

# Illovo Sugar Africa

Maragra Açúcar SA Socio-Economic  
Impact Assessment

Internal Management Report

October 2017

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# Executive Summary

Maragra Açúcar SA (Maragra Açúcar is a significant contributor to Mozambique’s economy. It plays an important societal role, supporting significant direct and indirect employment in rural areas, providing financial support, technical assistance and capacity building to smallholder farmers, and supporting the Mozambique government’s development agenda.

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

## In 2016/17 Maragra Açúcar’s socio-economic impacts in Mozambique included:

<p><b>Generating economic value</b></p>	<ul style="list-style-type: none"> <li>• Maragra Açúcar is one of four major sugar producers in Mozambique. In 2016/17, 61% of sales of sugar were in the domestic market, with other African markets accounting for an additional 5% of sugar sales.</li> <li>• Maragra Açúcar’s total economic impact – including direct, indirect and induced impacts – is estimated at ZAR 954 million in 2016/17. This includes ZAR 258 million in direct impacts (gross value added), and the remainder through multiplier effects within the supply chain and wider economy.</li> <li>• Maragra Açúcar’s total direct tax payments in 2016/17 amounted to ZAR 14.5 million, while indirect taxes totalling ZAR 24.9 million were collected on behalf of the government. Maragra Açúcar also made payments of ZAR 375 million to suppliers in Mozambique, paid ZAR 121 million in salaries, wages and benefits to employees, and made capital investments of ZAR 63 million.</li> </ul>
<p><b>Creating employment opportunities</b></p>	<ul style="list-style-type: none"> <li>• Maragra Açúcar is estimated to support at least 8,694 jobs in Mozambique. For each of Maragra Açúcar’s 5,092 direct employees, at least 0.7 jobs are estimated to be supported through outgrower communities and wider multiplier effects throughout the economy.</li> <li>• Maragra Açúcar paid ZAR 121 million in salaries, wages and benefits to employees in 2016/17. The company actively monitors remuneration against local and international benchmarks, with the lowest-paid employee earning 102% of the local minimum wage in 2016/17.</li> <li>• Maragra Açúcar invests around 1.5% of payroll in training and development, including apprenticeship and graduate schemes.</li> </ul>
<p><b>Supporting farmer livelihoods</b></p>	<ul style="list-style-type: none"> <li>• Maragra Açúcar’s supply chain includes 473 outgrower farmers, in total supplying over 200,000 tonnes of cane every year. 34% of the sugar cane used by Maragra Açúcar is supplied by independent farmers; the remaining 66% comes from the company’s own land.</li> <li>• Maragra Açúcar is estimated to support 2,153 jobs through outgrower farmers. The company estimates that 65% of outgrower employees are women.</li> </ul>
<p><b>Investing in communities</b></p>	<ul style="list-style-type: none"> <li>• Maragra Açúcar’s community investments totalled ZAR 394,330 in 2016/17. Almost half of this was spent on education; about 40% was</li> </ul>

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	<p>spent on health, and the remaining on infrastructure projects and other community support.</p> <ul style="list-style-type: none"><li>• Maragra Açúcar’s implementation of any community social investment is done after needs assessment which is usually conducted by the district and local government.</li></ul>
<p>Promoting environmental sustainability</p>	<ul style="list-style-type: none"><li>• 94% of Maragra Açúcar’s energy consumption is provided from bagasse, a renewable energy source. Maragra Açúcar was responsible for just 4% of Illovo Africa’s total carbon emissions in 2016/17, equating to 25,700 tCO<sub>2</sub>e.</li><li>• Production has been impacted by erratic rainfall over the last three seasons, although increased rainfall in 2016/17 led to reduced consumption of surface water.</li><li>• In 2016/17, 79% of water withdrawals in Maragra Açúcar’s non-cane operations were recycled and returned to source.</li></ul>
<p>Responsible practices in the market place</p>	<ul style="list-style-type: none"><li>• To help eliminate micronutrient malnutrition, particularly in children, the Mozambique government has requested that all direct consumption sugar be fortified with Vitamin A from 1 June 2017 onwards. This follows similar requirements in Zambia and Malawi, with which Illovo Africa also complies.</li></ul>

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# Introduction

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

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

## About this report

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

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

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

## Methodology

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

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

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

## Illovo in Mozambique

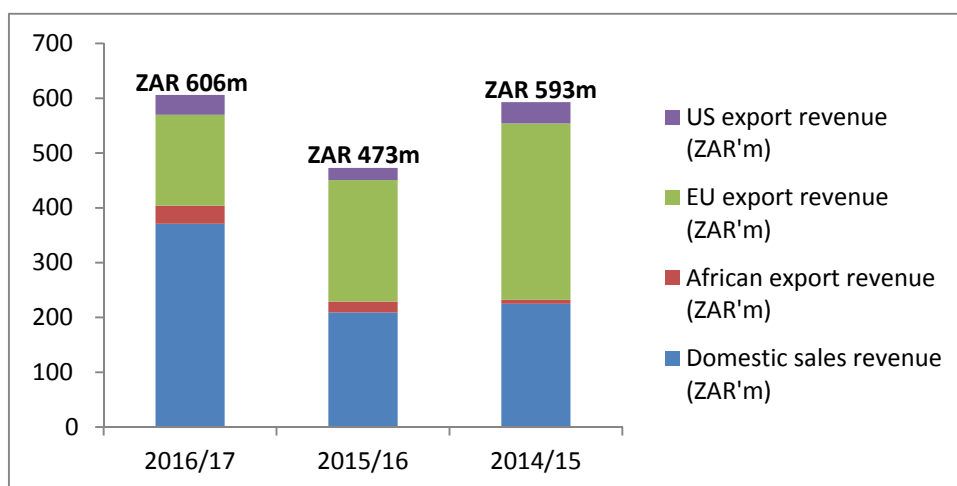
Illovo Sugar Africa operates in Mozambique through its subsidiary, Maragra Açúcar SA. The company is one of four sugar producers in the country with combined production capacity of more than 380,000 tons of sugar per annum. The company produces raw sugar, marketed domestically by the industry marketing association, the Distribuidora Nacional de Açúcar.

Illovo holds a 90% share in Maragra Açúcar SA with the balance of shares owned by a private minority investor. Illovo’s acquisition of Maragra Açúcar’s sugar estate in the Manhiça District of Maputo Province in 1996 was the Group’s first acquisition outside of South Africa. Following the acquisition, Illovo invested heavily to rehabilitate the land and upgrade the factory, as it did to resume production after the devastating floods in 2000 which damaged extensively both the company’s and outgrowers’ cane fields.

In 2016/17, 61% of sales of sugar were to domestic consumer and industrial markets, with other African markets accounting for an additional 5% of sugar sales.

Mozambique Country Data (2016 est.) <sup>1</sup>	
<b>Economic Indicators</b>	
GDP (purchasing power parity)	\$35.01 billion
GDP per capita (PPP)	\$1,200
Annual GDP growth rate	3.6%
<b>Labour Market Indicators</b>	
Population	25.9 million
Labour force	13.31 million
By occupation (1997)	Agriculture 81% Industry 6% Services 13%
Population location (2015)	Rural 32.2% Urban 67.8%
Unemployment rate <sup>2</sup>	24.4%
<b>Poverty Indicators</b>	
Population living below \$1.90 per day (2011 PPP) <sup>3</sup>	68.74%
Rural population living below national poverty line (2008) <sup>4</sup>	56.9%
Adult literacy rate	58.8%
Life expectancy at birth	53.3 years

### Maragra Açúcar: breakdown of sales of sugar in the marketplace



<sup>1</sup> [CIA World Factbook for Mozambique](#)

<sup>2</sup> World Bank (2016), [Unemployment, total \(% of total labor force\) \(modeled ILO estimate\)](#)

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

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

The increasing proportion of sugar sales to Mozambique's domestic and wider African markets since our last assessment reflects the change in Illovo's business strategy as it looks to sell more of its products within the African continent. This is in anticipation of a shrinking EU market following EU reforms to the Common Agricultural Policy (CAP).

