



Illovo Sugar

Tanzania Socio-Economic Impact Assessment

Internal Management Report

April 2014

Contents

Section 1: Tanzania overview	1
Key country data	6
Illovo in Tanzania	7
Section 2: Supporting economic growth	8
Total economic impact	9
Distributing wealth	11
Contributing to public finances	13
Investing in the future	13
Trade challenges	14
Section 3: Creating jobs and supporting livelihoods through employment	16
Direct employment overview	16
Competitive income levels	18
Additional benefits	19
Contributing to health and wellbeing	19
Improving diversity	21
Promoting localisation & skills/Training and development	22



Section 4: Value chain impact – suppliers	23
KSCL’s supply chain	23
Supporting employment in the supply chain	25
Expanding responsibly	26
Paying a fair price	27
Supporting farmer productivity	27
Supporting local and small businesses	28
Section 5: Value chain impact – customers	30
Serving customers	30
Supporting downstream employment	30
Section 6: Social Responsibility and Community Investment	31
Investing in local communities	31
Section 7: Environmental sustainability	32
Water stewardship	32
Protecting land and biodiversity	33
Energy use and emissions	33
Waste	34



Executive Summary

The Kilombero Sugar Company has:
<p>Contributed an estimated ZAR 1.2 billion to Tanzania's economy in 2012/13, including direct, indirect and induced impacts. This is equivalent to about 0.5% of Tanzania's GDP, or about 1.8% of the country's agricultural sector.</p>
<p>Directly employed 2,545 people in Tanzania (including seasonal and non-permanent workers), supported an estimated 9,484 people through outgrowers, and supported further estimated indirect and induced employment of between 2,406 and 10,345. In other words, for every direct employee of Kilombero Sugar Company, between 4.7 and 7.8 workers are supported in the wider economy.</p>
<p>Estimated to support the livelihoods of between 62,071 and 96,208 people, including dependents, through direct, indirect and induced employment (based on national average household sizes).</p>
<p>Paid over ZAR 800 million in taxes to the Government over the past seven years (at 2013 exchange rates). The Government also receives dividends from KSCL through its 25% stake in the company.</p>
<p>Invested more than ZAR 1.1 billion in the expansion of its factory and estate since privatisation in 1998, helping to more than triple cane production.</p> <p>Invested in a new ethanol distillery in 2013, demonstrating a long-term commitment to Tanzania, and helping to diversify the business and secure jobs for the future.</p>
<p>Spent ZAR146 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 Tanzanian population where over 85% live at or below the poverty line of \$2 per day.</p>
<p>Spent ZAR 205 million (29% of total revenues) in 2012/13 procuring sugar cane from local farmers, including over 6,300 active smallholder farms. Since 1998, the outgrower base has tripled from 2,400 outgrowers covering 3,500 hectares to over 8,000 registered outgrowers farming 14,600 hectares. Total spending with outgrowers has grown from TZS</p>

1 billion to over TZS 38 billion.

Spent ZAR 475 million with non-cane suppliers in 2012/13, about 25% of which was with companies in Tanzania. Kilombero Sugar Company estimates supporting approximately 1,600 small businesses in the local area.

Co-founded and continues to fund the Kilombero Community Charitable Trust, which promotes sustainable socio-economic development in the wider community. It has invested approximately ZAR 38 million in schools, hospitals and infrastructure since 1998.

Illovo in Tanzania

- **Illovo Sugar operates in Tanzania through Kilombero Sugar Company Limited (KSCL), the country's largest sugar producer with 43.2% of national production.** KSCL was privatised in 1998, and is now owned 55% by Illovo Group, 25% by the Tanzanian government and 20% by ED&F Man Group, a British commodities trading company.
- **KSCL's operations are centred on two mills in the Kilombero Valley region of Tanzania,** near to the town of Kidatu. Here, the company operates two mills and leases 12,000 hectares of land from the Tanzanian government, 9,562 hectares of which is planted with cane. The vast majority of KSCL's sugar is sold domestically.
- **Rural areas such as Kilombero risk being left behind by Tanzania's recent economic growth.** The country's economy grew by 6.9% in 2012/13, the fourth straight year of growth above 6%. However, 40% of the rural population lives below the poverty line, confronting very limited employment opportunities, little or no provision of secondary education and a growing skills gap exacerbated by the migration of skilled individuals to urban areas.
- **The Tanzanian sugar industry currently faces an imports crisis** that has resulted in unsold stocks and cash-flow problems, and which threatens the industry's long-term sustainability. As part of the Tanzania Sugar Producers' Association (TSPA), KSCL is working with the government to address the situation.

Contributing to Tanzania's economy

- **KSCL contributed nearly ZAR 1.2 billion to the Tanzanian economy in 2012/13. This is equivalent to about 0.5% of Tanzania's GDP, or about 1.8% of the country's agricultural sector.** KSCL's contribution takes the form of direct impacts (wages paid to Illovo 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 Tanzania.** KSCL directly added ZAR 278 million of gross value to Tanzania's economy. 53% of the company's value added went to employees as salaries, wages and benefits. In 2012/13, ZAR 205 million or 29% of revenues were paid to outgrowers. **KSCL paid ZAR 79 million in taxes in 2013, and has paid the equivalent of ZAR 800 million over the past seven years.** The Government also receives dividends through its 25% stake in the company. Since 2005, these have totalled over ZAR 60 million (at 2013 exchange rates).

- **KSCL is a major employer** directly employing 2,545 people in Tanzania and further supporting an estimated 9,484 workers through outgrowers, and further estimated indirect and induced employment of between 2,406 and 10,345. In other words, **for every direct employee of KSCL, between 4.7 and 7.8 workers are supported in the wider economy.** Based on an average household size of 4.3, **KSCL is estimated to support the livelihoods of between 62,071 and 96,208 people throughout Tanzania** (inclusive of dependents).
- **Extensive investment has transformed KSCL's contribution to Tanzania since the privatisation of the company in 1998.** During this period the company has invested more than ZAR 1.1 billion in the expansion and rehabilitation of its factory and estate, as well as irrigation projects and local infrastructure. The amount of sugar cane grown and purchased by the company has more than tripled.
- **KSCL's investment in Tanzania continues to grow.** In August 2013, the Illovo Group and ED&F Man commissioned a state-of-the-art distillery, Illovo Group's first downstream production facility outside South Africa. This represents both a source of skilled jobs for the local community, and a contribution to the diversification of Tanzania's sugar industry that can help support its long-term sustainability.

Investing in employees

- **KSCL spent ZAR 146 million (53% 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.
- **KSCL provided an estimated 50,000 man-days of training in 2012/13.** Its significant investment in health and safety training has helped reduce its injury frequency rate from 0.45 in 2011 to 0.03 in 2013 and achieve 14.5 million accident-free man-hours in 2012. The company was declared NOSA's "Risk Manager of the year" in 2012.
- **The company has a strong focus on HIV/AIDS healthcare initiatives.** It follows a Triple Zero approach to the challenge of HIV/AIDS, aligned with the UNAIDS strategy.

Supporting outgrowers and suppliers

- **Independent outgrower farmers have played a key role in KSCL's expansion since it was privatised in 1998.** The outgrower base has tripled from 2,400 outgrowers covering 3,500 hectares to over 8,000 registered outgrowers farming 14,600 hectares. **Total spending with outgrowers has grown from TZS 1 billion to over TZS 38 billion.**
- **KSCL bought 45% of its sugar cane (ZAR 205m, 29% of total company revenues) from independent outgrower farmers in Tanzania,** representing a significant support to the livelihoods of rural farmers, their families, and local communities. **KSCL's supply chain includes more than 6,300 small-scale farmers.** The company supports them through a

guaranteed market for cane as well as through investment, training and support to improve productivity.

- **It also spent ZAR 475 million with non-sugar cane suppliers, about 25% of which was with companies in Tanzania.** KSCL estimates it is supporting approximately 1,600 small businesses in the surrounding area.

Investing in the community and promoting environmental best practice

- **KSCL co-founded and continues to fund the Kilombero Community Charitable Trust, which promotes sustainable socio-economic development in this remote rural community.** It has invested approximately ZAR 38 million in schools, hospitals and infrastructure since 1998. KSCL's support in governing the Trust has helped secure external loans and donor-funding to further promote enterprise development and poverty alleviation.
- **Approximately 63% of the power that KSCL consumes is generated on-site using bagasse, a renewable by-product of the cane-crushing process.** The company is investigating opportunities to increase its renewable energy generation, with the potential to supply electricity to Tanzania's national grid.
- **During 2012/13, KSCL abstracted 85 billion litres of water from the Ruaha River, with 20% used for production and 80% irrigating agricultural land.** The company has worked with the rest of the sugar industry in Tanzania to import over 300 sugarcane varieties during the last three years, screening and selecting them on their suitability for rain-fed conditions, amongst other characteristics. **KSCL aligns its land-use policies with the SASRI's sustainable farming practices.**

Future considerations

It is evident that Illovo Sugar has significant positive impacts in the communities in which it operates. However, the Group recognises there is more it can do. In addition to this country report, Corporate Citizenship has produced a detailed management presentation outlining key observations and recommendations for Illovo to enhance its positive social, economic and environmental impact.

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 Tanzania, as well as its indirect and wider impacts through its value chain (outgrowers, suppliers and customers).

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

Methodological note

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

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

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

Section 1: Sugar in Tanzania

Headline messages:

- Tanzania’s economy grew 6.9% in 2012, the fourth straight year of growth over 6%
- Agriculture accounts for 28% of GDP yet employs 80% of the workforce
- Sustained population growth in recent years has increased employment pressures in rural areas, where three-quarters of the population live
- Challenges for rural areas include a 40% poverty rate and very poor secondary education, which contributes to a growing skills gap
- Illovo Group operates in Tanzania through its subsidiary, the Kilombero Sugar Company Limited, the country’s largest sugar producer. In August 2013, the Group commissioned a new, state-of-the-art distillery.

