields and a greater range of food crops.

Recognising the extreme hardships faced by many people who live close to its estates, Illovo Sugar Malawi has made efforts to improve the food security and livelihoods of local people. Farmers often grow food crops in farms adjacent to cane and use the same water supply for irrigation, and Illovo provides some technical assistance with growing maize. In 2012/13, at the request of the President, Illovo began growing maize on both of its estates, in order to combat severe food shortages. Although yields were affected by thefts of immature maize from the fields, Illovo Sugar Malawi was able to distribute about 370 tonnes of maize to 5,000 households in the areas surrounding its estates, as well as a number of hospitals and orphanages.

The price paid to growers for their cane is determined by a cane supply agreement, with growers receiving 60% of divisible proceeds from sugar and molasses sales. Growers are paid based on the sucrose content of their cane, receiving on average ZAR 445 per tonne of cane in 2012/13.

Illovo Sugar Malawi undertakes to purchase all cane delivered by its registered outgrowers, but faces problems with unregistered outgrowers who try to deliver cane to the company out of contract. Illovo Sugar Malawi tries to discourage this. It is not always able to buy this “unauthorised” cane, since its factories operate at capacity.

## Promoting Fairtrade

Two of the largest smallholder associations supplying Illovo Sugar Malawi have attained Fairtrade certification. The Kasinthula Cane Growers Association, whose 482 members supply sugar cane to Illovo Sugar Malawi, was Fairtrade certified in 2002. They have recently been joined by The Lakeshore Cane Growers Association, representing the Fairtrade interests of 90% of Illovo’s Dwangwa outgrowers. Illovo Sugar Malawi facilitated the certifications, and meets additional annual fertiliser and herbicide costs to help protect them. Certification provides the associations with an additional premium of \$60 per tonne of cane, which is paid directly by the Fairtrade Foundation to the associations, for investment in social, environmental or economic development projects.

According to the Fairtrade Foundation, certification has improved farmers' standards of living significantly since 2009, and the wider community has also benefited from a range of social development projects<sup>22</sup>. The project has continued to expand through grants from the EU, facilitated to Illovo, which have enabled it to employ more farmers from the local area.

## Land issues

The company has been affected by disputes over land ownership. Illovo has long-term leases on all of its estates, in compliance with Malawi's Land Act, but has faced protests from locals who believe that some land leases were unfairly transferred to Illovo by their forefathers or local chiefs. In some cases, Illovo has effectively abandoned land upon which people have settled and begun to farm; in others, where the company has evicted people, it has paid for repatriation and/or compensation for their crops.

### The Kaombe Community Trust Farm

The Nchalo Business Linkages Project was established using a \$1.5m grant awarded in 2008 by the Africa Economic Challenge Fund, combined with \$0.5m directly from Illovo Sugar Malawi and a further \$0.5m in infrastructure shared with the adjoining Illovo farm. The project established a community trust farm at Kaombe, on which 335 hectares of sugar cane has now been established under centre pivot irrigation.

Despite frequent power outages and heavy rains, which led to Illovo Sugar Malawi assisting with the transport of heavy equipment to the site, planting was completed in 2011. Cash constraints meant that a \$2m loan was taken out from NBS Bank (negotiated by Illovo). The loan enabled the completion of the project, but means that no funds will be available for community development projects until it is fully repaid.

The first harvest was in 2012 and, despite issues with water-logging of crops around one of the five pivots, average yields were high. Cane grown by the project represented about 10% of Illovo Sugar Malawi's total cane from outgrowers, despite a significant amount of cane theft from haulage vehicles, which were hampered by poor road infrastructure over the 52km between the farm and Illovo's mill at Nchalo.

159 households have benefited from employment on the farm, with 60% of the work carried out by women. Two new enterprises have been created supplying contract labour and security personnel to the farm, and the project has also created other opportunities in the local community including building, carpentry, painting and brick making, as well as increased custom for local vendors.