In addition to sales of sugar, Maragra Açúcar makes a small amount of revenue every year from exporting electricity generated at the factory back to the national grid. The export of 1,360 MWh of electricity in 2016/17 accounted for 0.1% of revenue.

# Section 1: Generating economic value

## Headline messages:

- Maragra Açúcar's total economic impact – including direct, indirect and induced impacts – is estimated at ZAR 953 million in 2016/17. This includes ZAR 258 million in direct impacts (gross value added), and the remainder through multiplier effects within the supply chain and wider economy.
- Maragra Açúcar is estimated to support at least 8,694 jobs in Mozambique. For each of Maragra Açúcar's 5,092 direct employees, at least 0.7 jobs are estimated to be supported through outgrower communities and wider multiplier effects throughout the economy.
- Maragra Açúcar's total direct tax payments in 2016/17 amounted to ZAR 14.5 million, while indirect taxes totalling ZAR 24.9 million were collected on behalf of the government. Maragra Açúcar also made payments of ZAR 375 million to suppliers in Mozambique, paid ZAR 121 million in salaries, wages and benefits to employees, and made capital investments of ZAR 63 million.

## Overview

- Maragra Açúcar makes a valuable contribution to Mozambique's economy. Due to the relative labour intensity of sugar production, compared to other agricultural crops, as well as the large number of smallholder farmers in the value chain, the economic multiplier effects are significant. Much of this is felt by the rural populations, who grow and harvest the sugar cane, as well as the supporting industries that supply to Illovo and small local businesses that have grown around the sugar estates (e.g. transportation, retail and food).
- Maragra Açúcar represents Illovo Africa's smallest country operation, producing 73,000 tonnes of sugar (5% of the group's total sugar production) in 2016/17.
- Revenues in 2016/17 were ZAR 606 million – up from ZAR 473 million the previous year, when erratic rainfall resulted in reduced production and revenues. Maragra Açúcar is making investments in future growth.
- Maragra Açúcar's contribution to the economy of Mozambique has been estimated below in terms of gross value added. The company has impacts on a wide range of stakeholders in the local community and the wider economy, through three main channels:
  - **Direct** impacts, through Maragra Açúcar's direct employment of workers on farms and in factories, as well as tax payments, interest spending, shareholder dividends, investments and other payments;
  - **Indirect** impacts in the value chain, through sourcing sugar cane from farmers and payments to suppliers and distributors, as well as impacts on those selling Illovo products or using them in their businesses;

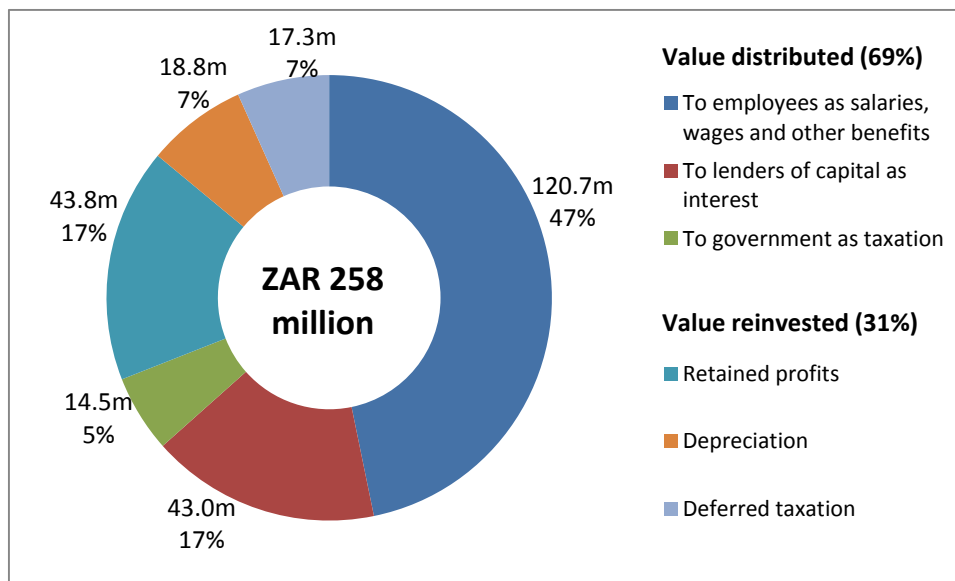


- o **Induced** impacts, through spending by direct and indirect employees, leading to increased consumption and employment elsewhere in the economy.
- Additional, secondary impacts that result from Maragra Açúcar’s presence in Mozambique include the provision of infrastructure such as roads, water, schooling and healthcare. These are described in this report, but are not quantified financially.

## Creating economic value

- Maragra Açúcar’s direct contribution to the economy of Mozambique, measured in terms of gross value added, was ZAR 258 million in 2016/17. This number is calculated as the difference between revenues and outgoings, and is a measure of the company’s contribution to GDP. 69% was distributed to shareholders – including employees, shareholders and the government – while 31% was retained in the business.
- The sugar industry in southern Africa is noted in a number of studies for its large multiplier effects<sup>5</sup>. Maragra Açúcar’s total economic impact – including direct, indirect and induced impacts – is estimated at ZAR 953 million for 2016/17. This is the equivalent of about 0.7% of Mozambique’s GDP<sup>6</sup>, or about 2.7% of the size of Mozambique’s agricultural sector<sup>7</sup>.