Key country data

Tanzania is a low-income country ranked 152 out of 186 on the 2012 UN Human Development Index. It is classified by the UN as a Least Developed Country.

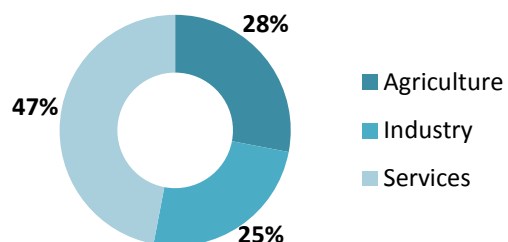
Economic structure

Tanzania’s economy grew at a rate of 6.9% in 2012, the fourth straight year of growth above 6%. Its expansion has been driven by gold production, tourism and foreign direct investment, with efforts currently underway to diversify the economy into service sectors.

Agriculture accounts for 28% of Tanzania’s GDP yet employs 80% of the workforce, and provides the primary employment opportunities for the three-quarters of the population living in rural areas. Sustained population growth in

Tanzania Country Data ¹	
Economic Indicators (2012 est.)	
GDP (purchasing power parity)	\$73 billion
GDP per capita	\$1,600
Annual GDP growth rate	6.9%
Labour Market Indicators	
Population	48 million (2013)
Labour Force	24.75 million (2012 est.)
By occupation (2007)	Agriculture 80% Industry and services 20%
Population location	Rural 73% Urban 21% (2011)
Unemployment rate	NA%
Poverty Indicators	
Population living at or below \$2 per day (PPP)	87.9%
Adult literacy rate	68%
Life expectancy at birth	61 years (2013 est.)

GDP breakdown by sector



¹ CIA (2013) *World FactBook: Tanzania*

recent years increases the pressure on these employment opportunities.

Development challenges

Approximately 40% of Tanzania's rural population live below the poverty line, accounting for 80% of those living in poverty in the country.² Poor agricultural practices have limited productivity in many of these areas, and Tanzania's limited opportunities for secondary education contribute to a growing skills gap that restricts employment opportunities.

Sugar industry in Tanzania

The Tanzanian sugar industry is regulated by the Sugar Board of Tanzania, which privatised the country's four sugar production companies between 1997-2002. This development has transformed the sugar industry in Tanzania through investment and expansion.

The Tanzanian sugar industry directly employs 14,000 people and provides a market for the farming produce of 30,000 additional farming households.³ According to the Sugar Board, the four plantations sourced sugar cane from 56,940 hectares in the 2011/2012 growing season, with independent outgrowers farming approximately 40% of this land.

Illovo in Tanzania

Illovo operates in Tanzania through its subsidiary, the Kilombero Sugar Company Limited (KSCL), which is the largest sugar producer in the country. Privatised in 1998, KSCL is now owned 55% by Illovo Sugar Limited, 20% by ED&F Man Group, a British commodities trading company, and 25% by the Government of the United Republic of Tanzania. The company operates two sugar mills close to the town of Kidatu in the Kilombero Valley, part of the Morogoro region of Tanzania. It directly farms 12,000 hectares of land, which it leases from the Tanzanian government. Of this land, 9,562 hectares is under cane.

KSCL accounted for over 43.2% of total sugar production in Tanzania in 2012/13, producing 129,700 tonnes of sugar in 2012/13 and accounting for about 7% of the Illovo Group's total sugar production.

KSCL's mills produce raw sugars for direct consumption. In August 2013, the Group commissioned a new, state-of-the-art distillery, which will be the Illovo Group's first downstream production facility outside of South Africa. The distillery will produce 40,000 litres of extra neutral alcohol (ENA) per day to be sold for production of alcoholic beverages, as well as industrial alcohol used in cosmetics, adhesives and detergents.

² World Bank (2013) *Country Overview: Tanzania*

³ FAO (2013) Analysis of Incentives and Disincentives for Sugar Cane in Tanzania
http://www.fao.org/fileadmin/templates/mafap/documents/technical_notes/URT/TANZANIA_Technical_Note_SUGAR_EN_Jan2013.pdf

Section 2: Supporting economic growth

Headline messages:

- KSCL contributed an estimated ZAR 1.2 billion to Tanzania’s economy in 2012/13, including direct, indirect and induced impacts. This is equivalent to about 0.5% of Tanzania’s GDP, or about 1.8% of the country’s agricultural sector.
- KSCL directly employs 2,545 people in Tanzania, supports an estimated 9,484 workers through outgrowers, and supports further estimated indirect and induced employment of between 2,406 and 10,345. In other words, for every direct employee of KSCL, between 4.7 and 7.8 workers are supported in the wider economy.
- Over the past seven years, the company has paid over ZAR 800 million in taxes at 2013 exchange rates. The Government of Tanzania also receives dividends from KSCL through its 25% stake in the company.
- Since privatisation, KSCL has invested in a huge expansion of production in Tanzania, with total cane production increasing more than three-fold since 1998. The new ethanol distillery, commissioned in August 2013, will be the Illovo Group’s first downstream production facility outside of South Africa, demonstrating a long-term commitment by the Group to Tanzania.

The Kilombero Sugar Company adds value to the economy of Tanzania by taking raw sugar cane and milling it, to produce sugar and downstream products. The company has three forms of impact on the Kilombero Valley region and the Tanzanian economy in general:

- **Direct** impacts through KSCL’s employment of workers on farms and in factories, as well as tax payments, dividends and investments;
- **Indirect** impacts through payments to independent farmers and other suppliers, as well as impacts on those selling KSCL products or using them in their businesses;
- **Induced** impacts through spending by direct and indirect employees of KSCL, leading to increased consumption and employment in the economy as a whole.

Additional, secondary impacts that result from KSCL’s presence in Tanzania include the provision of schooling and healthcare, and support for infrastructure projects. These are described in this report, but have not been given a financial value.

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

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

Total economic impact

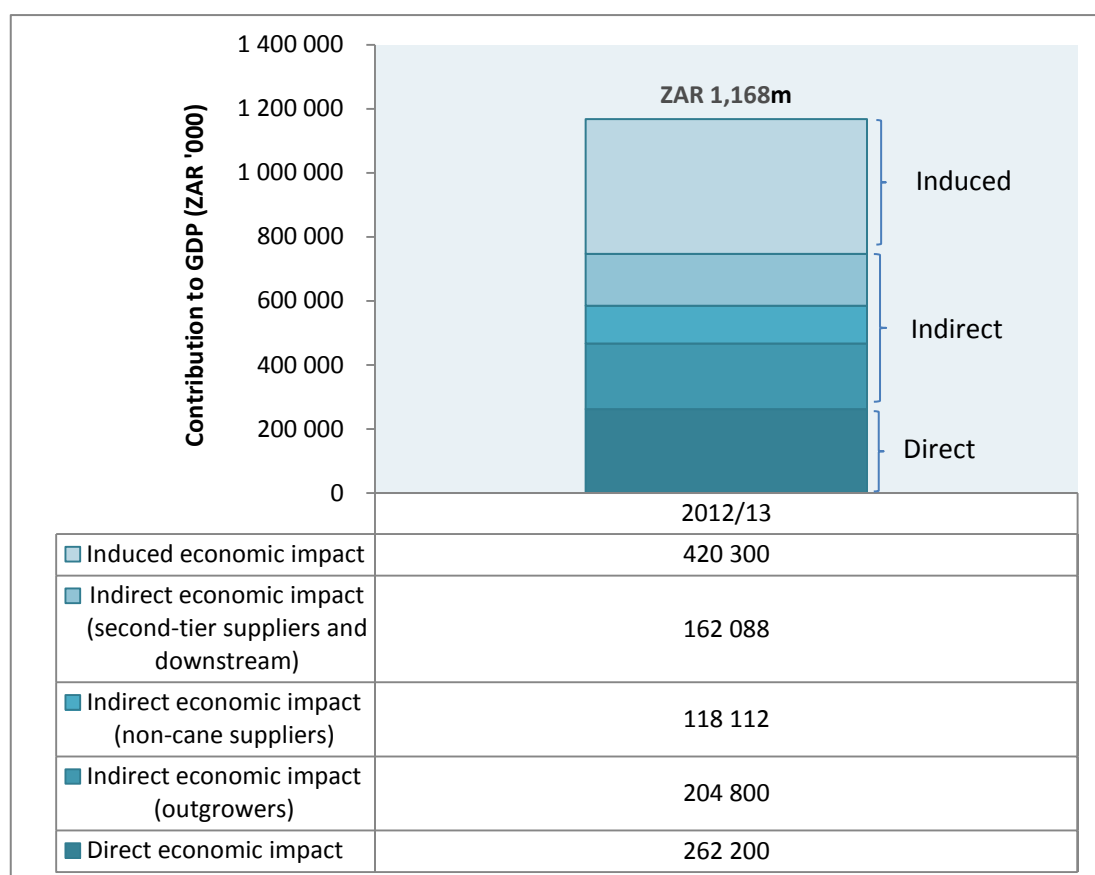
KSCL's direct contribution to the Tanzanian economy, measured in terms of its gross value-added, was ZAR 262 million in 2012/13. The company's additional indirect impacts are estimated at ZAR 485 million⁴, and its induced impacts at ZAR 420 million.

We therefore estimate KSCL's total economic impact on Tanzania at ZAR 1,168 million, as shown in the graph below. This is equivalent to about 0.5% of Tanzania's GDP, or about 1.8% of the country's agricultural sector⁵⁶.