In 2012, the Kaombe Community Farm Trust paid for drainage at the nearby Bangula Community Market, preventing flooding in the rainy season which had disrupted the

<sup>22</sup> [Fairtrade Foundation \(2013\), \*Branching Out: Fairtrade in Malawi\*](#)

market in previous years. The Trust also provided funds to the UK-based AMECA Trust, which is establishing a healthcare clinic adjoining the farm, with additional funding from Illovo and other donors. Engagement with local community leaders has helped to establish specific community needs, especially in the areas of health and education. Projects to meet these will be funded using proceeds from the farm.

## Supporting farmer productivity

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

Illovo Sugar Malawi's extension managers provide technical assistance, business training and assistance with haulage for the company's outgrowers. Illovo provides a full-time agricultural manager to the Kasinthula Cane Growers Association, and also provides housing for the project manager.

Illovo Sugar Malawi helps to obtain financing at preferential rates from local banks, including a \$2 million loan obtained for the Nchalo Business Linkages Project in 2011. And it enables outgrowers to benefit from its bulk discount rates when buying seed and fertiliser, providing 60 day credit terms. The company also stepped in to finance the first phase of the Kasinthula Cane Growers project in 1997 when financing from a development bank fell through. About \$3.5 million is still outstanding, and Illovo Sugar Malawi arranged assistance in refinancing the project so that the entire operation can become standalone.

## Standards in the supply chain

The Fairtrade certifications of the Kasinthula and Lakeshore Cane Growers Associations not only provide farmers with an additional premium on the price of cane, but also require independent audits to ensure internationally recognised standards for best practice.

Under Illovo Group policy, contracts signed by non-cane suppliers include a clause on ethical business practices, which includes stipulations on working conditions and hours, living wages, freedom of association, non-discrimination, non-child labour, environmental management programmes, and anti-bribery and corruption. Illovo Sugar Malawi performs compliance checks and subjects suppliers to scheduled and impromptu audits. Breaches are met with penalties, including the cancellation of contracts.

The rights of freedom of association and collective bargaining can make a significant difference to the lives of poor and rural workers. Illovo Sugar Malawi maintains strong relationships with trade unions, including the Sugar Plantation and Agricultural Workers Union of Malawi (SPAWUM), to which many outgrower farmers, as well as Illovo's own employees, belong.

## Supporting local and small businesses

Illovo has policies at group level which favour sourcing from local businesses where feasible, even where they may be more expensive, since it brings benefits to the company in terms of shorter supply chains and faster response times.

During our site visit we observed how Illovo Sugar's presence in Nchalo has contributed to a thriving local economy. Illovo Sugar Malawi's non-cane procurement includes haulage, electricity, fertiliser, chemicals and packing materials. About 30% of non-cane procurement in 2012/13 was sourced from companies in Malawi benefitting many local businesses.

A number of small- and medium-sized enterprises (SMEs) have developed to provide services to Illovo's estates and to its outgrowers, including cane cutting, security and artisan work. In total, Illovo Sugar Malawi estimated that it sources from 270 small-scale suppliers. Local vendors also benefit from increased custom from Illovo employees and outgrowers, who buy a range of goods from local stores and markets.

An interview with an ex-employee, who now owns his own cane cutting business, highlighted some of the challenges local businesses face in supplying Illovo Sugar. It also highlighted an opportunity for the company to take a more active role in promoting local enterprise, for example through providing business mentoring and skills training.

## Section 5: Value chain impact – customers

### Headline messages:

- Illovo Sugar Malawi is the only sugar producer in Malawi. The majority of its production goes to customers within the country, both for direct consumption and industrial uses.
- Since 2012, all sugar sold for direct consumption in Malawi is fortified with vitamin A, under government legislation. Illovo Sugar Malawi is therefore playing a valuable role in helping to reduce infant and maternal mortality in the country.

