



Measuring Unilever's Economic Footprint in South Africa

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Agenda

- Does FDI promote development?
- The South Africa context
- Report Methodology
- Key Findings
- Issues for Management
- Implications for Research and Policy



Does FDI Promote Development?

- Traditional Economic View: FDI plays two roles in developing countries: (1) fills the gap between local Savings and Investment requirements; (2) brings technology (inc. human capital): result is more economic growth. Thus, one objective of World Bank is “to promote private foreign investment” (IBRD Articles of Agreement).
- Economists also argued that, by operating at a bigger scale than domestic industry, FDI could help “lift up” an economy.
- Other benefits of FDI included provision of “public goods”:
 - Technology transfer to local suppliers
 - Financing of local suppliers (filling financial “gaps”)
 - Transfer of business & management skills directly to suppliers and indirectly as managers left for domestic firms



FDI and Development, contd

- But many criticisms of FDI as well, e.g.:
- Suppresses domestic competition
- Fuels corruption (esp. In minerals sector)
- Increases inequality
- Pollutes air and water
- In assessing costs and benefits, most research relies on either panel or cross-country data analysis; detailed case studies lacking!



The South African context

- Remarkable achievements since transition:
- Democratic, majority rule
- Macroeconomic stability and steady growth
- Introduction of BEE to redress effects of apartheid
- World Cup 2010!
- But continuing challenges:
- High unemployment (30% +)
- Shortage of educational opportunities and human capital generation
- Lack of international competitiveness in manufacturing sector and low levels of FDI
- Extreme inequality and poverty
- Crime
- Strained infrastructure (e.g. electric power)
- An HIV/AIDS pandemic



Unilever in South Africa

- Unilever is oldest foreign investor in RSA
- 1895: William Hesketh Lever visited South Africa and sent agent to sell Sunlight soap
- 1911: First factory opened in Durban
- 1947: Persuaded Government to allow sale of margarine, creating new markets
- Continued to operate during the apartheid era and to expand via new investment and acquisitions



Unilever South Africa's main brands: Iconic household names

Home care	Sunlight, Omo, Surf, Handy Andy, Skip, Domestos
Personal care	Shield, Lux, Vaseline, Sunsilk, Dawn, Axe, Ponds, Brut, Lifebuoy
Foods	Knorr, Rama, Robertsons, Flora, Ola, Joko, Stork, Lipton, Glen, Mrs Ball's, Rondo



Unilever South Africa: Key Indicators 2005

Rand (m)		
Net sales		8,588
Income tax paid		405
Total labour cost		1,120
Net income		908
Employees (no)		4,382
Suppliers		+3000



Measuring ULSA's Economic Footprint: Methodology

- Purpose of footprint analysis is to assess corporate impact on local economy (eg job creation, capital formation, tax revenue, etc)
- Based on RSA's Input-Output (I-O) Tables and associated Social Accounting Matrix (SAM) to measure more specific effects
- Economic rate of return (ERR) analysis where comparative data available
- Quantitative & qualitative assessments of Social and Environmental impacts



Measuring Unilever's Impact

ULSA's Direct (First Round) impact
(economic impact of ULSA + immediate suppliers)

+

ULSA's Indirect (Second Round) impact
(economic impact of suppliers' suppliers)

+

ULSA's Induced (Third Round) impact
(economic impact of all employees' consumption decisions)