### Maragra Açúcar: Direct economic impact, 2016/17 (distribution of gross value added)

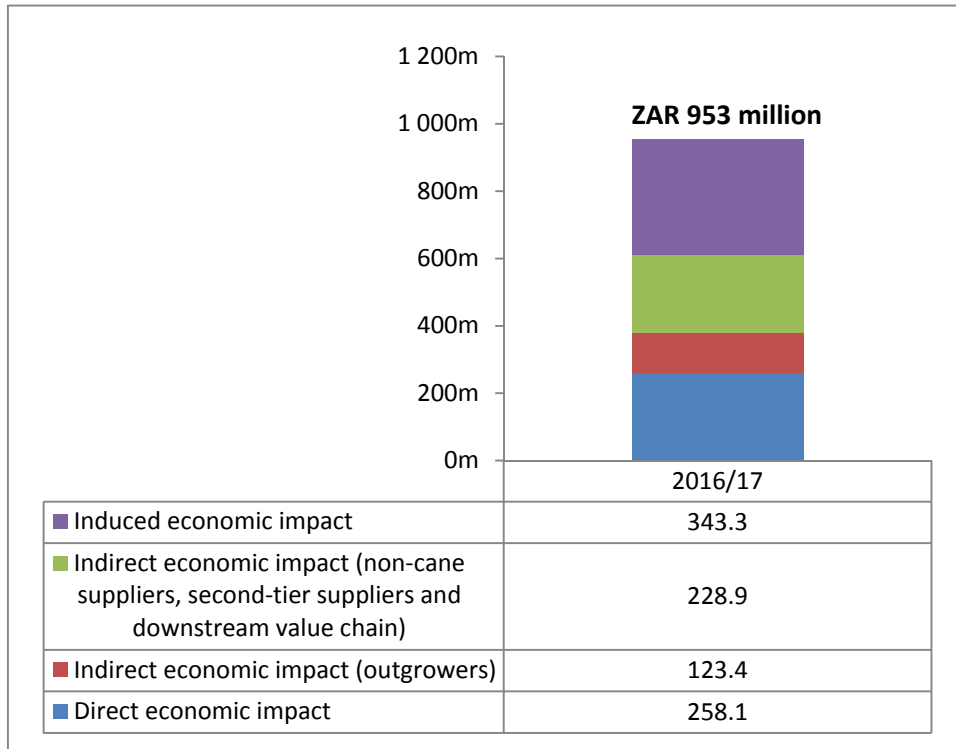


<sup>5</sup> This is due to the relative labour intensity of production as well as the large number of smallholder farmers in the value chain. Sugar cane must be milled as soon as possible after harvesting, meaning significant economic impacts are felt by rural populations. As well as consuming inputs such as fertiliser, fuel and mechanical equipment, sugar provides opportunities to sectors such as transport, retailing and hospitality, food and beverages. For further details, see Appendix 1.

<sup>6</sup> [IMF World Economic Outlook Database](#), South Africa gross domestic product, current prices, 2016

<sup>7</sup> [CIA World Factbook for Mozambique](#), GDP - composition, by sector of origin

**Maragra Açúcar: Total economic impacts in Mozambique (estimated), 2016/17**

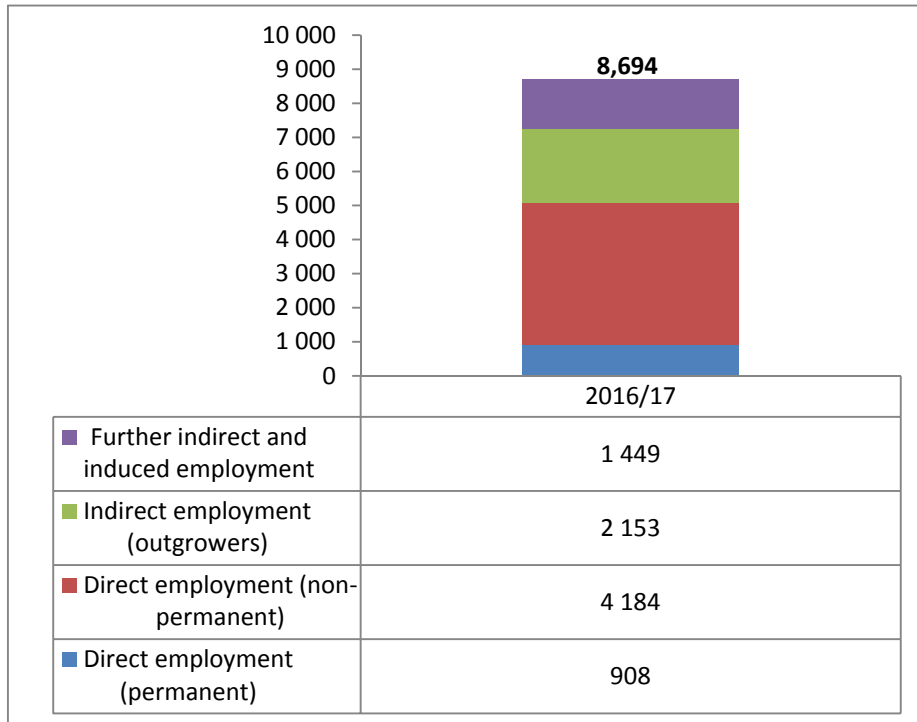


**Total employment impacts**

- While Illovo’s direct employment impact is important, it also has a significant indirect employment impact, with thousands more jobs supported in the value chain.
- Maragra Açúcar is estimated to support at least 8,694 jobs in Mozambique. This includes permanent employment of 908, non-permanent (including peak seasonal/fixed contract) employment of 4,184, and an estimated 2,153 people whose employment is supported through outgrower farms. In addition, indirect and induced employment, based on a conservative multiplier for the sugar industry, is estimated to be at least 1,500<sup>8</sup>.
- In other words, for every direct employee of Maragra Açúcar, at least 0.7 workers are supported through outgrower communities and in the wider economy.
- Based on an average household size of 5.0 people in Maputo (see Appendix 1), Maragra Açúcar is estimated to support the livelihoods of at least 8 people for every direct employee of the company. The number of livelihoods supported will vary between households – for some, such as direct employees and outgrowers, Maragra Açúcar may well be the main contributor to household income, while in others Maragra Açúcar’s support will be a factor among many.

<sup>8</sup> Multipliers sourced from Conningarth Economists (2013), *Growing the Sugar Industry in South Africa*, National Agricultural Marketing Council. See Appendix 1 for a further explanation.

**Maragra Açúcar: Total employment impacts in Mozambique (estimated), 2016/17**



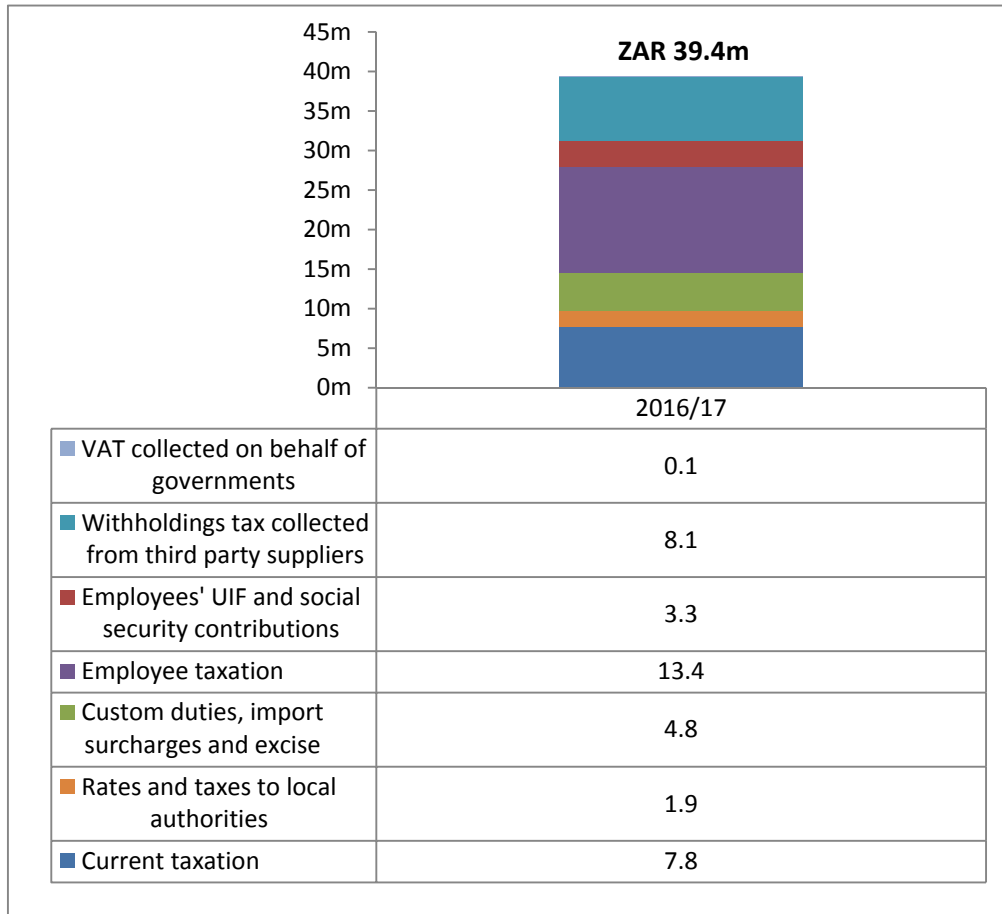
### Investing in the future

- Since the last assessment, Maragra Açúcar has spent ZAR 124 million on capital investments. This is a significant decrease on the ZAR 2 billion invested between 2010 and 2013, covered in our last study, which followed a significant factory expansion.
- The company is currently considering investing in adding further capacity for renewable energy generation, as well as a potential project to produce speciality sugar, diversifying the company’s product mix.