### Serving customers

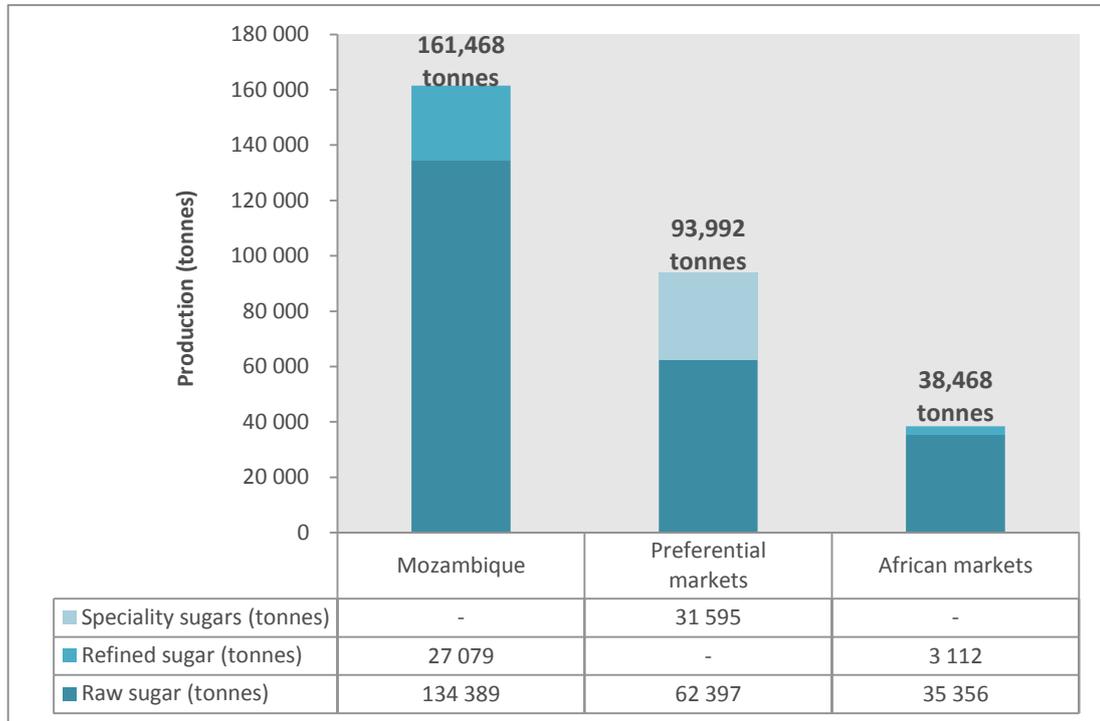
Illovo Sugar Malawi sells raw, refined and speciality sugars and molasses to customers in Malawi and international markets, both for direct consumption and industrial uses. The wide range of customers for Illovo Sugar Malawi's products means that the company has significant downstream impacts in Malawi's economy.

In 2012/13, Illovo Sugar Malawi produced about 294,000 tonnes of sugar, accounting for the entirety of sugar production in the country. About 55% of this was sold to customers in Malawi, much of it for direct consumption.

Illovo Sugar Malawi operates five distribution centres across Malawi. In 2013, Illovo Sugar Malawi abolished its previous quota system, which had led to complaints of local distributors forming monopolies. Anyone is now able to purchase a minimum of one tonne of sugar, without a license, directly from any of Illovo's warehouses and distribution centres. The company estimates that approximately 1,000 retailers and 10,000 small entrepreneurs across the country are involved in sugar distribution.

About 45% of Illovo Sugar Malawi's sugar production is sold abroad, much of it to the EU and US, where trade agreements give access to sugar markets on preferential terms. Illovo sells various speciality sugars to these markets, including Fairtrade sugar, which accounts for nearly 6% of the company's total sugar production.

### Illovo Sugar Malawi production by destination, 2012/13



### Providing high-quality, affordable products

As a monopoly, Illovo Sugar Malawi 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, and is generally lower in dollar terms than in neighbouring countries. The company also guarantees a country-wide price, subsidising distribution to the distribution centres to ensure that people in remote areas are not unduly penalised by higher prices.

As of 2012, all sugar sold for direct consumption in Malawi is fortified with vitamin A, under a UNICEF-sponsored government initiative to combat vitamin A deficiency. Illovo Sugar Malawi will therefore play a valuable role in helping to reduce infant and maternal mortality in Malawi in the coming years. While the programme is new, one study of a similar initiative in Zambia (also facilitated by an Illovo company) found that the vitamin A status of Zambian children had improved “markedly” as a result of supplementation and sugar fortification<sup>23</sup>.