⁴ Including spending with outgrower farmers of ZAR 205 million and non-cane procurement spending in Tanzania of ZAR 118 million, 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.

⁵ [IMF World Economic Outlook Database](#), Tanzania gross domestic product, current prices, 2012

⁶ [CIA World Factbook for Tanzania](#), GDP - composition, by sector of origin

Kilombero Sugar Company: Total economic impacts in Tanzania (estimated), 2012/13**Contribution to employment**

KSCL is estimated to support between 14,435 and 22,375 jobs in Tanzania. This includes direct employment of 2,545⁷, an estimated 9,484 workers supported through outgrower farms, and further estimated indirect and induced employment of between 2,406 and 10,345⁸. In other words, for every direct employee of KSCL, between 4.7 and 7.8 workers are supported in the wider economy, primarily due to the company's large amount of sourcing from outgrowers. These estimates are based on a range of conservative multipliers from external studies, and may in fact understate KSCL's total employment impact, since some informal employment may not be accounted for.

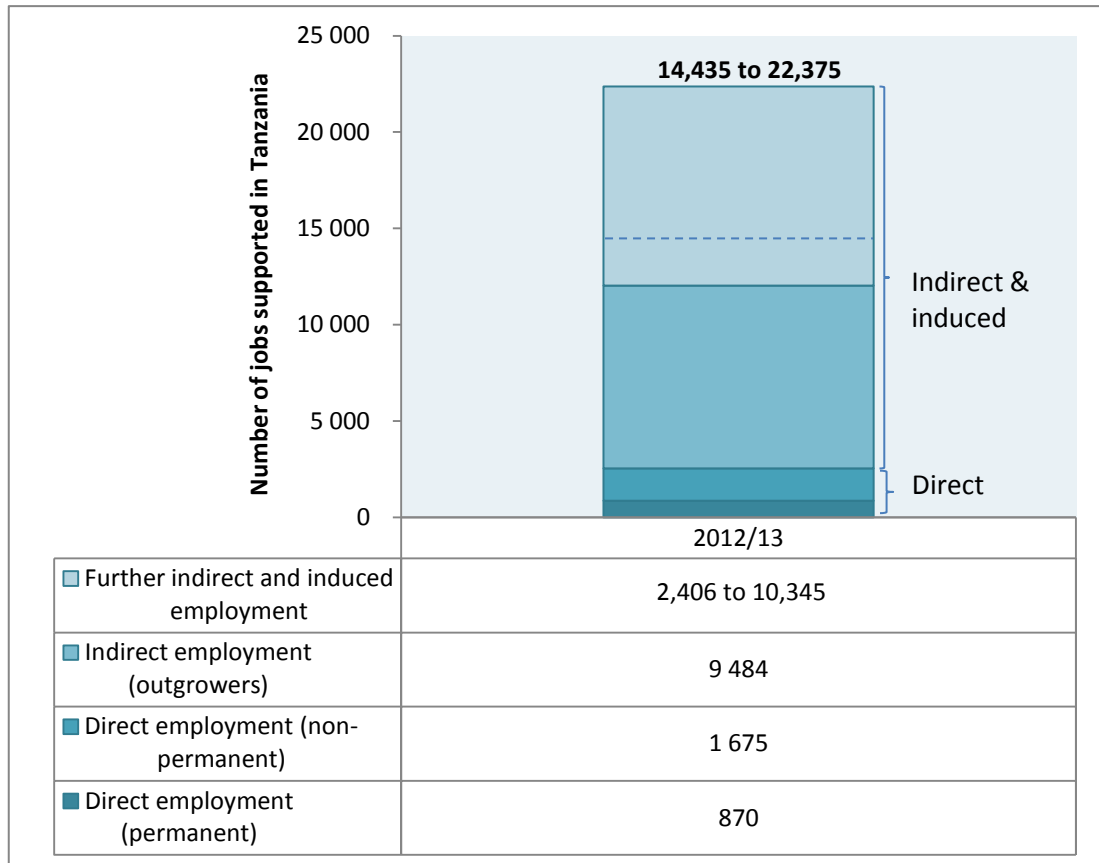
KSCL's impact on livelihoods does not end with those who it employs. As a result of the poor, rural areas in which the company is based, there is a significant impact on workers' dependents (i.e. immediate and extended family). The average household size in Kilombero is 4.3, although the total number of dependents supported by rural farmers is likely to be

⁷ 870 permanent employees, plus 1,675 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.

⁸ See Appendix 1 for an explanation of the multipliers used

higher. KSCL is therefore estimated to support the livelihoods of between 62,072 and 96,208 people throughout Tanzania, equivalent to up to 37 people for every direct employee of KSCL.

Kilombero Sugar Company: Total employment impacts in Tanzania (estimated), 2012/13



Distributing wealth

KSCL is a productive and successful business. Since privatisation in 1998, its sugar production has increased from around 30,000 tonnes to almost 130,000 tonnes. However, profitability has decreased markedly in the last year due to the flooding of the domestic market with cheap sugar imports and the resultant accumulation of unsold stocks.

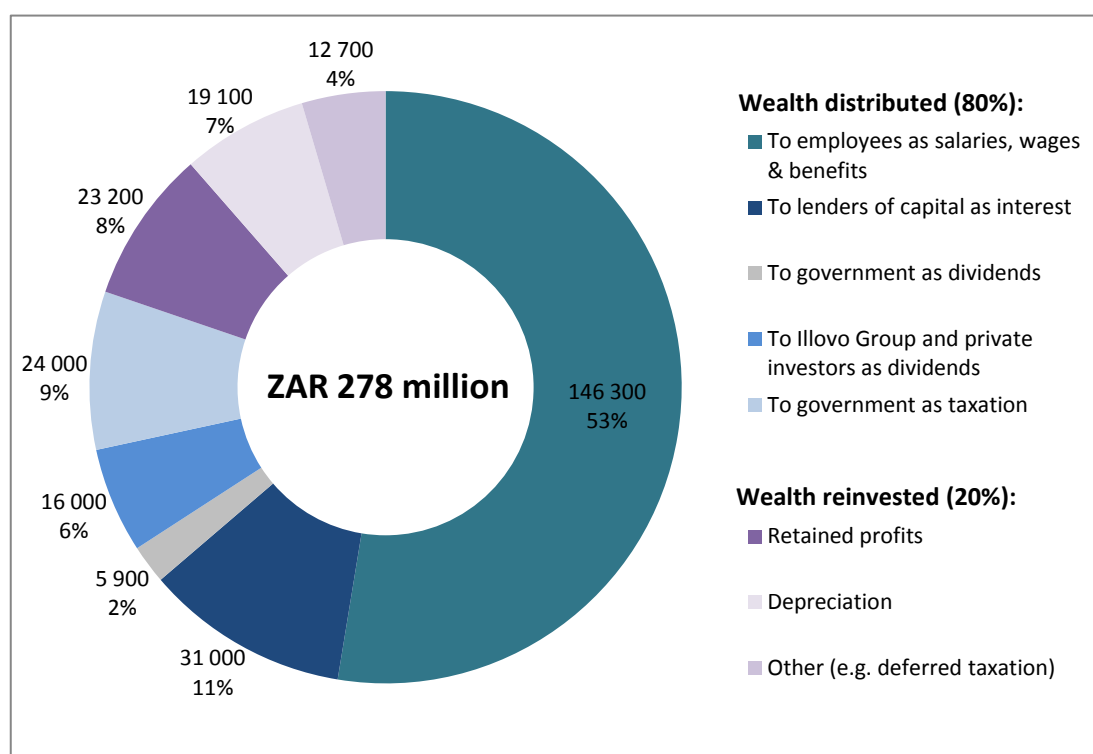
KSCL achieved gross revenues of ZAR 699 million in 2012/13, with pre-tax profits of ZAR 75 million, down from ZAR 138 million the previous year. Outgrower farmers received 29% of the company’s revenues in 2012/13.

KSCL wealth creation, 2012/13

Revenue	ZAR 699 million	
Paid to outgrower farmers	(ZAR 205 million)	29%
Manufacturing costs	(ZAR 216 million)	31%
Total value-added	ZAR 278 million	40%

The wealth that KSCL creates for the economy and society is represented through its “value-added”, which is defined as the difference between the company’s revenues and its input costs. The majority of KSCL’s value-added total of ZAR 281 million is distributed to its stakeholders. In 2012/13, 80% of value-added went to employees, providers of capital and the Tanzanian government, with 20% reinvested in the business.

Dividends to Illovo Group and private investors account for about 5% of gross value-added. The remaining dividends go to the government through its share in the company. After non-government dividends are subtracted, this leaves a total direct value-added contribution to Tanzania’s GDP of about ZAR 262 million.