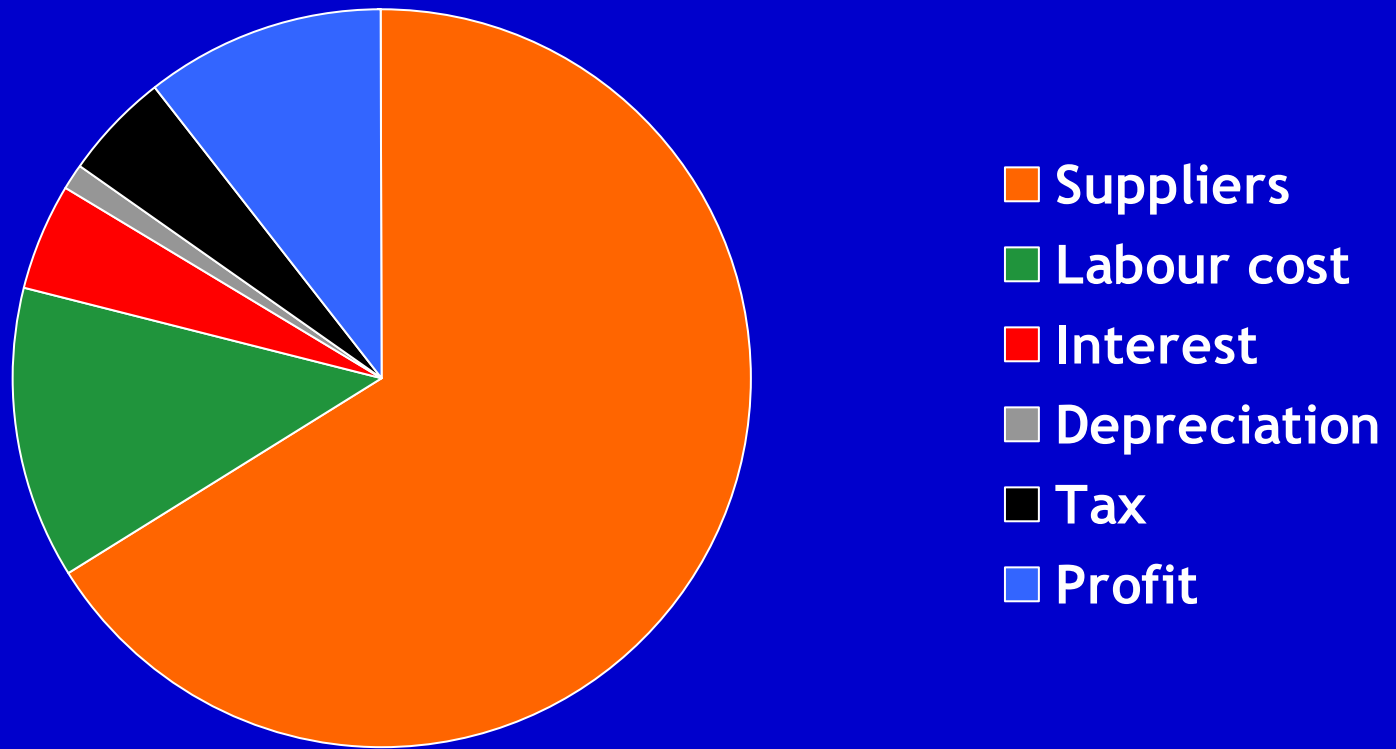
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ULSA's Total Economic impact



Who Profits from Unilever Sales?