<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](#)

Illovo Sugar Malawi ensures the quality and safety of its products using the internationally approved certification schemes ISO 9001 (quality management systems) and FSSC 22000 (food safety systems).

## Supporting downstream employment

Illovo Sugar Malawi supports indirect employment in its downstream value chain. All distribution is contracted, with 46 different companies responsible for haulage within Malawi. The company has further impacts on employment through wholesalers, retailers, re-packers, food processors and industrial customers.



## Section 6: Social responsibility and community investment

### Headline messages:

- Illovo Sugar Malawi regularly engages with a wide range of stakeholders including national and local government and community leaders. The company has taken a proactive role in collaborating with NGOs and donors to develop a more collaborative and strategic approach to addressing community development issues.
- Illovo Sugar Malawi spent ZAR 45 million on social investment in 2012/13 supporting a variety of projects.
- In addition to providing maize to vulnerable groups, Illovo has partnered with Malawian government, UNICEF and other donor agencies launching a programme to fortify all sugar for direct consumption within the local market with vitamin A.
- Illovo Sugar Malawi has been involved in an important health care project originated by the UK-based AMECA Trust and in collaboration with the Kaombe Traditional Authority to establish a primary healthcare clinic in the rural area of Kaombe.

### Investing in local communities

Through the creation of jobs and the provision of benefits and support to employees and suppliers, Illovo Sugar Malawi is helping to create sustainable economic development, and raise the standards of living for people living in Malawi.

In addition to this, we observed that Illovo Sugar Malawi is very active in supporting its wider community. It has formalised and regular engagement with a variety of key stakeholder groups including government at national and local levels as well as with local community leaders, NGOs and donors. The company is taking a leading role in bringing together NGOs and donors to identify community needs and develop a more collaborative and strategic approach to addressing these.

The company invested ZAR 45 million in these communities during 2012/13 on a variety of projects that benefitted both its employees as well as the wider community. This is budgeted to increase to ZAR 56 million in 2013/14.

### Helping to fight poverty through nutrition

In the last year Illovo Sugar Malawi has partnered with the Malawian government, UNICEF and other donor agencies to launch a programme to fortify all sugar for direct consumption within the local market with vitamin A. The aim of the programme is to reduce micro-nutrient deficiencies in Malawi.

Illovo Sugar Malawi grows maize for distribution to vulnerable members of local communities such as the elderly and orphans. Relief material such as food, medical care and shelter was provided to villagers affected by flooding in 2012. Additionally, the company assists a school feeding programme, Mary's Meals, where over 500,000 children are fed fortified porridge every day.

### Support for education

Illovo Sugar Malawi supports more than 8 community schools on its estates, paying teachers' wages, providing desks and educational materials, and funding construction and maintenance projects. More than 13,000 pupils attend these schools.

### Improving healthcare

Illovo Sugar Malawi's 12 health clinics offer healthcare and medical aid to the wider community at a nominal fee, and HIV and AIDS services for free. Approximately 20,000 patients attend these clinics every month. The company also supports local government hospitals which serve the wider community.

The company is working with the UK-based AMECA Trust and the Kaombe Traditional Authority to establish a primary healthcare clinic at Kaombe. Initially providing outpatient services, it is hoped the clinic will expand over time to offer in-patient care and minor surgical procedures. Jointly funded by the Trust Farm, Illovo and donors, the clinic will provide essential healthcare services to a rural community in need.

### Overview of spend on social investment 2012/13

Social investment activity	Spend (ZAR '000)
Education	10,000
Healthcare	11,000
Other	24,000

## Section 7: Environmental sustainability

### Headline messages:

- Access to water and energy are the biggest environmental risks facing the company. Illovo Sugar Malawi abstracted 404 million m<sup>3</sup> of water in 2012/13, all of which was acquired from surface water (e.g. rivers and lakes). The company has also developed water treatment plants providing access to potable water for employees and the wider community.
- The company has an active programme to help protect biodiversity- it maintains the Nyala Park Reserve, approximately 350 acres of protected forest that is home to endemic game species.
- Illovo Sugar Malawi self-generates 19% of its energy from renewable biomass sources.