### Contributing to public finances

- Maragra Açúcar’s total direct tax payments in 2016/17 amounted to ZAR 14.5 million, while indirect taxes totalling ZAR 24.9 million were collected on behalf of the government. Indirect taxation includes sales tax (VAT) and employee taxes. The total is a significant increase on the ZAR 25 million tax payments reported in our last study, for 2012/13.

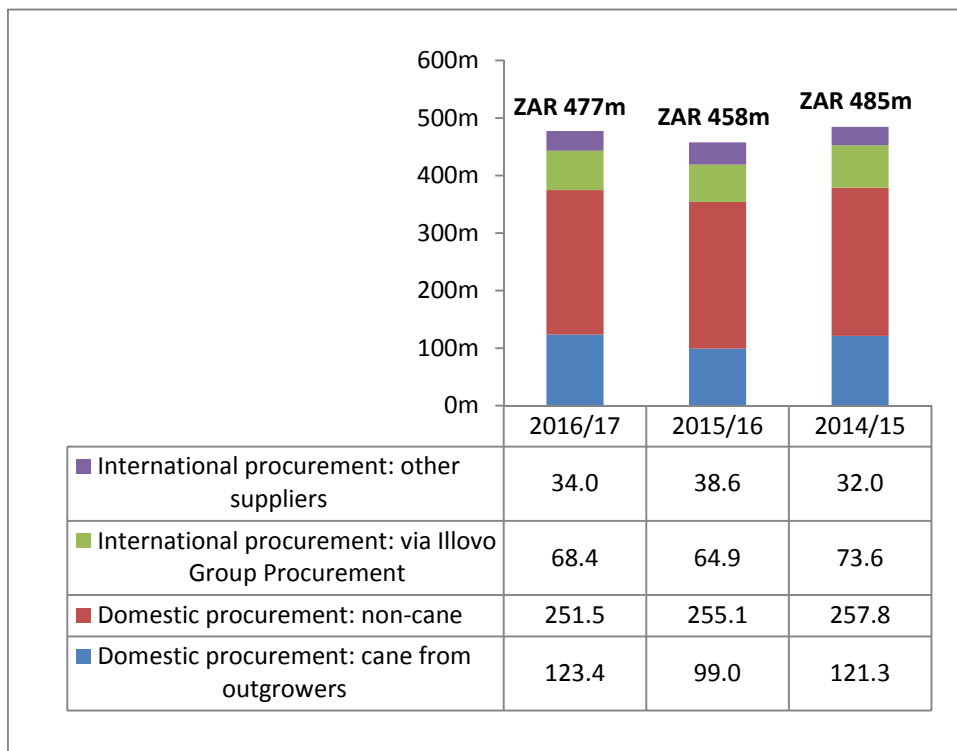
**Maragra Açúcar tax payments, 2016/17**



**Spending with suppliers**

- In 2016/17, Maragra Açúcar spent ZAR 477 million with suppliers. 79% of this was spent with suppliers in Mozambique. Spending with suppliers has stayed relatively constant over the last three years.
- Spending with Mozambique suppliers includes ZAR 123 million (26%) on sugar cane from outgrower farmers (see Section 3), and ZAR 252 million (53%) with other Mozambique (non-cane) suppliers. Some of the biggest categories of non-cane sourcing from Mozambique suppliers include building and office supplies, and agricultural inputs.
- Maragra Açúcar estimates that (excluding outgrowers) it sources from 264 small-scale suppliers in Mozambique. Maragra Açúcar does not have any preferential procurement policies in place to source from local enterprises in Mozambique.

Maragra Açúcar supplier spending, 2014/15 - 2016/17



## Section 2: Creating employment opportunities

### Headline messages:

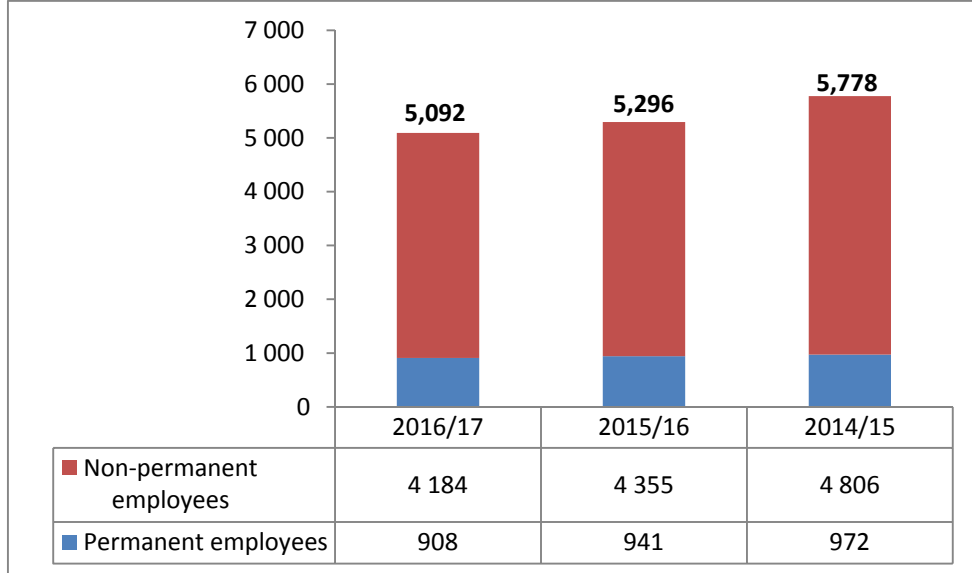
- Maragra Açúcar employs 5,092 people directly in Mozambique, of which 908 are permanent and 4,184 are non-permanent. Based on average household sizes, we estimate that through this direct employment, Maragra Açúcar contributes to supporting the livelihoods of over 25,000 employees and dependents.
- Maragra Açúcar paid ZAR 121 million in salaries, wages and benefits to employees in 2016/17. The company actively monitors remuneration against local and international benchmarks, with the lowest-paid employee earning 102% of the local minimum wage in 2016/17.
- Maragra Açúcar invests around 1.5% of payroll in training and development, including apprenticeship and graduate schemes.

### Overview

- Our assessment finds that Maragra Açúcar continues to be an important direct and indirect employer in its local region.
- What is also important is the quality of jobs provided. For example, ensuring that employees receive a fair wage, have representation and collective bargaining rights, as well as access to training and development to help them progress in their careers. Maragra Açúcar has a close relationship with its employees' union, and invests in apprenticeship and management training programmes.
- Maragra Açúcar provided employment for 908 permanent employees and nearly 4,200 seasonal workers at peak periods in 2016/17. Illovo Sugar Africa is committed to ensuring employees receive a fair wage and, since our last assessment, has started to conduct annual market salary surveys to ensure that pay and benefits in each country are monitored. Maragra Açúcar provides benefits including health clinics and housing. The group values its seasonal workers and takes measures to ensure its labour standards and working conditions protect their human rights.