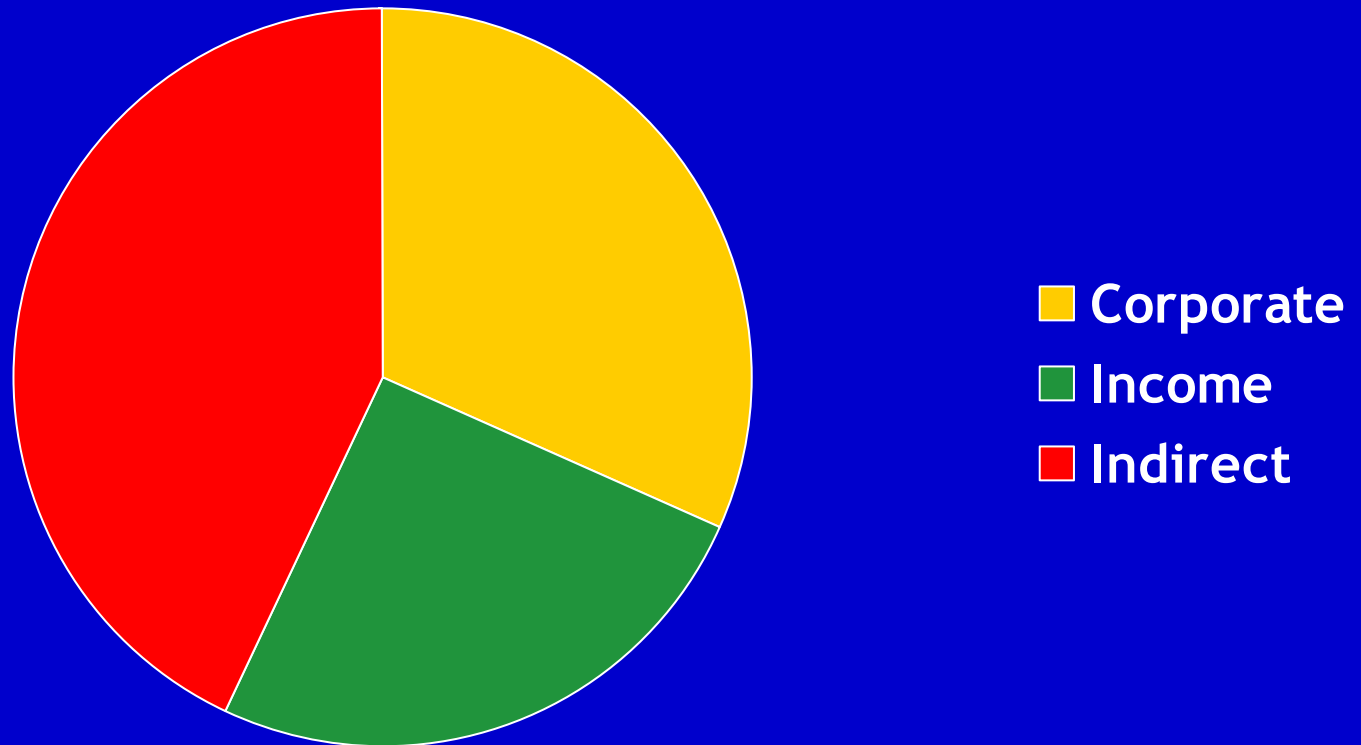
2005 Sales of 8.5bn





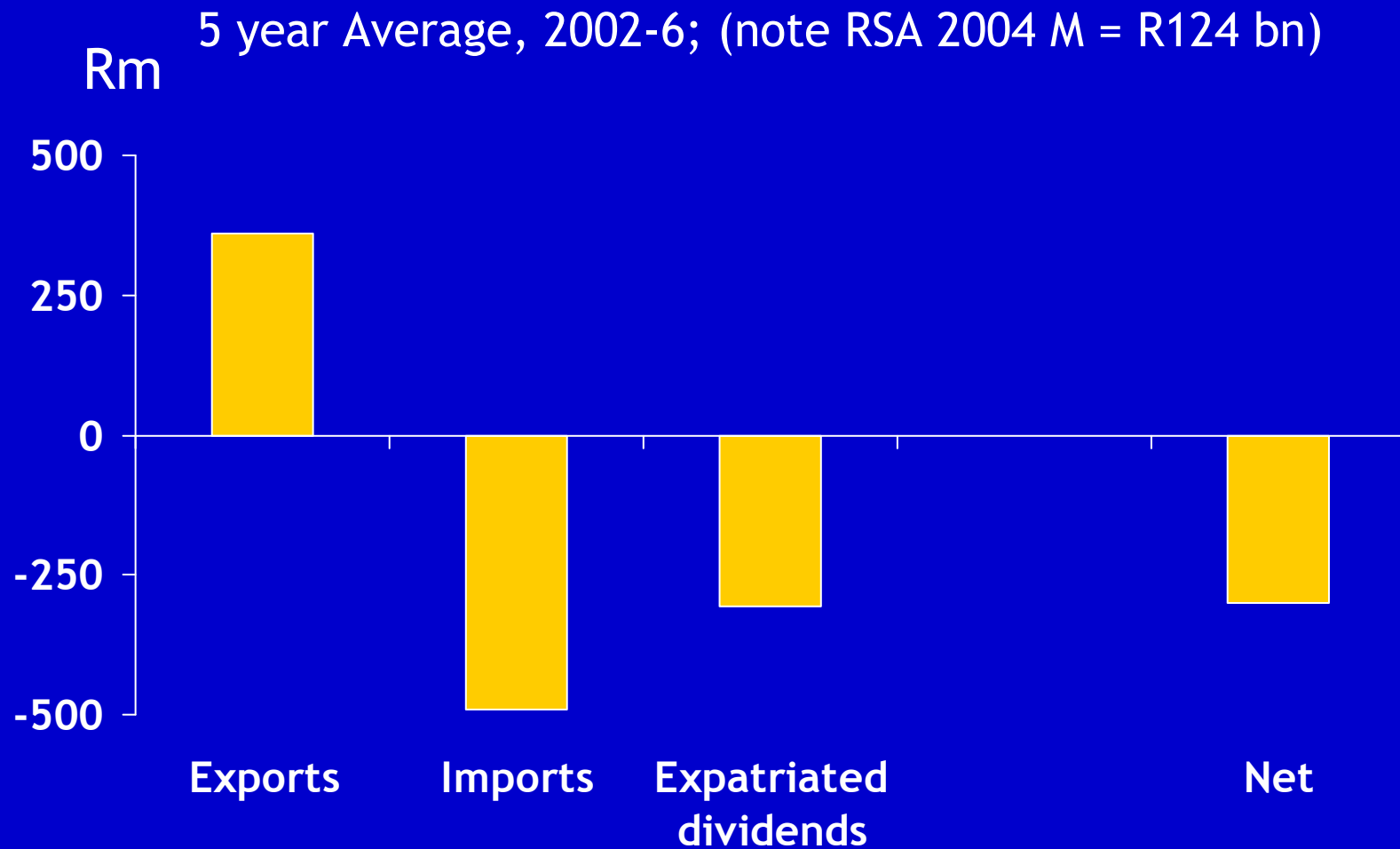