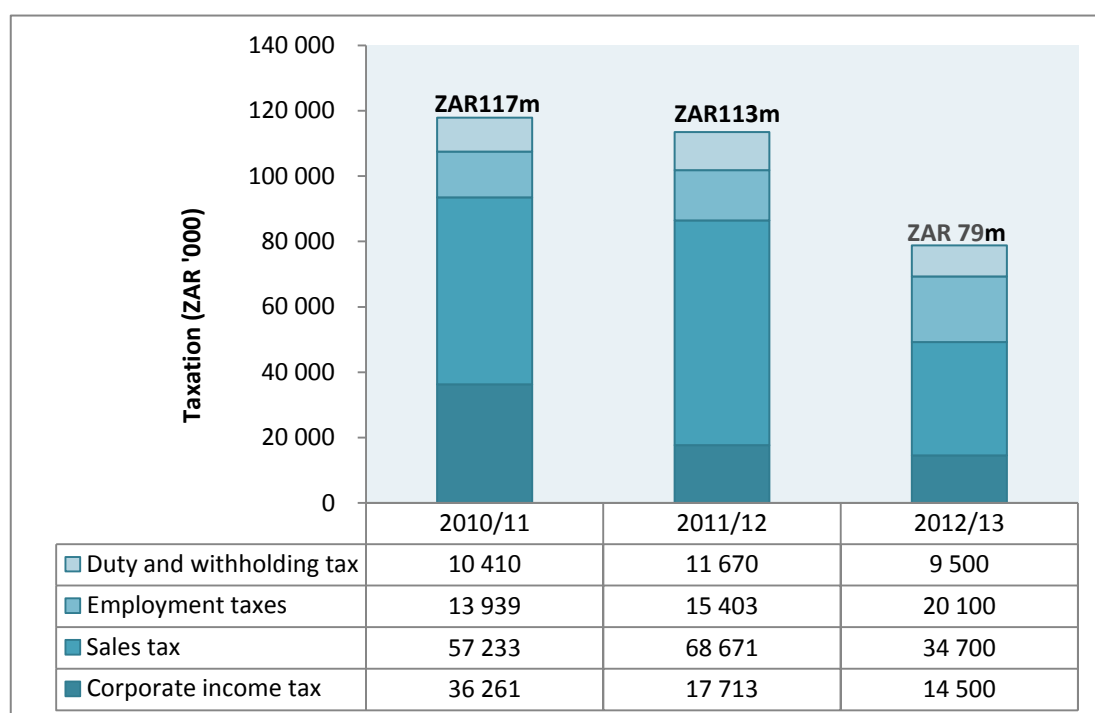
Distribution of Kilombero Sugar Company value-added, 2012/13

Contributing to public finances

KSCL paid ZAR 14.5 million in corporate income tax in 2012/13, representing 19% of pre-tax profit. The company paid an additional ZAR 64 million in indirect taxes, including sales and employee taxes and customs duties, for a total tax contribution of about ZAR 79 million.

This contribution represents a decline on previous years, due to reduced profits and sales. According to KSCL estimates, over the past seven years, the company has paid over ZAR 800 million in taxes at 2013 exchange rates.

Kilombero Sugar Company taxation, 2011-13



The Government of Tanzania also receives dividends from KSCL through its 25% stake in the company. Since 2005, these have totalled over ZAR 60 million at 2013 exchange rates.

KSCL does not receive any grants or subsidies from the Tanzanian government.

Investing in the future

Since privatisation, KSCL has hugely expanded its production capacity, investing more than TZS 240 billion (about ZAR 1.1 billion)⁹ in the expansion of its factory and estate, as well as irrigation and drainage projects, and local infrastructure. This total includes an investment of TZS 78 billion (nearly ZAR 500 million) on the Group's ethanol distillery, commissioned in August 2013. The distillery, which will be the Illovo Group's first downstream production

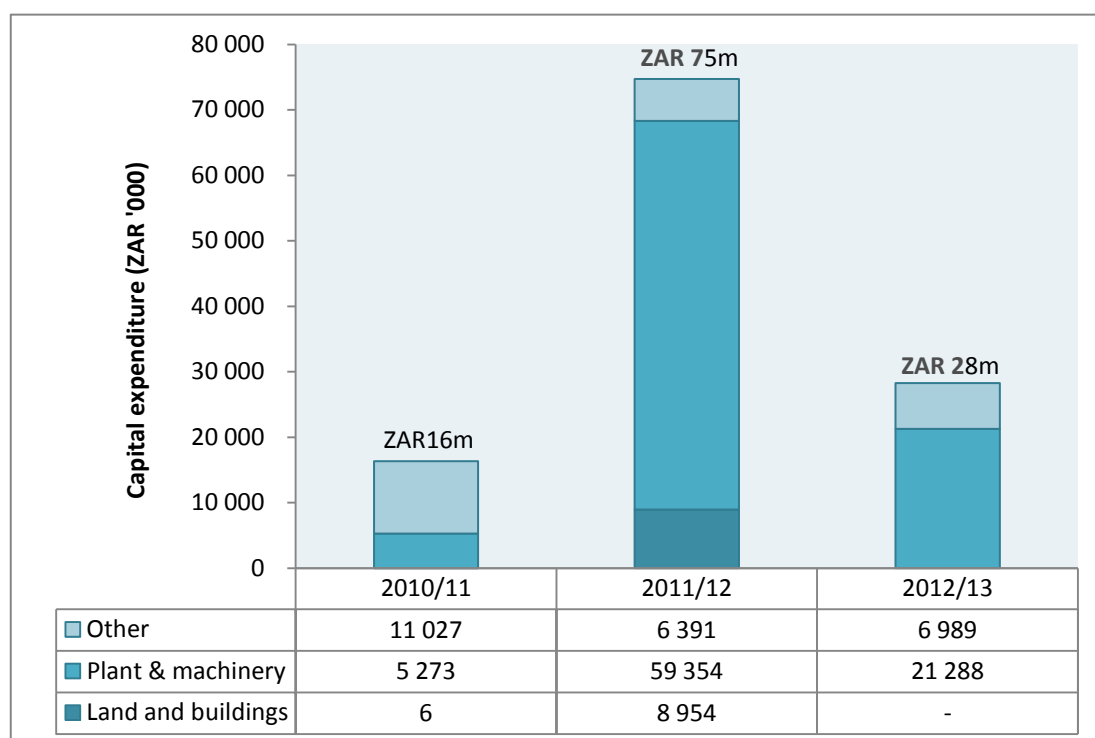
⁹ Converted into ZAR using 2012 exchange rates based on a TZS figure provided by KSCL

facility outside of South Africa, demonstrates a long-term commitment by the company to Tanzania, helping to diversify the business and helping to secure jobs for the future.

Prior to these investments, KSCL sourced only 300,000 tonnes of sugar cane from its own farmed land and just over 100,000 tonnes of cane from external, outgrower farmers. In contrast, the company produced a record 725,000 tonnes of sugar cane in 2012/13, with outgrowers supplying a further 600,000 tonnes, for a total cane supply of over 1.3 million tonnes. This expansion has had a transformative impact on the livelihoods of local farmers, and the opportunities for small businesses in the area.

In 2012/13, KSCL invested over ZAR 28 million in capital spending, mainly on plant and machinery. The company intends to continue exploring opportunities for expansion, including the possibility of expanding renewable energy production using biomass that remains in the fields following cane harvesting, and exporting electricity to the newly formed national grid.

Kilombero Sugar Company capital expenditure, 2011-13



Trade challenges

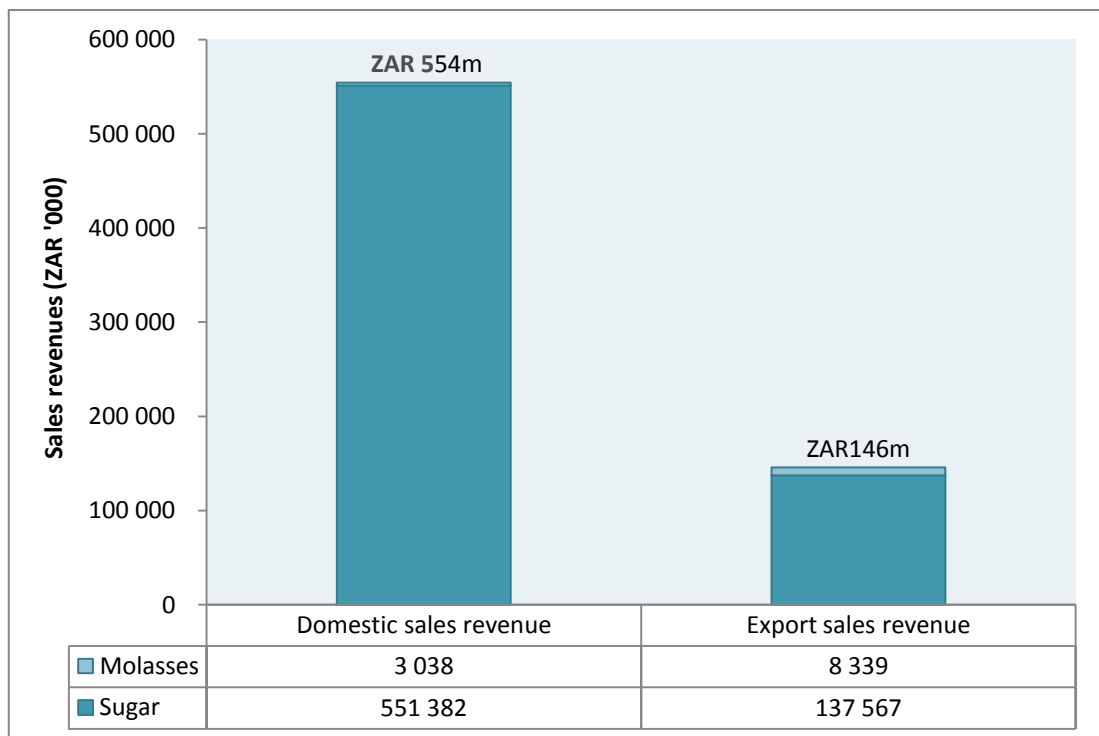
The Tanzanian sugar industry is currently confronting an imports crisis, which represents the most significant threat to KSCL's positive impacts on the country's economy. The domestic market was flooded with more than 200,000 tonnes of licensed sugar imports in 2012/13, far exceeding the 80,000 tonne gap between domestic supply and demand. With export markets hit by falling prices and a Kenyan trade ban, sugar producers in Tanzania had a huge accumulation of unsold sugar stocks. As the new season began, KSCL still had

17,000 tonnes of sugar in stock from the previous year, and this has resulted in cash flow problems, delayed payments to suppliers, difficulties serving bank loans and lower prices paid to outgrowers. If conditions cannot be improved, KSCL may need to consider closing at least one of its two factories.