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

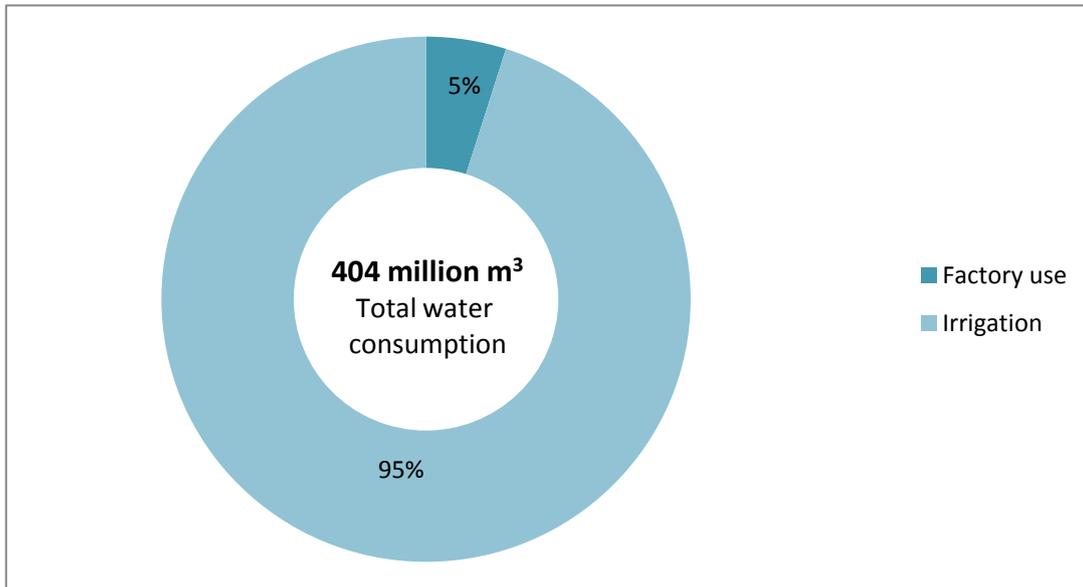
By promoting environmental best practice Illovo Sugar Malawi can have a direct impact on the quality and productivity of land, and a positive impact on the livelihoods of farmers, workers and the wider community.

### Promoting access to water

Access to water for drinking, sanitation and farming is essential for rural community development. Although Malawi has official water supply coverage of 84%, it is estimated that approximately 2.4 million people do not have access to safe water. Illovo Sugar Malawi has established water treatment plants to provide access to potable water for employees, and where possible the wider community.

### Water stewardship

Illovo Sugar Malawi abstracted 404 million m<sup>3</sup> of water in 2012/13, all of which was acquired from surface water (e.g. rivers and lakes). Both of its factories have upgraded their waste-water discharge systems and water from the milling process is settled, before being recycled as irrigation water for the cane crop. This process reduces Illovo Sugar Malawi's demand for surface water for use in factories and crop irrigation.

**Illovo Sugar Malawi water consumption by location (m<sup>3</sup>)**

Each of Illovo Sugar Malawi's estates manages effluent differently. Effluent from the Nchalo factory is treated prior to use for irrigating cane. Effluent from the Dwangwa factory is mixed with water from the lake and then used for irrigation. Total discharge per annum is over 2 billion litres. Effluent is not discharged into municipal sewers.

To manage water pollution, Illovo Sugar Malawi creates and maintains buffer zones along irrigation canals to prevent erosion, and ensures chemicals do not spill when applied in the fields. The company hands over empty chemical containers to the Pesticide Control Body, for recycling.

**Protecting land and biodiversity**

Illovo Sugar Malawi leases all land from the Malawian government. At Nchalo, the company has a total of 20,925 ha, of which 13,594 ha is under cane. At Dwangwa, the company has a total of 13,300 ha, of which 6,590 ha is under cane.