Unilever's Contribution to tax revenue

R4 bn (0.9% of RSA tax revenue)





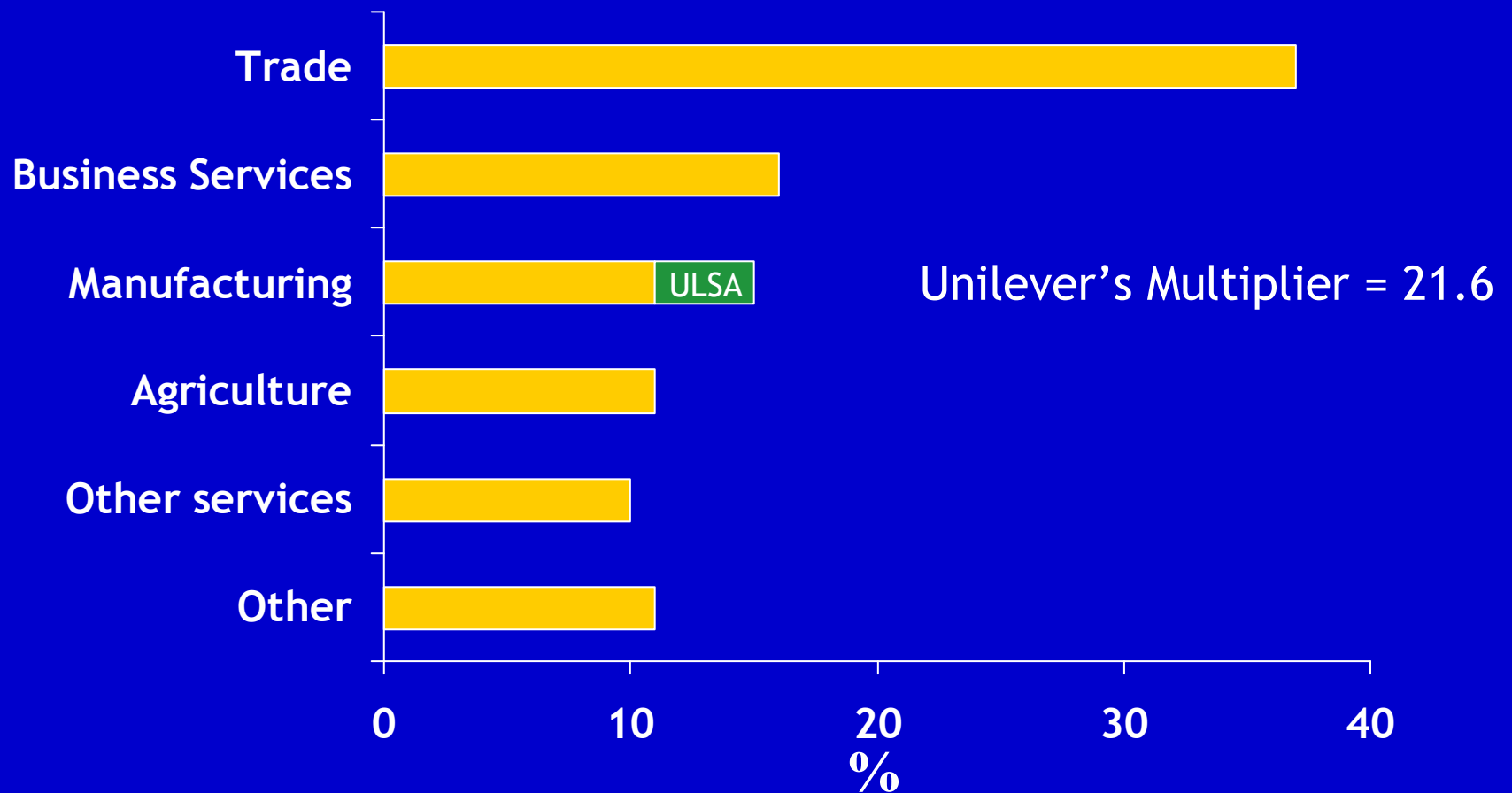
Unilever's Impact on Balance of Payments