As part of the Tanzania Sugar Producers’ Association (TSPA), KSCL is consulting with the government on a way forward. The TSPA has recommended that import volumes be decided every year based upon local production forecasts, international trends and input from the Producers’ and Growers’ Associations. In addition to revising import duty structures and processes, the association is working with the government to move towards self-sufficiency in sugar for Tanzania, removing the need for imports altogether.

KSCL sold 79% of its sugar in the domestic Tanzanian market in 2012/13, generating revenues of ZAR 554 million. Its export revenues of ZAR 146 million have a positive impact on Tanzania’s balance of trade, but are outweighed by imports (consumables and spares etc.) and dividends remitted to external investors.

Kilombero Sugar Company domestic and export sales revenues, 2011-13



Section 3: Creating jobs and supporting livelihoods through employment

Headline messages:

- In 2012/13, KSCL directly employed 2,545 people as the primary employer in the town of Kidatu in Kilombero. Through direct employment, the company supports the livelihoods of close to 10,944 employees and family members.
- KSCL strives to offer competitive wages. All workers at the company earn above both the national minimum wage and poverty line at \$2 a day (PPP) and in addition to their basic wage receive benefits such as housing, healthcare and education allowance for family members, which significantly contribute to their livelihoods and wellbeing.
- Salaries rose by an average of 17% during the year, faster than the national inflation rate of 16.2%, with temporary and seasonal workers seeing an increase of over 30%.
- KSCL's has invested heavily in the health and safety of its employees over the period reviewed. KSCL trained 88 Safety, Health and Environment (SHE) representatives and has increased the number of risk managers focused on this area. As a result the injury frequency rate has fallen from 0.45 to 0.03 in the last three years.
- KSCL employs a total of 409 women, which equates to 16% of the company and spreads across a range of roles from senior managers to cane cutters. However, gender diversity and equality remains an on-going challenge for the company and the agricultural industry in Tanzania.

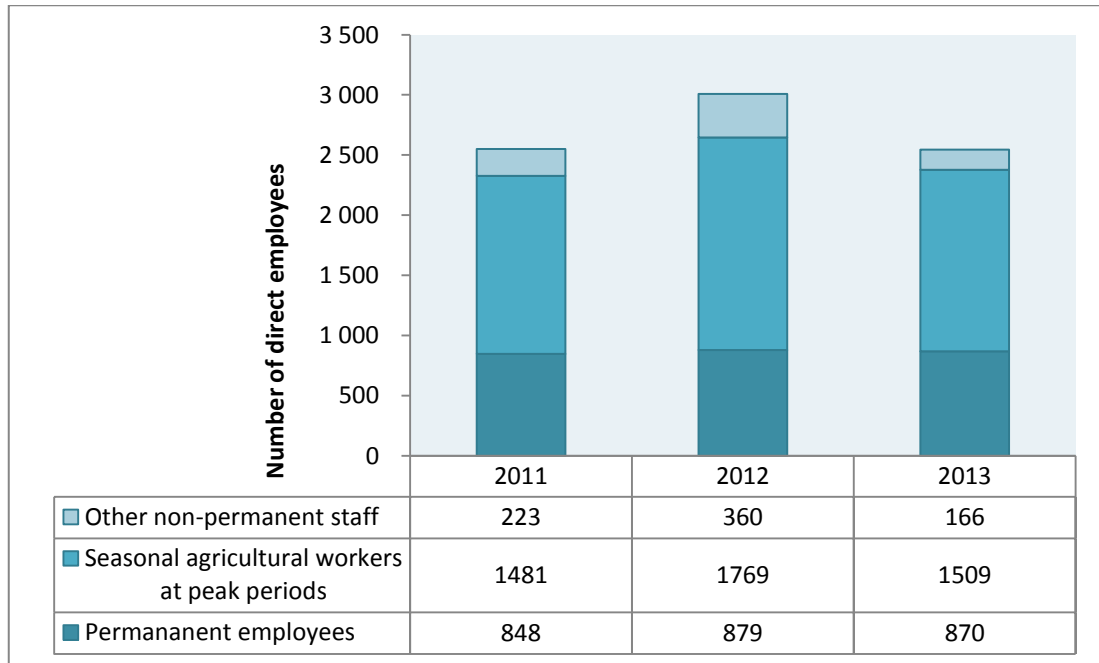
Direct employment overview

Creating employment in rural areas is one of KSCL's most significant impacts on Tanzania. KSCL's operations are centred on the town of Kidatu in the Kilombero Valley, where the company is the main source of employment. The company employs an estimated 2,545 people, including 870 permanent employees and 1,509 seasonal agricultural workers during peak periods, and 166 additional non-permanent workers¹⁰. The employment offered by KSCL represents stability for the local community, with employment figures remaining

¹⁰ Employment figures may differ from those reported in the Illovo Integrated Report due when the headcount on employee numbers was conducted.

constant for the past three years. Employee turnover in 2012/13 was 6.2%, up from 4.2% in the previous year¹¹.

Kilombero Sugar Company’s direct employment, 2011-13



Those employed by KSCL are usually the only wage earners in their families, and with an average household size of 4.3 in the Kilombero Valley, it can be conservatively estimated that the company supports the livelihoods of approximately 10,944 people in total. Such a calculation confirms KSCL as key supporter of livelihoods in the region.

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

Extended impact of direct employment



¹¹ Data sourced from the Illovo Integrated Report, 2013.

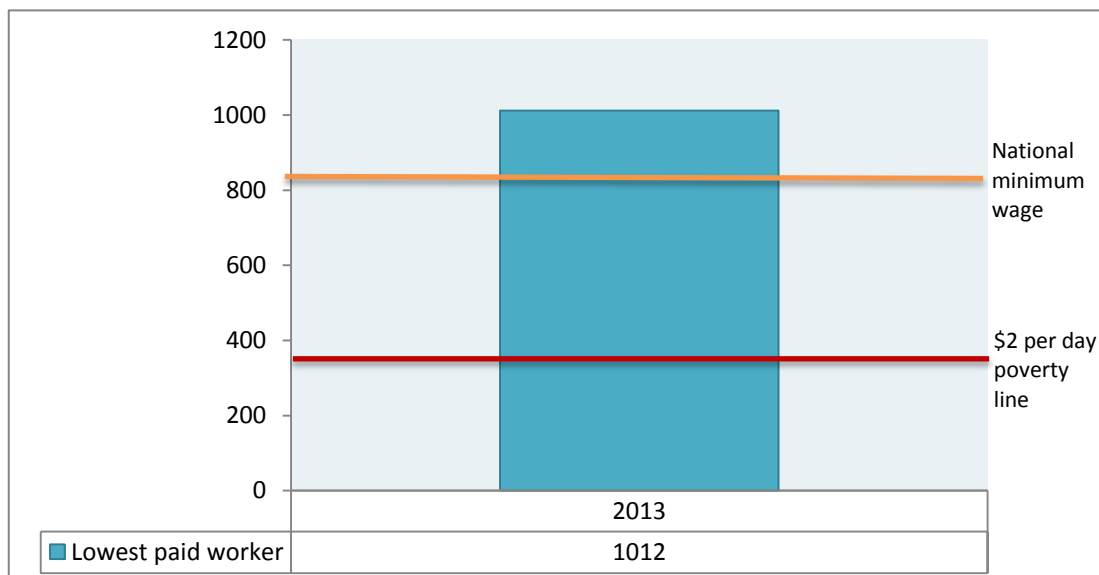
Competitive income levels

KSCL paid a total of **ZAR 146 million on employee remuneration and benefits** in 2012/13. Approximately 8% of this (ZAR 11.7 million) providing employee with benefits in addition to their basic salary. The total spend on salaries and benefits has increased 21% over the year financial 2012 to 2013. During the same period, the average salary for KSCL workers increased by 17%, exceeding the national inflation rate of 16.2% and delivering a slight increase in real incomes. Wages for temporary and seasonal workers increased by more than 30%.

Paying a living wage

The lowest paid worker receives a monthly salary of ZAR 1,012, substantially above Tanzania's statutory minimum wage, which was recently increased from ZAR 582 to ZAR 832 per month¹². According to a 2007 study, 87.9% of Tanzania's population live below the poverty line, on less than US\$2 a day (PPP)¹³. All employees at KSCL, including agricultural and factory workers, receive enough money to support themselves. However, the income of the lowest paid worker becomes stretched if we assume that they are the sole earner of a typical household in the Kilombero Valley¹⁴. This is not taking into account the additional benefits such as healthcare, education allowances and housing which employees and their dependents receive.

Comparison with minimum and living wages:



Employee relations

¹² Monthly salaries have been calculated from day-rates using an average working month of 26 days.