The company aims to have minimal impact on the environment through its operations and closely monitors pesticide use at sites, with 20,387 tonnes of pesticides used during the 2012/13 growing season.

**Nyala Park Reserve**

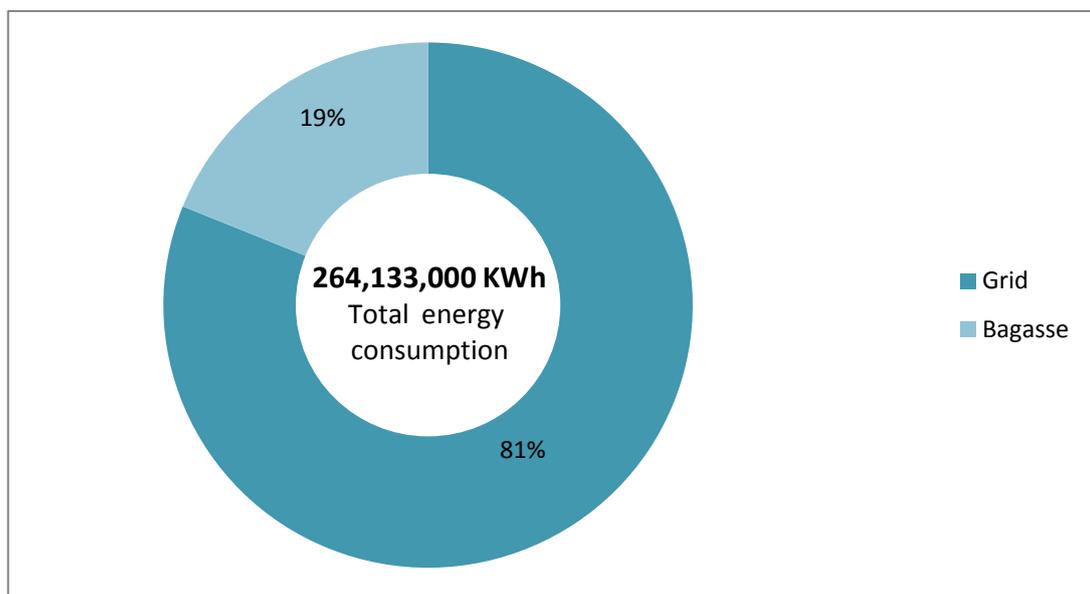
Illovo Sugar Malawi has maintained biodiversity corridors throughout its sugar estates, which leave wetlands and other riparian zones undisturbed. At the Nchalo site, the company owns a 350-hectare nature reserve that supports endemic game species. There is an active program to remove alien vegetation in the Nyala Park Reserve.

## Energy use and emissions

Several Illovo operations face challenges when it comes to the reliability of their energy supply. To help ensure energy security, Illovo Sugar Malawi generates some of its electricity on-site from renewable biomass sources.

Illovo Sugar Malawi generated 49,848MWh of its own electricity in 2012/13, accounting for 19% of total energy consumption. The remaining 81% of its electricity is imported from the grid.

### Breakdown of energy generation and consumption, 2012/13



At group level Illovo participates in the Carbon Disclosure Project (CDP), demonstrating commitment to transparency on GHG emissions reductions. The company has also publicly committed to reducing GHG emissions across the group by 10.7% on 2010 levels by 2020. Based on the projected increase in sugar production, the effective emissions reduction will be 34%. The company tracks its scope 1 and scope 2 carbon emissions at both the Nchalo and Dwangwa factories.

## Waste

Waste handling and disposal is managed according to the ISO 14000 system. Illovo Sugar Malawi recycled 676 tonnes of scrap metal and plastic process waste in 2012/13, and sent 1,104 tonnes of waste to landfill.

**Corporate Citizenship**

5th Floor, Holborn Gate  
26 Southampton Buildings  
London, WC2A 1PQ  
United Kingdom

W: [www.corporate-citizenship.com](http://www.corporate-citizenship.com)