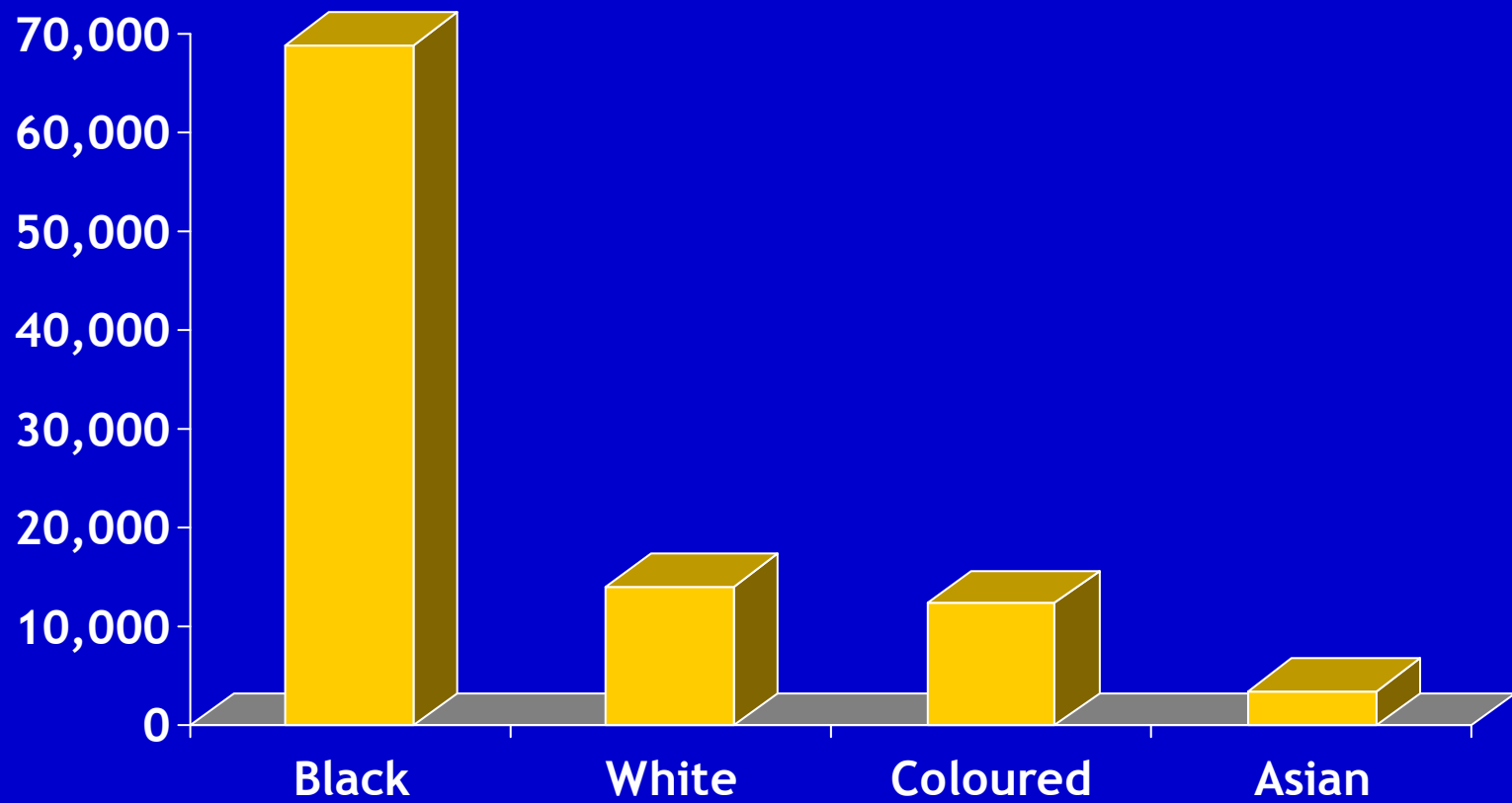
Unilever's Impact on Jobs in RSA

Total Jobs 99,062



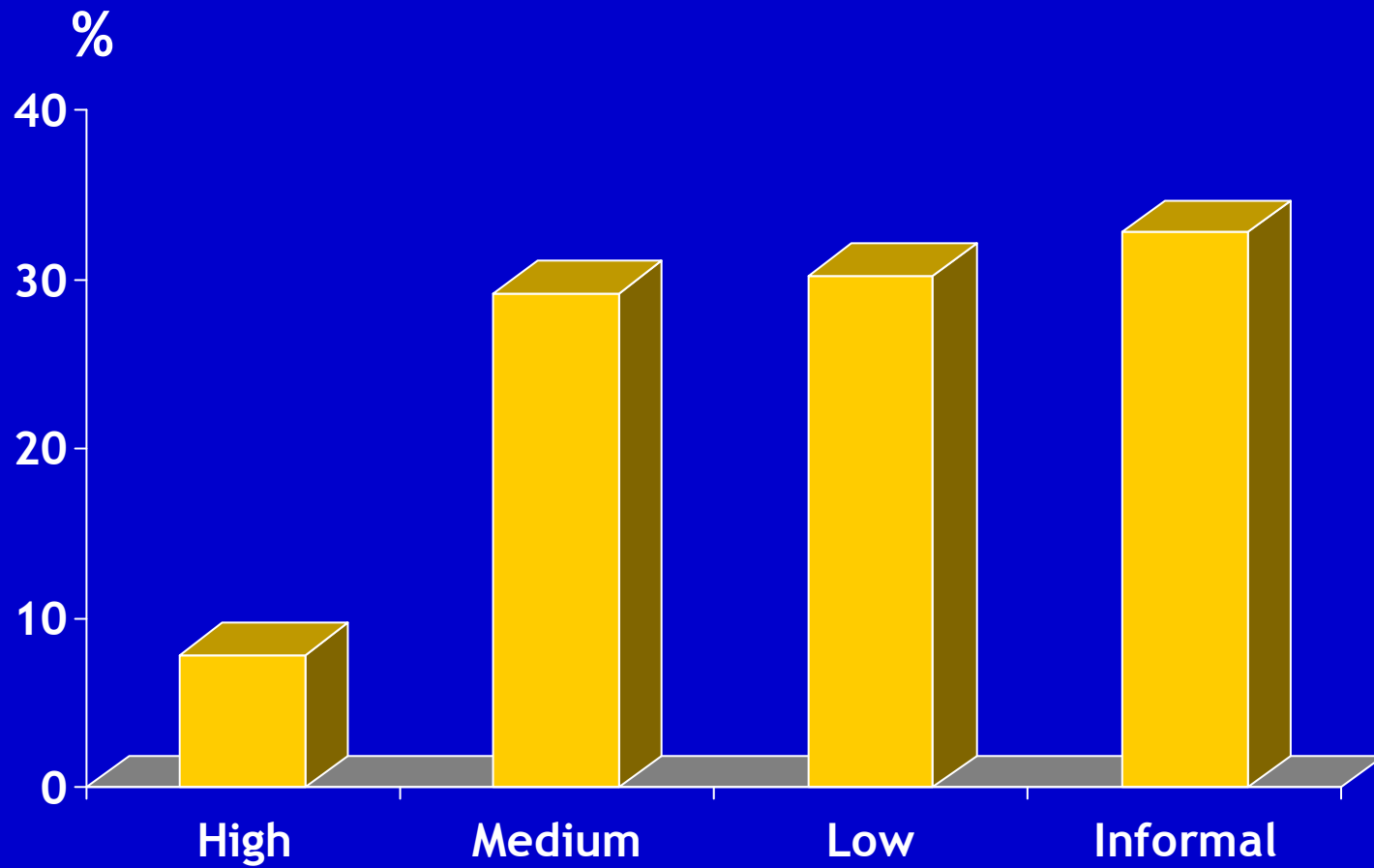


Jobs by race





Jobs by skill





Jobs vs. income





Unilever's Microeconomic impacts

- Pay, Benefits & Training at ULSA: all above averages of JSE companies to extent comparable data available (Unilever training is a “public good” since company serves as source of trained managers for other RSA companies)
- Support to Suppliers & Customers:
 - Technical support and training/some financial support
 - Suppliers required to adopt Unilever standards via Business partner code
 - Smollans as case study of how a multinational can promote development of local firms, and vice versa
- Research & Development
 - RSA as Regional technical centre for HPC
- Black Economic Empowerment (BEE): Unilever objective to be a top performer