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

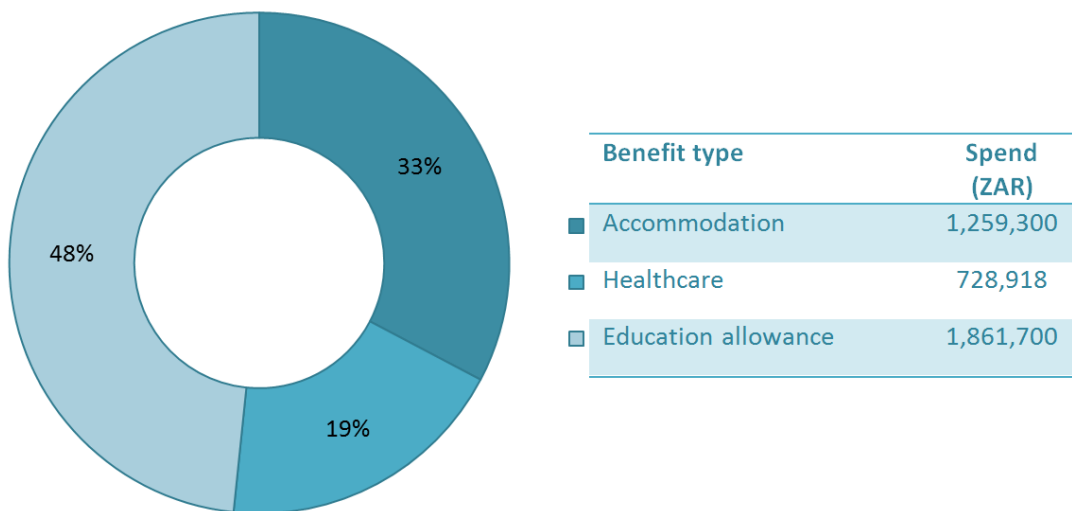
¹⁴ The poverty line is calculated at ZAR 348 per person per month (2013 prices), or ZAR 1,496 per household per month (see Appendix 2 for further detail)

Sugar cane harvesters, particularly those who work on a seasonal basis and without formal contracts, are some of the most vulnerable workers in the company’s value chain. Strong and active unions help to promote constructive dialogue and workers’ interests, and labour standards. In 2012/13, approximately 80% of KSCL employees were members of a trade union, up marginally from 79% in the previous year¹⁵.

Additional benefits

In addition to a basic salary KSCL, provides support to employees and their families in the form of benefits. The company manages 1882 houses providing benefit to all permanent and many seasonal employees, at a cost of ZAR 1,259,300, with utilities such as potable water, electricity, basic day-to-day maintenance and sanitation management. In addition, KSCL provides an education allowance for the families of 51 employees at a cost of ZAR 1,861,700.

Kilombero Sugar Company spend on main employee benefits, 2012/13



Contributing to health and wellbeing

Provision of health care

For several years, KSCL provided the only medical facilities in Kidatu: two health clinics and one 80-bed hospital. The company has more recently invested TZS 500 million (Over ZAR 2.6 million) through the Kilombero Charitable Community Trust (KCCT) to expand services at the government hospital in nearby Nyandeo, including EU grant attraction for provision of x-ray equipment, administered by KCCT, with support for trauma, surgery and maternal and new born child health (MNCH) departments.

¹⁵ Data sourced from the Illovo Integrated Report, 2013.

HIV / AIDS

The HIV infection rate amongst 15-49 year-olds in the Morogoro region is 3.8%, compared to 5.1% for Tanzania as a whole¹⁶. KSCL's HIV strategy is deliberately aligned with UNAIDS 'Triple Zero' strategy of zero infections, zero deaths and zero discrimination. It 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.

Malaria remains a key challenge for KSCL's local region, as well as for Tanzania as a whole. The company has engaged with the Research Triangle Institute LLC, an international research company which administers funds on behalf of organisations such as the Bill and Melinda Gates Foundation and USAID, for technical support on malaria activities in Kilombero.

Occupational safety

KSCL is committed to creating safe and healthy working conditions that minimise the risk of injury or disease for its employees. All cane growing and factory operations are governed by the company's formal Risk & SHE Management Policy and accredited under the ISO 9001:2008 Quality Management System. Agricultural operations have five-star NOSA accreditation for safety, health and environmental management whilst factory operations have achieved four-star accreditation. The company was declared NOSA's "Risk Manager of the year" in 2012.

Safety at work remains a challenge. In the last financial year, KSCL trained 88 Safety, Health and Environment (SHE) representatives and has increased the number of risk managers focused on this area. With road accidents a particular risk, KSCL has invested in improved road signs and speed humps and education on safe driving. In the last financial year, 302 staff went through a drivers' refresher course.

As a result of such initiatives, the injury frequency rate has fallen drastically from 0.45 in 2011 to 0.03 in 2013. The company has experienced no fatalities over the last three years and achieved 14.5 million accident-free man-hours in 2012.

¹⁶ [2011-12 Tanzania HIV/AIDS and Malaria Indicator Survey](#)

KSCL employee safety training 2012/13:

Training description:	Employees covered by training:
First aid	108
Safe Work Instruction	143
Fire fighting	115
Drivers refresher Course	302
SHE representatives	88
Incident Investigation	80

Improving diversity

The number of women working in agriculture remains an issue for the sector as a whole in Tanzania, with skilled, senior-level female employees often migrating to urban locations. Whilst KSCL still has challenges around promoting equal opportunities, the company has succeeded in employing women across a range of roles from senior managers to cane cutters. KSCL employs a total of 409 women, which equates to 16% of the company workforce.

Position	Male:	Female:	Percentage female:
Senior Managers	42	2	4.5%
Middle Management	37	2	5.4%
First Line Managers	98	13	13.3%
Other	598	93	13.5
Seasonal & non-permanents	1675	299	17.9

Promoting localisation & skills/Training and development

Addressing the skills gap in Tanzania is a key element of KSCL's strategy for ensuring the growth and sustainability of its business. The company spent ZAR 790,064 providing an estimated 50,000 man-days of training in 2012/13. This equates to 1.02 training days per employee during the year.

KSCL is focused on providing employment and opportunities for Tanzanians, with 97% of the company's full-time employees and 41% of senior managers being Tanzanian nationals. In previous years 61% of senior managers were from Tanzania, this decrease is largely as a result of expert expatriate personnel deployed to work on the ethanol distillery project¹⁷.

Description	Employees covered
Employees undertaking work-based qualifications	868 (Permanent) 70 (Special contractor & experts)
Management trainees	5
Internship programmes	37

During 2012/13 the Group ran specialist training courses in Durban, South Africa, for operators at the new distillery. All operators selected for the distillery are Tanzanian.

¹⁷ Data sourced from the Illovo Integrated Report, 2013.

Section 4: Value chain impact – suppliers

Headline messages:

- In 2012/13, KSCL spent ZAR 205 million (29% of total revenues) procuring sugar cane from farmers local to its mills, including over **6,300 active smallholder farms**.
- In addition, KSCL spent ZAR 475 million with non-cane suppliers, about 25% of which was with companies in Tanzania.
- Independent outgrower farmers have played a key role in KSCL's expansion since it was privatised in 1998, supplying much of the increased demand for sugar cane. The outgrower base has tripled from 2,400 outgrowers covering 3,500 hectares to over 8,000 registered outgrowers farming 14,600 hectares, while total spending with outgrowers has grown from TZS 1 billion to over TZS 38 billion.
- The Kilombero Community Charitable Trust, of which KSCL is a founder member, funds projects to increase outgrower capacity and improve livelihoods.
- KSCL estimates that it supports 1,656 small businesses in the area surrounding its mills.

KSCL's supply chain

45% of the sugar cane used by KSCL is purchased from independent outgrower farmers, with around 70% of this total coming from smallholder farmers in the local region. KSCL spent ZAR 205 million buying cane from local farmers in 2012/13 and a further ZAR 475 million on non-cane procurement, about 25% of which was with companies in Tanzania. This non-cane procurement includes many contracts held by local small businesses.

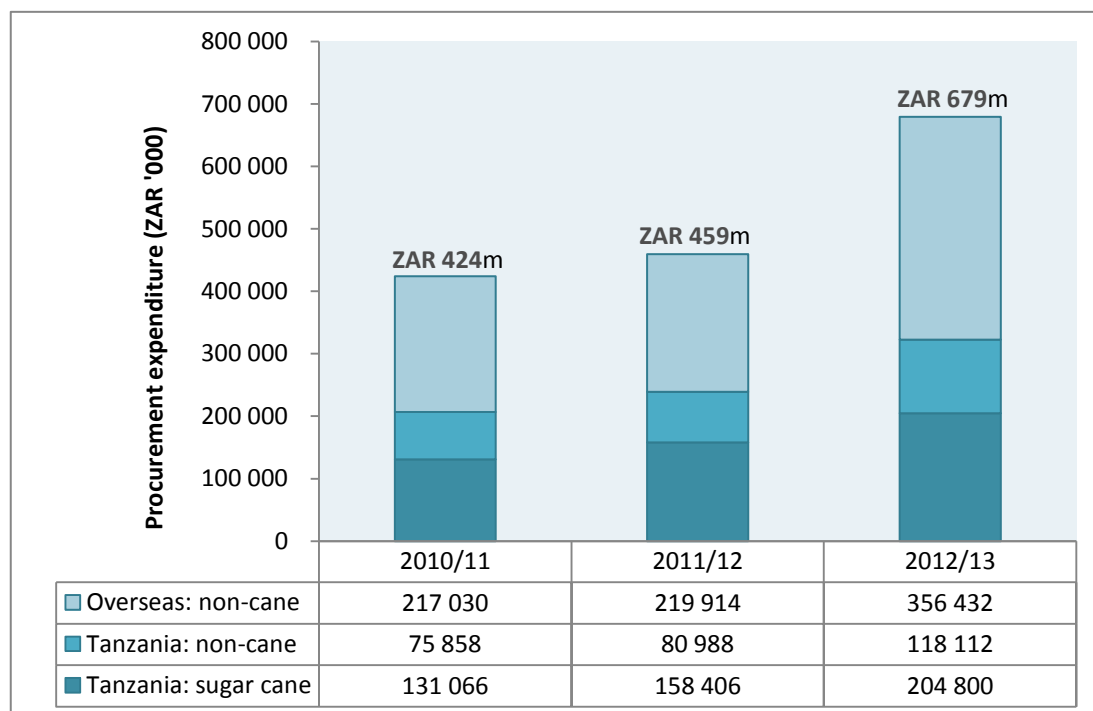
The company's supply chain has had a transformative effect on its surrounding communities. Prior to KSCL's privatisation in 1998, the company's payments to outgrowers totalled TZS 1 billion. Today they are over TZS 38 billion – an average increase of nearly 28% every year (compared to average inflation of only 8% per year). According to KSCL, GDP per capita in the region is approximately double the national average¹⁸, and many small farming villages now have a thriving small business sector. Rising incomes have attracted migration from all over Tanzania, and KSCL employees interviewed for this report highlighted the number of houses that have been built over the past decade, as well as other signs of wealth such as the number of motorcycles and cars on the roads.