## Direct employment

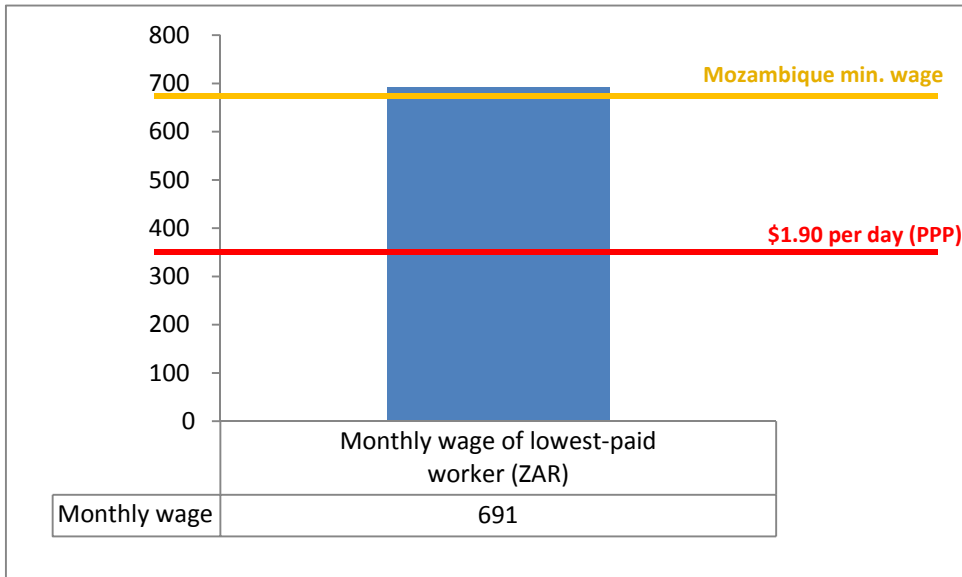
### Maragra Açúcar: Direct employment, 2014/15 - 2016/17



- The 5,092 people directly employed by Maragra Açúcar in 2016/17 includes 908 permanent employees, and 4,184 peak non-permanent/seasonal employees. Direct employment by Maragra Açúcar has fallen over the past three years, due mainly to a reduction in the number of non-permanent employees, reflecting the reduction in harvesting and production.
- We estimate the direct jobs provided by Illovo support the livelihoods of over 25,000 people once families and dependents are taken into account. This is based on an average household size of 5.0 people in Maputo<sup>9</sup>.
- Maragra Açúcar paid a total of ZAR 121 million to employees in 2016/17, which is spread across direct salaries and wages and other benefits. All employees are compensated above the standard minimum wage, with the entry-level wage standing at 102% of the local minimum wage last year, and significantly higher than the World Bank poverty line of \$1.90 dollars per day.
- Maragra Açúcar participates in wage negotiations at the national and local level, and also benchmarks the benefits it provides against other companies in the Illovo Group.

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

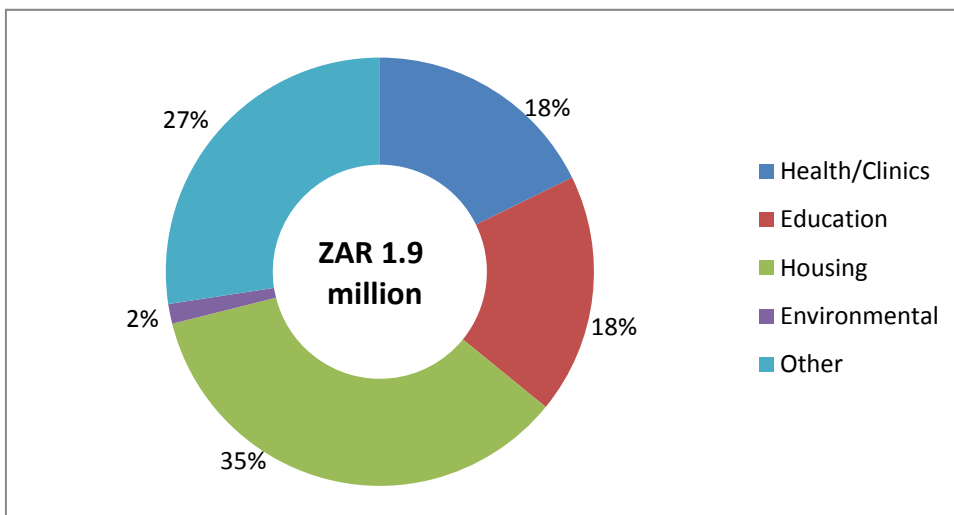
**Maragra Açúcar: Monthly minimum wages, 2016/17**



**Employee livelihoods**

- Maragra Açúcar employees are entitled to a number of different benefits in addition to their salaries. These include a clinic at the sugar estate, and a wellness centre for chronic disease. Employees receive periodic medical check-ups, and the company has programmes for hearing conservation, vision conservation and lung function. 423 employees received voluntary counselling and testing for HIV/AIDS in 2016/17.
- Housing is also provided to employees, and its allocation is discussed with the company’s union.
- In total, the benefits provided to employees in Mozambique in 2016/17 sum to ZAR 1.9 million.

**Maragra Açúcar: Employee benefits, 2016/17**





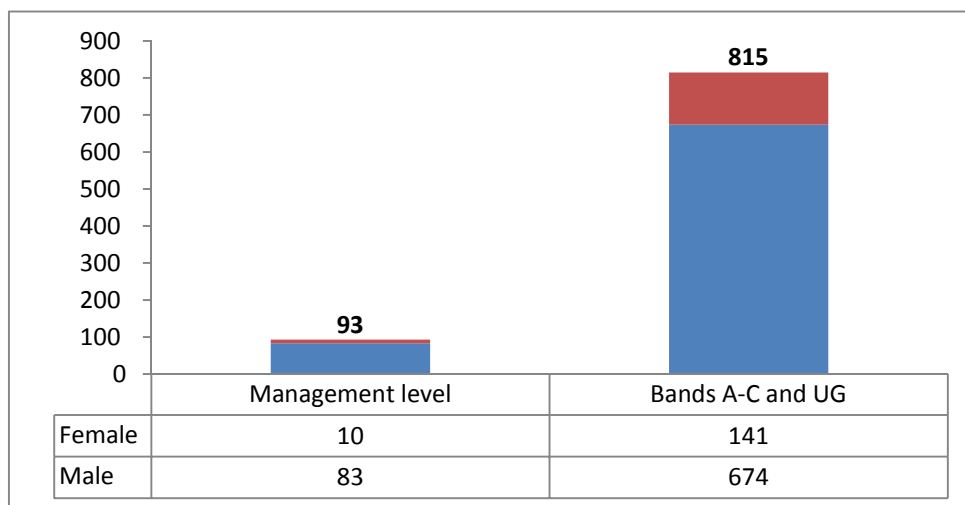
## Human rights and labour standards

- Through established collective bargaining agreements with unions and in house country dispute resolution mechanisms, employees are able to raise grievances through formal means. 85% of Maragra Açúcar’s employees are covered by collective bargaining agreements. Maragra Açúcar has a five-step grievance procedure, through which grievances can be escalated to company management, the union and the staff forum.
- Monthly meetings are held between union representatives and Maragra Açúcar’s heads of department. Monthly departmental meetings also take place, to discuss issues such as grade changes and house allocations.
- Maragra Açúcar’s lost time injury (LTI) frequency rate, in terms of LTIs per 200,000 hours worked, was 0.14 in 2016/17, against the target of 0.15 set by group. Although this is within the target number, it represents a significant rise from 0.05 in 2015/16.
- Another area of improvement for Maragra Açúcar would be to provide training to ensure that employees understand and adhere to the group’s policies on child labour, forced labour and other human rights issues, as defined in the Code of Conduct and Business Ethics.