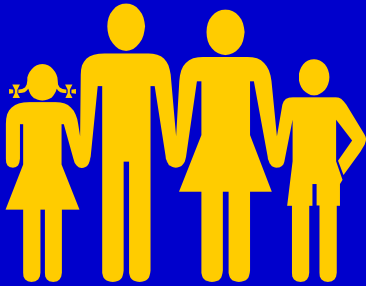


BEE elements

Element	Objective	Weight
Equity	Equity/voting for blacks	20%
Management	Decision making by blacks	10%
Employment	Recruitment of blacks	15%
Skills	Development of blacks	15%
Procurement	From BEE compliant firms	20%
Enterprise	Development of black SMEs	15%
Socio-economic	CSI	5%

ULSA performance in top 20% of companies reviewed

Unilever's Impact on consumers



Creation of trusted brands

Introduction of innovative products

Widespread distribution networks

Appeal to all consumer segments

Linkage of products to broader social goals



Unilever's Corporate social investment in 2006

CSI spend = 3.2% of profit after tax (above JSE avg)

Education	R 8m
Health/Nutrition/HIV/AIDS	R 5m
Empowerment & women	R .55m
Water	R 0.9m
Government capacity building	R 1.9m
Volunteer programme	R 0.3m
Charitable donations	R 7.9m
Total	R 24.5m