¹⁸ Corporate Citizenship has not been able to verify this figure with reference to the Tanzanian National Accounts. We would appreciate it if KSCL could provide a reference.

Of the remaining 75% of KSCL's non-cane procurement, about 60% is spent via Illovo central procurement in South Africa, which mainly supplies bulk orders of fertilisers, chemicals, steel, packaging and capital items.

Over the last three years, cane and non-cane sourcing has steadily increased, as the chart below shows.

Kilombo Sugar Company procurement spending, 2011-13



Since KSCL was privatised in 1998, its outgrower base has tripled. In 1998, KSCL sourced cane from about 2,400 outgrowers, covering 3,500 hectares. The company now has over 8,000 registered outgrowers¹⁹, farming 14,600 hectares. Cane supply from outgrowers has risen from less than 100,000 tonnes in 1998 to about 583,000 tonnes in 2012/13.

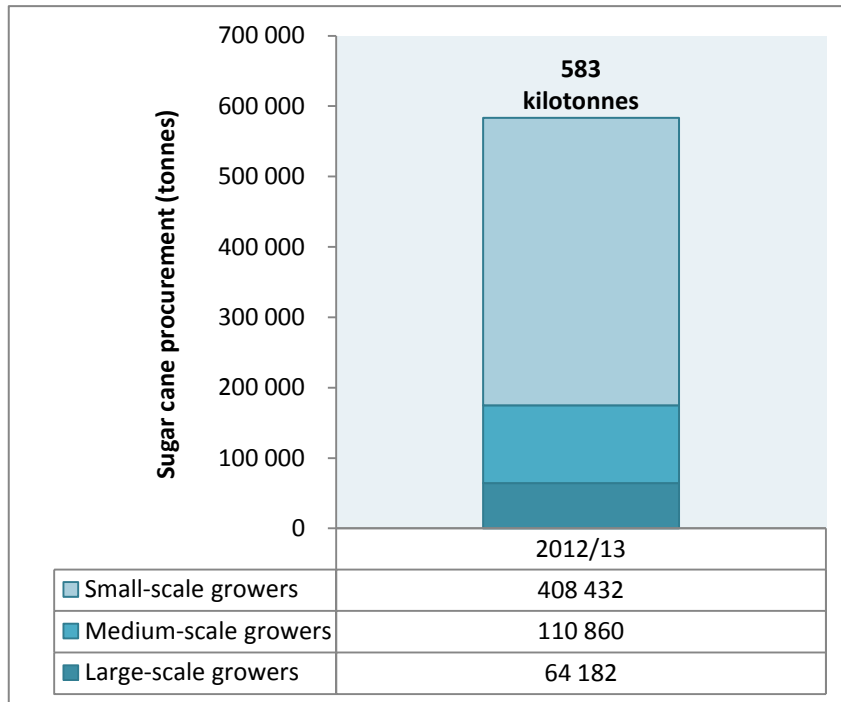
Cane is procured from three main types of growers:

- Small-scale growers, with less than 5 hectares of land under cane: Around 6,320 small-scale growers together provide about 70% of the grower cane procured. This proportion is one of the highest of all companies in the Illovo Group.
- Medium-scale growers: small commercial growers with between 5 and 50 hectares under cane. There are 1,667 such growers in KSCL's supply chain, providing around 19% of the grower cane procured by the company.

¹⁹ 5,212 of these supplied cane in 2012/13

- Large-scale growers: commercial farmers with over 50 hectares of land under cane. Illovo buys cane from 13 such farms, representing 11% of total grower cane procured.

KSCL: Approximate tonnes of cane by size of outgrower farmer, 2012/13



Supporting employment in the supply chain

Outgrower employment

KSCL provides significant indirect employment through its spending with outgrower farmers. This includes the over 8,000 registered farmers from whom the company sources (only some of whom work on their land but all of whom are supported through their business with KSCL) and also the workers, who plant, fertilise, weed and harvest the crop. Detailed surveys would be required to estimate the extent of this employment precisely, but a rough estimate can be obtained using figures from KSCL’s own farms.

Taking agricultural employment at KSCL in 2012/13²⁰ and scaling this by the tonnage of sugar cane procured from large-, medium- and small-scale growers gives an employment estimate of 1,484²¹, and adding the 8,000 farm-owners brings the total estimate of

²⁰ 1,847 (338 permanent agricultural workers plus 1,509 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.

²¹ This estimate depends on a number of assumptions, the main one being that commercial and new freehold growers have similar productivity rates (in terms of workers per tonne) to KSCL’s own

employment through outgrowers to 9,484. The extent of this employment is a reflection of the large proportion of smallholders involved in supplying sugar cane.

The average household size in Kilombero is 4.3, although the total number of dependents supported by rural farmers is likely to be higher. KSCL is therefore estimated to support the livelihoods of 40,783 people through its purchases of outgrower sugar cane in Tanzania, although this figure may well be an underestimate.

Further supply chain employment

KSCL also supports further indirect employment through its spending with non-cane suppliers, such as providers of haulage, distribution, machinery and maintenance. KSCL estimates that it provides indirect employment to 1,000 people through support and contract services around the mill alone²².

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

Expanding responsibly

Sugar cane is an important cash crop, offering a higher income per hectare than many other food crops. By providing a market for cane for independent, outgrower farmers, KSCL reduces rural poverty and helps farmers to scale up from subsistence levels. The four-fold expansion of sugar production by the company since 1998 has provided a huge economic boost for local communities, but also requires that attention is paid to the issue of food security, since sugar cane may often be grown on land that could be used for food. Land rights can also be an issue in local villages, where land is owned directly rather than leased from the government. These rights may become disputed as land becomes more valuable and productive.

About 60% of the land within 40 km radius from KSCL's mills is under cane, with much of the remainder used for other crops. Some outgrower farmers grow their own food crops, including rice, maize and potatoes, in areas which are not suitable for sugar cane. Despite potentially replacing food crops on some land, sugar cane also has positive impacts on farmers' food security. Income from sugar cane can be used to purchase food, and also to purchase fertiliser that supports greater yields and a greater range of food crops.

farms. If outgrower farms are more productive than KSCL's farms, then this figure will be an overestimate. However, this is unlikely given the farms' proximity to KSCL's own and the consequent likelihood of similar growing environments. In fact, fewer economies of scale may mean that external farms are less productive than KSCL's own.

²² This number forms part of the total estimate of indirect and induced employment (see Section 2).

Paying a fair price

KSCL negotiates a Cane Supply Agreement (CSA) with its grower associations every three years, which specifies how the proceeds of cane are divided between growers and the company, and when and how payments are made. In 2012/13, KSCL's outgrowers received 57% of net proceeds from sugar revenue, approximately ZAR 400 per tonne of sugar cane. This is above the local industry average market price.

KSCL negotiated its fourth annual CSA with fourteen outgrower associations in May and June 2013, the largest such agreement in the history of the company. The CSA states that the proportion of proceeds received by outgrowers will increase by 0.5% every year for the next three years. The goal is to reach a 60/40 split between outgrowers and KSCL.

In order to cover fluctuations in the price of sugar sold by the mills, 10% of outgrower proceeds are kept back and placed into a central fund, from which grower associations can make requests at any time. The remainder is then paid out at the end of the season.

Supporting farmer productivity

KSCL operates a dedicated outgrower department with a permanent staff of six and a total budget of about ZAR 2 million, which is dedicated to improving the productivity and long-term sustainability of its supplier farms.

KSCL holds monthly meetings with outgrowers to discuss the latest market trends, provides technical advice and enables its outgrowers to buy seed and fertilisers at the company's bulk discount rates, although farmers often have cheaper government sources available. When external sources of finance are unavailable, the company has made loans to outgrowers for projects such as road maintenance and crop establishment. In these cases, KSCL includes incentives for farmers to reduce the interest rate they pay by achieving certain yields or participating in grower meetings.

As a member of the Tanzania Sugar Producers Association, KSCL is a contributor to the Sugar Research and Training Institute of Tanzania, which provides training and access to technology for small-scale farmers. The company is also a founder member of the Kilombero Community Charitable Trust (KCCT), which attracts funds from external donors and uses these to support infrastructure projects aimed at building outgrower capacity. The Trust also provides workshops and training to demonstrate business skills and best practice, provides farmers with access to external finance (including interest-free finance for four block farms), and has carried out projects such as importing sugar cane varieties and irrigation feasibility studies. A recent study supported by EU grants identified about 5,000 hectares with the potential for irrigation. Financing of irrigation projects through the Southern Agricultural Growth Corridor of Tanzania initiative (SAGCOT) is also under development. In the coming year, the Trust will use a €400,000 grant from Solidaridad to fund an aerial survey of the Kilombero region, which will help to inform schemes for improving yields.



Supporting local and small businesses

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

Since 2005, KSCL has pursued a programme of outsourcing support services such as cane cutting, rolling and haulage, which were previously carried out by company employees, to local small businesses. The company has formed associations and funded capacity building for these businesses and last year, conducted a survey in three local villages to assess the contribution that it makes. The survey estimated that the company supports 1,656 businesses in the local area, ranging from shops and bars to commercial banks and petrol stations. The company also supports six primary schools, four day care centres and two police stations.