## Gender diversity

- Maragra Açúcar has 151 permanent female employees, representing only 17% of the total permanent employee base. Women represent an even smaller proportion of management positions, at 11%.
- The gender split is more even in agricultural positions, where women represent 26% of permanent positions and approximately 50% of non-permanent.
- Maragra Açúcar does not have any specific programmes in place to increase the gender diversity of its direct workforce.

**Maragra Açúcar: Permanent workforce by role and gender, 2016/17**



## Training and development

- Maragra Açúcar invested ZAR 10.8 million in training and development in 2016/17, engaging 2,159 employees. As a percentage of payroll, investment in training has fallen from 2.1% in 2013/14 to 1.5% in 2016/17. This decrease is due to austerity measures implemented to counter the effect of negative climatic conditions on the industry.
- Maragra Açúcar has implemented apprenticeship and graduate training programmes, in order to recruit young people. The company currently has four apprentices from local communities undertaking a three-year apprenticeship programme, as well as one graduate undertaking the Managers in Training programme. Maragra Açúcar plans to recruit two more graduates to the programme in 2016/17.

## Section 3: Supporting farmer livelihoods

### Headline messages:

- Maragra Açúcar's supply chain includes 473 outgrower farmers in total supplying over 200,000 tonnes of cane every year. 34% of the sugar cane used by Maragra Açúcar is supplied by independent farmers; the remaining 66% comes from the company's own land.
- Maragra Açúcar is estimated to support 2,153 jobs through outgrower farmers. The company estimates that 65% of outgrower employees are women.

### Overview

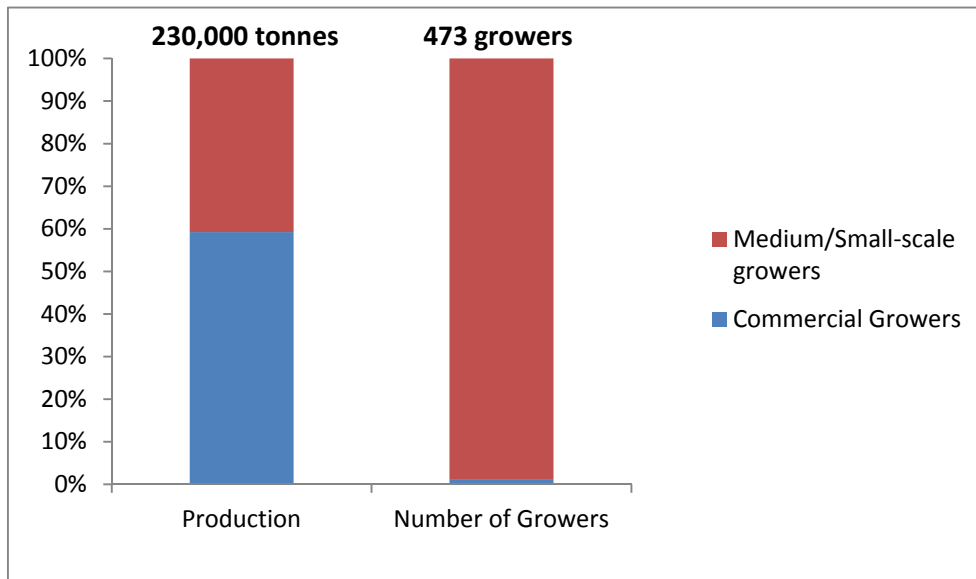
- Some of Maragra Açúcar's most significant economic and social impacts are made through the agricultural supply chain. Maragra Açúcar's purchases of sugar cane support employment and incomes in rural areas, where 56.9% of Mozambique's population lives below the national poverty line<sup>10</sup>.
- 34% of the sugar cane used by Maragra Açúcar is supplied by independent farmers from the areas surrounding the company's mills, with a target to increase this to 40% by 2020. The remaining 66% of cane comes from the company's own land.
- 468 of the 473 farmers supplying Maragra Açúcar are small- and medium-scale farmers. Since our last report, Illovo Sugar Africa has increased its strategic focus on outgrowers through a new "optimise outgrowers" scheme. Each country is developing a strategic action plan on outgrower development. While this is still in its early stages, the initiative will help Illovo to develop a longer-term approach to securing its future supply of cane and improving outgrower livelihoods.

### Outgrower sourcing

- Maragra Açúcar's supply chain includes 473 outgrower farmers, in total supplying over 200,000 tonnes of cane (34% of the total milled) every year. 468 of these are small- and medium-scale growers, accounting for 41% of outgrower production.
- The remaining 59% of Maragra Açúcar's outgrower procurement comes from 5 large-scale commercial farms. Since 2000, there has been a shift in Maragra Açúcar's outgrower base, from commercial farms to subsistence growers supplying cane. The age profile of growers is also an increasing concern for the company, as the average age of farmers is over 50 years old.

<sup>10</sup> World Bank (2010), [Rural poverty headcount ratio at national poverty lines \(% of rural population\)](#)

**Maragra Açúcar: outgrower sourcing, 2016/17**



### Supporting outgrower employment

- Maragra Açúcar supports significant indirect employment through outgrower farmers. The number of jobs has been estimated, using employment on Illovo’s own farms as a proxy, at 2,153<sup>11</sup>.
- Based on an average household size of 5.0 people in Maputo (see Appendix 1), Maragra Açúcar is estimated to contribute to supporting the livelihoods of 10,765 people through its sourcing of sugar cane from outgrowers in Mozambique.
- In general, sugar is noted for its contribution to female employment<sup>12</sup>. In Maragra Açúcar’s case, the company estimates that 65% of outgrower employees are women. This is even greater than the proportion of women employed on Maragra Açúcar’s own farms (see Section 2).
- The main initiative in Maragra Açúcar’s supply chain aimed at increasing female representation among outgrowers comes as part of the Maragra Smallholder Sugarcane Development Project (see below). EU funding for the project is contingent on 40% of the beneficiaries being women.

### Supporting smallholder farmers

- Maragra Açúcar’s target of increasing the proportion of cane from outgrowers to 40% by 2020 will require significant investment in growing smallholder capacity.

<sup>11</sup> Combining Maragra Açúcar’s permanent agricultural employment of 276 with peak seasonal agricultural employment of approximately 3,346 gives an estimate of 0.61 jobs per hectare harvested. This compares favourably to estimates by the South African sugar industry and Conningarth Economists (see Appendix 1) of between 0.17 and 0.23 jobs per hectare, and may reflect greater labour-intensity of production in Mozambique compared to South Africa.

<sup>12</sup> Levin and Mhamba (2007) – see Appendix 1.

Maragra Açúcar continues to support the Maragra Smallholder Sugarcane Development Project (MSSDP), an initiative supported by EU funding, which is aimed at rehabilitating marginal, flood-prone land through better flood defences and drainage, in order to make it available for smallholder farming.