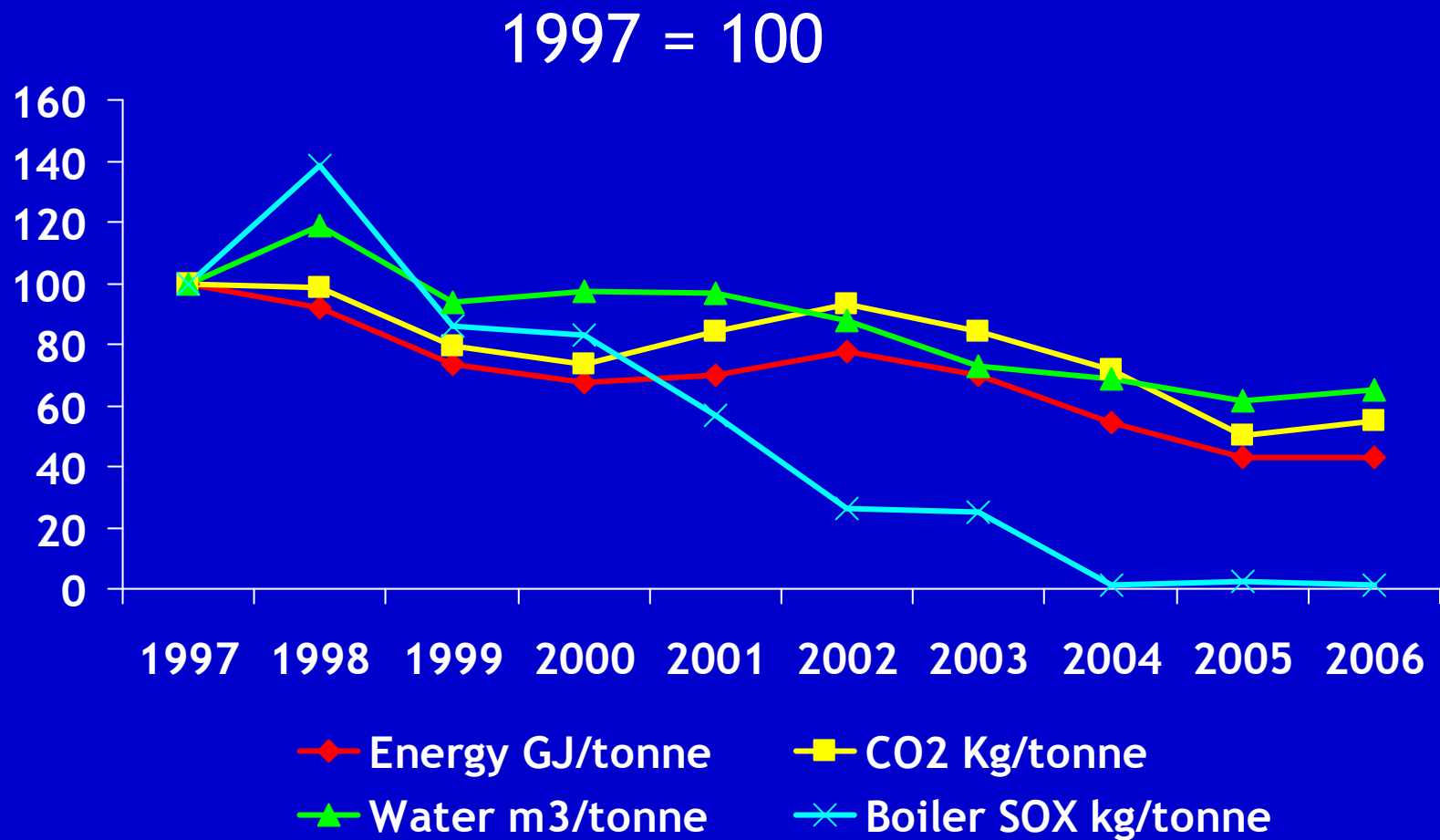


Unilever's environmental strategy

- Company and Suppliers required to comply with national environmental legislation: Unilever has won several awards in RSA for environmental performance
- Unilever South Africa required to comply with Unilever PLC environmental standards
- CSI funds used to support environmental protection
- Local factories also have their community-based environmental initiatives



Unilever's emissions in S Africa





Report's Recommendations to Unilever South Africa

- Work with suppliers to promote their competitiveness
- Ensure provision of top-notch training
- Consider more targeted CSI programme
- Reduce environmental footprint, especially packaging waste
- Conduct more R&D in RSA
- Dialogue with government and other stakeholders to support a policy environment that promotes private sector investment



And for the future...

- Generate more comparative data to assess company's *relative* performance
- Support research on effects of modernization of RSA economy on traditional sectors (eg small retailers) and associated impacts on job creation, etc
- Support research on costs and benefits of local vs. global sourcing (and outsourcing)
- THANK YOU!