Local businesses supported by KSCL (estimated from survey)

Business	Number	Business	Number
Retailer Shop	387	Motor Spare Parts Shop	18
Small Business Shop	305	Stationery	17
Bodaboda Transport	173	Bajaji Transport	16
Bar	69	Garage	11
Clothes Shop	59	Phone Shop	9
Salon For Men	43	Agricultural Inputs Shop	8
Wholesaler	39	Dispensary	8
Butcher	39	Computer Maintenance Office	7
Tailor Office	39	Phone Maintenance Office	7
Guest House	39	Cement Shops	5
Voucher Hat	37	Transport Company Large	4
Local Beer Shop	36	Transport Company Small	4
Pharmacy	33	Fast Food	3
Salon For Women	32	TV Shops	3
Bicycle Rent	32	Petrol Station	3
Furniture Centre	26	Video Shooter	3
Shoe Service Centre	25	Insurance Office	2

Hardware	24	Internet Cafe	2
Taxi	24	Bank	2
Cell Phone Shop	21	Private School	2
Milling Machines	19	Social Funds	2
Used Clothes Shop	18	Hotel	1
Total			1,656

The majority of contracts for KSCL's new distillery were also awarded to local businesses, with the project providing employment for several hundred workers from Tanzania.

Section 5: Value chain impact – customers

Headline messages:

- 88% of KSCL’s sugar production is sold within Tanzania, the vast majority for direct consumption.
- KSCL’s products are sold through an estimated 100,000 retail units in Tanzania.

Serving customers

KSCL sells sugars and ethanol, on behalf of the distillery, to customers in Tanzania and international markets, and its wide range of customers results in significant downstream economic impacts. Sugar is sold for direct consumption. In 2012/13, KSCL produced 129,737 tonnes of raw sugar, 88% of which was sold into the domestic market with a very small quantity sold to neighbouring African countries and the residual 12% sold on the world market.

About 82% of KSCL’s sugar production is sold to wholesalers and sub-wholesalers in Tanzania, who sell to an estimated 100,000 retail units. Beverage companies are the main industrial users of KSCL’s products in Tanzania, buying about 2% of total production.

KSCL ensures the quality of its products using the internationally approved certification scheme ISO 9001 (quality management systems), which targets consistent quality and continuous improvement.

Supporting downstream employment

As with its supply chain, KSCL supports indirect employment through downstream linkages in the value chain, such as at distributors, retailers, re-packers and industrial customers. It also supports further induced employment, via spending by indirect employees that leads to increased consumption and employment in the economy as a whole.

Section 6: Social Responsibility and Community Investment

Headline messages:

- KSCL co-founded and funds the Kilombero Community Charitable Trust, which has invested approximately ZAR 38 million in schools, hospitals and infrastructure since 1998.
- KSCL's support in governing the Trust has helped secure external loans and donor-funding to further promote enterprise development and poverty alleviation.

Investing in local communities

Illovo's Group-wide strategy recognises that the prosperity and sustainability of the business is closely aligned with that of its surrounding communities. All Group companies invest in their local communities in addition to providing employment and a market for local suppliers.

In addition to its own social initiatives, KSCL is a co-founder of the Kilombero Community Charitable Trust (KCCT), which focuses on supporting the long-term sustainability of sugar cane farming and ensuring that it translates into the alleviation of poverty in the local community.

Over the past decade, KCCT has supported multiple initiatives including; rural infrastructure development; electrification, drinking water, feeder roads, boreholes, mobile health services and school infrastructure support. It is currently supporting capacity building programs for the 8000 registered sugarcane outgrower farmers and an initiative to assist the outgrowers to move away from rain fed agriculture into irrigated agriculture.

In addition to being partly financed by KSCL, the strong governance that the Trust provides also attracts funds from external donors such as the EU, World Bank and USAID, to support local infrastructure projects. The Trust has invested approximately ZAR 38 million in social development through schools and hospitals. It is currently investing over ZAR 3.2 million to expand services at the Nyandeo hospital. The facility will provide healthcare services to about 90,000 people, including specialised medical X-ray services, surgery and facilities for mothers and new-born babies.

Section 7: Environmental sustainability

Headline messages:

- The expansion of KSCL's operations has drawn significant migration to the Kilombero region, putting pressure on the land and creating environmental challenges. The land devoted to cane-growing in the local area has increased from 3,500 hectares to almost 15,000 hectares, as outgrower farmers expand their operations to supply KSCL.
- Approximately 2,000 hectares (20%) of the land held by KSCL is not designated for cane growing. Over half of this area is covered by the Magombera Forest and is maintained as a conservation area.
- During 2012/13, the company used over 85 billion litres of water, with 20% used for production and 80% irrigating agricultural land.
- KSCL self-generates 34,430,00 kWh of power, approximately 63% of the power that it consumes, using the biomass by-product bagasse.
- KSCL has adopted farming practices based on field conservation guidelines advocated by the South African Sugarcane Research Institute (SASRI), so as to ensure agricultural production on a sustainable basis with minimum impact on the environment.

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

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

Water stewardship

KSCL abstracts all of the water that it uses on production sites and agricultural land from the Ruaha River. During 2012/13, the company used over 85 billion litres of water, with 20% used for production and 80% irrigating agricultural land. KSCL holds a water-use permit issued under Tanzania's Water Act, and is subject to regular government audits to check compliance with the Act.

Sewage is treated in sewage bonds and effluent is combined with irrigation water sent to fields. Approximately 14,000 m³ of effluence water is discharged into the Ruaha River.

KSCL has a Risk &SHE Management policy in place stating its commitment to preventing contamination and maintaining the environment. The rivers surrounding plantations are checked twice a month for pollutants associated with chemicals used on the land.

KSCL has worked with the rest of the sugar industry in Tanzania to import over 300 sugarcane varieties during the last three years, screening and selecting them on their suitability for rain-fed conditions, amongst other characteristics. These selection criteria help to reduce pressure on water supplies.

Protecting land and biodiversity

The expansion of KSCL's operations has drawn significant migration to the Kilombero region, putting pressure on the land and creating environmental challenges. The land devoted to cane-growing by outgrowers in the local area has increased from 3,500 hectares to nearly 15,000 hectares, as outgrower farmers expand their operations to supply KSCL.

Of the 12,000 hectares of land leased by KSCL, only 80% is used for cane production and there are no plans to expand this cane-growing area. Over half of the remaining 20% is covered by the Magombera Forest, an area of tropical lowland forest which is home to a number of rare flora and fauna; the remaining area has been settled by local communities. KSCL proposed in 2002 to relocate settlements from company land into the Forest area, but this plan has since been dropped, and the communities have been allowed to remain.

Prior to 1993, the Magombera Forest was not formally protected. KSCL has worked with local conservationists on a proposal, backed by WWF, to annex the land to the local Selous Game Reserve. As part of this initiative, KSCL has explored the possibility of exchanging the land covered by the forest for an area of similar size. However, the land offered by the government has either been located too far from KSCL's mills, been unsuitable for cane growing or has contained existing settlements. KSCL may therefore look to sell its lease on the Magombera Forest area, on the condition that the land will not be cultivated and be protected.

KSCL has adopted farming practices based on field conservation guidelines as advocated by the South African Sugarcane Research Institute (SASRI), so as to ensure agricultural production on a sustainable basis with minimum impact on the environment. These policies promote the retention of natural vegetation along waterways, to help stabilise stream banks and maintain drain edges. KSCL leaves approximately 400 hectares of land fallow each season, and seeds some of these areas with the nitrogen-fixing green fertiliser, sunhemp.

Energy use and emissions

At Group level, Illovo participates in the Carbon Disclosure Project (CDP), demonstrating commitment to transparency on reducing greenhouse gas (GHG) emissions. The company has publicly committed to reducing GHG emissions across the group by 10.7% by 2020, compared to 2010 levels. When the projected increase in sugar production is taken into account, this commitment amounts to an effective emissions reduction of 34%.

KSCL does not currently directly measure carbon emissions at its site but it has started the development of a measurement system. Measuring emissions will continue to grow in importance to meet external stakeholder expectations on climate change as well as being able to track performance against Group-level targets.

Sugar cane offers excellent opportunities for the production and use of renewable energy through its natural biomass by-product, bagasse. KSCL generates 34,430,00 kWh of electricity on-site using bagasse, accounting for approximately 63% of the power it consumes. The remaining 37% of its electricity is sourced from the national supplier, including some electricity generated from natural gas and hydro sources. All supplies of steam and heat for sugar and alcohol production are generated directly from the biomass

KSCL aims to promote energy efficiency improvements whenever these are financially viable. The electricity and steam used by the Group's new distillery will be generated exclusively from renewable sources.

Waste

KSCL has a waste management policy that provides guidance on the proper management of hazardous and non-hazardous waste streams. Non-hazardous waste is transported to the designated pit at a landfill site where the landfill attendants receives along with weight notes, checks the type of waste and gives directives where each type of non-hazardous waste needs to be correctly disposed. KSCL uses an incinerator to dispose of medical and chemical hazardous waste.

This review confirmed that the company produces a total of 5,363 tonnes of non-hazardous waste and 72 tonnes of hazardous waste. A contractor authorised by the National Environmental Management Council of Tanzania takes empty herbicide and chemical containers for re-use, accounting for 6.5 tonnes of waste. Approximately 5363.3 tonnes of waste is sent to landfill. All hazardous waste is disposed of through an approved recycling company.

Corporate Citizenship

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

T: 020 7861 1616

W: www.corporate-citizenship.com