- Maragra Açúcar has overall responsibility for the implementation of the project, in partnership with three smallholder schemes created by the MSSDP.
- One important aspect of the project is the promotion and development of food crops. While most smallholder households are participating in the project by bringing previously unfarmed land into sugar production, there is a concern that some food crop areas have been substituted for sugarcane. In order to ensure that the establishment of sugarcane fields does not reduce households' food security, the MSSDP is facilitating the establishment of 460 hectares of land for food crops, alongside 1,540 hectares of new sugarcane area.
- Ongoing dry conditions means that local smallholders have delayed planting food crops, or have experienced crop failures. Traditionally, smallholders draw water from drainage canals using watering cans, which enable them only to irrigate small patches of food crops close to the canals. The MSSDP has introduced the 'MoneyMaker Max' treadle pump – a human-powered foot-pump developed by Kickstart International in Kenya – in order to demonstrate how technologies can help farmers break the cycle of dependence on rainfall and subsistence farming, and increase their productivity and incomes.

## Human rights and labour standards

- The seasonal nature of the agricultural industry means a heightened risk of labour abuses such as low wages or dangerous working conditions. In order to mitigate human rights risks, all Illovo cane procurement staff have been trained in the Illovo Code of Conduct, land rights and human rights. This is applied in grower engagements, and grower union leadership have been specifically informed of the group's policies.
- The Illovo Group Code of Conduct and Business Ethics is written in line with the UN Guiding Principles on Business and Human Rights, the International Bill of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. It commits Illovo to supporting and respecting human rights, and requires all suppliers to do the same.

## Land rights

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

a network of local organisations and international NGOs which deals with land issues, to establish leading practices on land rights.

- A new project launched in 2016 in partnership with Landesa, the Commitment to Practice project (C2P), aims to enhance and pilot the Grow Africa Analytical Framework for Land Based Investments, a due diligence framework for land rights assessments on Illovo’s estates and supply chain in Mozambique, Malawi and Tanzania. A local land champion has been appointed in each of Illovo’s six countries and tasked with implementing the new framework.
- Maragra Açúcar has secured funding from USAID to test the framework in Mozambique. In partnership with Indufor North America, the Moringa Partnership (an equity investor) and a local partner, TerraFirma, the project aims to improve the capacity of communities surrounding Maragra Açúcar’s estate, both growers and non-growers, to understand their land rights and to support them to register their land. The project supports national government targets on land registration, and will also improve Maragra Açúcar’s understanding of its supply chain. The project will establish documented land rights for a minimum of 3,000 hectares of outgrower land, and also establish community land use plans and land representatives at the community level. By doing so, it aims to encourage investment in outgrower land, prevent elite capture of developed land, and assist Maragra Açúcar in ensuring that new outgrowers have legal rights to their land.
- The Maragra Smallholder Sugarcane Development Project (see above) has also comprehensively mapped and engaged with local and regional stakeholders and has formed a ‘land working group’ to address land issues and grower registration on the project.

## Section 4: Investing in communities

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### Headline messages:

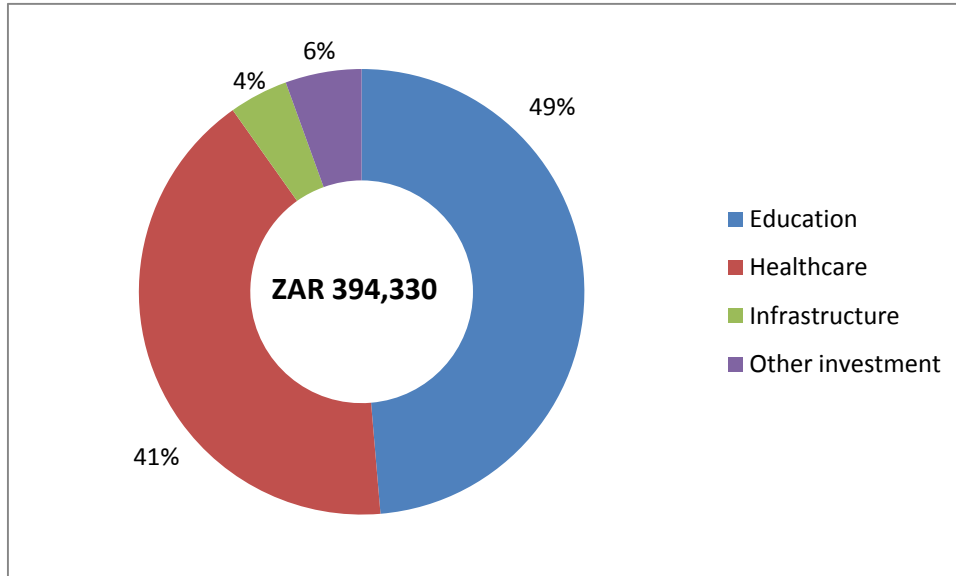
- Maragra Açúcar's community investments totalled ZAR 394,330 in 2016/17. Almost half of this was spent on education, about 40% was spent on health, and the remaining on infrastructure projects and other community support.
- Maragra Açúcar's implementation of community social investment projects is done largely in collaboration with district and local government.

### Overview

- Maragra Açúcar invested over ZAR 394,330 in supporting the local communities in and around its operations in 2016/17. The majority of this is spent on education and health initiatives. Employee-related benefits (Section 2) and outgrower development spending (Section 3) are excluded from this total.
- Stakeholders have raised a number of key issues faced by the communities in and around Maragra Açúcar's operations. These include food security, water supply to communities and irrigation of fields, environmental pollution, and enterprise development in the surrounding communities.
- The company has adopted a two-fold approach to social investment. It works with government authorities to plan most community investment on a range of issues; and on the other hand, Maragra Açúcar is developing a shared value approach to developing sustainable community projects.
- Maragra Açúcar works with a range of stakeholders at the national and district levels as well as local authorities and traditional community leaders to address community challenges. Maragra Açúcar's implementation of community social investment projects is done largely in collaboration with district and local government.

## Community citizenship & social investment

### Illovo Mozambique: Total investment in the community, 2016/17



- Maragra Açúcar’s investment in the community has increased from ZAR 243,195 in 2015/16 to ZAR 394,330 last year.
- Maragra Açúcar’s education projects involved building new classrooms or rehabilitating the existing ones. Pupils no longer have to travel long distances to access education and they are able to learn in a conducive environment.
- The company’s leading health initiative was the Malaria vector control programme, an initiative to reduce the number of mosquitos and mosquito breeding areas. Over the last five year, the number of Malaria positive cases in children under five years has steadily declined from 3,204 to 277 cases.
- Maragra Açúcar has also supported its communities by providing access to water. To date the company has drilled six boreholes, which benefit about 4,100 people. Communities no longer have to travel long distances to fetch water, thus enabling women (who typically bear the burden of fetching water) and other members of the household to dedicate their time for other household activities. There is also a reduction of water borne diseases, such as diarrhoea and cholera.



## Section 5: Promoting environmental sustainability

### Headline messages:

- 94% of Maragra Açúcar's energy consumption is provided from bagasse, a renewable energy source. Maragra Açúcar was responsible for just 4% of the Illovo group's total carbon emissions in 2016/17, equating to 25,700 tCO<sub>2</sub>e.
- Production has been impacted by erratic rainfall over the last three seasons, although increased rainfall in 2016/17 led to reduced consumption of surface water
- In 2016/17, 79% of water withdrawals in Maragra Açúcar's non-cane operations were recycled and returned to source.

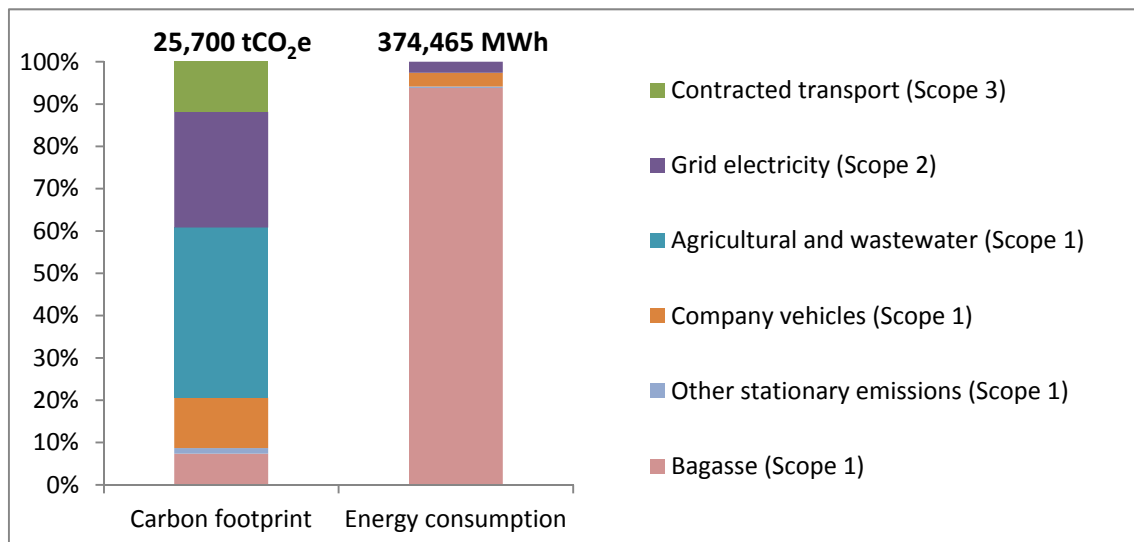
### Overview

- Since our last assessment, Illovo has continued to focus on embedding high standards of environmental sustainability into the business, underpinned by a culture of continuous improvement. Promoting environmental best practice is closely linked with Maragra Açúcar's social and economic impacts. Environmental issues have a direct impact on the quality and productivity of land, and affect the livelihoods of farmers, workers and the wider community.
- Sugar cane cultivation is associated with a number of environmental impacts, in particular water, a resource that must be carefully managed. Mozambique has suffered natural disasters in recent years, since the huge floods that hit the country in 2000. Following these floods, Maragra Açúcar made significant investments to replant crops and build better flood defences, helping to secure the long-term future of the industry in the region. Over the last three years, erratic weather patterns have resulted in irrigation stoppages, disrupting production.
- Sugar cane offers excellent opportunities for the production and use of renewable energy, generated using bagasse – the renewable fibrous residue that remains after sugar cane crushing – and other biomass. By producing its own renewable energy, Maragra Açúcar can cut costs and reduce reliance on the national grid, while helping to mitigate the impacts of climate change.

## Energy and climate change

- A number of studies have predicted positive impacts of climate change on sugarcane yields in southern Africa. However, these also note the uncertainty of predicting future rainfall patterns, such as more intense rainfall with longer dry spells<sup>13</sup>. For Maragra Açúcar, there are significant benefits in the short- and medium-term from improving the energy and water security of company operations and suppliers.
- The opportunities for renewable energy generation afforded by the sugar production process allow Maragra Açúcar to minimise its carbon footprint. Energy use primarily takes place during the cane-crushing season, meaning that the company has a ready supply of renewable fuel. 94% of Maragra Açúcar’s energy consumption is provided from bagasse, a renewable energy source.
- Maragra Açúcar was responsible for just 4% of the Illovo group’s total carbon emissions in 2016/17, due to its high level of self-sufficiency in renewable power generation from bagasse. Maragra Açúcar used a very limited amount of coal (15 tonnes) in 2016/17, and the company also relies on electricity from the national grid in order to pump water into and out of the cane fields.
- In 2016/17, Maragra Açúcar also exported 1,360 MWh of self-generated electricity back to the national grid. The company is exploring opportunities to further invest in small-scale renewable energy generation.

### Maragra Açúcar: Carbon footprint and energy consumption, 2016/17



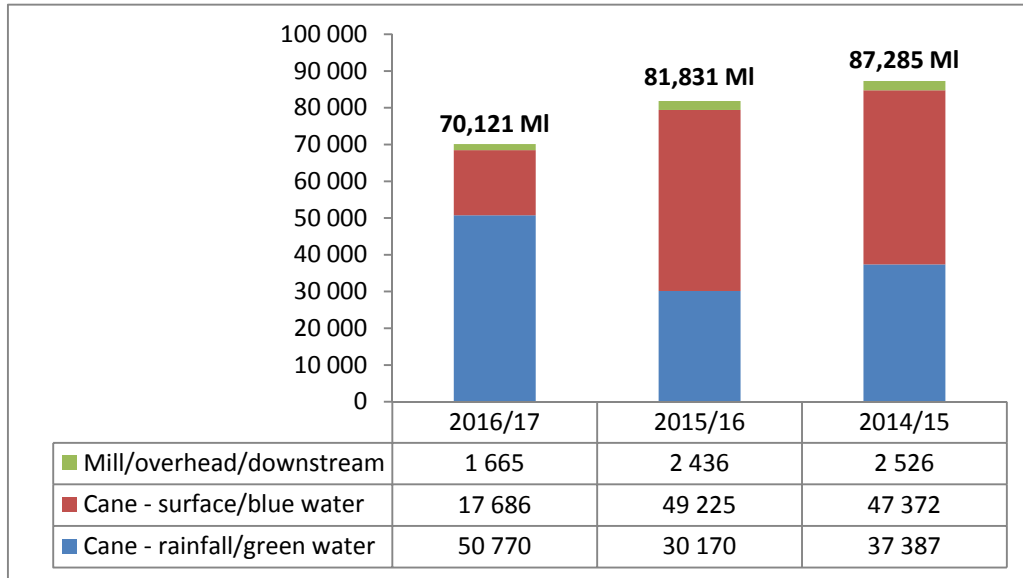
## Water and waste

- Water is a vital resource both for Illovo’s operations and surrounding communities, meaning that responsible management is a business imperative. Maragra Açúcar’s

<sup>13</sup> See Jones MR and Singels A (2014), *A preliminary assessment of mid-century climate change impacts on sugarcane production in South Africa*.

production has been impacted by erratic rainfall over the last three seasons, although increased rainfall in 2016/17 led to reduced consumption of surface water<sup>14</sup>.

**Maragra Açúcar: water consumption (megalitres), 2014/15 - 2016/17**



- Maragra Açúcar supplies water to its factory and local communities via four boreholes. Water for the village tank is dosed with chlorine.
- In response to water scarcity issues, Maragra Açúcar is undertaking initiatives such as blocking canals during drought in order to improve moisture levels in the cane fields.
- The water consumption footprint of Illovo’s factories is generally neutral, with most water requirements for the sugar manufacturing process sourced from the cane itself. Much of the additional water is recycled and used for irrigation, in order to reduce the requirement for water abstraction. In 2016/17, Maragra Açúcar’s mills and other non-cane operations withdrew 7,819 megalitres of water. Of this, approximately 79% was recycled and returned to source – up from 70% in the previous two years.
- Maragra Açúcar aims to reduce waste and increase recycling rates, and has purchased 100 bins to improve waste segregation at the factory.

<sup>14</sup> It is important to note that while all of the water used on Maragra Açúcar’s farms is accounted for as water “consumption”, in reality much of it is returned to the same catchment. This therefore reflects a level of over-reporting on water consumption, as noted in Illovo’s environmental assurance statements.

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