MEASURING UNILEVER'S ECONOMIC FOOTPRINT : THE CASE OF SOUTH AFRICA

A report by Ethan B. Kapstein

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ABOUT THE AUTHOR

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ABOUT THE REPORT AND ACKNOWLEDGEMENTS

This report was commissioned by Unilever PLC to provide an analysis of the company's "economic footprint" in South Africa. It builds on an earlier study jointly carried out by Unilever Indonesia, Oxfam GB and Novib (Oxfam Netherlands), entitled *Exploring the Links Between International Business and Poverty Reduction: A Case Study of Unilever in Indonesia*. All this work represents an ongoing effort by Unilever to understand its economic, social, and environmental impacts on the countries in which it does business.

The present report draws mainly upon official statistics compiled by the Republic of South Africa and internal corporate data provided by Unilever PLC and Unilever South Africa (ULSA). In gathering the data and other types of information, the author received significant assistance from many individuals in South Africa and within Unilever PLC and ULSA, which is gratefully acknowledged.

The study author also received feedback and input from two external "Reference Groups", one international and one South African, which were brought together by Unilever PLC and ULSA and whose role it was to challenge and comment on the research process and report drafts. The members of these groups were involved from the initial stages of planning the report and they provided comment both on the original research framework as well as on a number of earlier drafts. The international reference group comprised economic, social and environmental experts from government, NGOs and academia, while the South African reference group included local NGO representatives as well as a government economic advisor and representatives of business associations and academia. All these individuals are thanked for the many useful comments and suggestions they offered. An annex at the end of the report includes their names and some of their views on the research.

The author is solely responsible for the report's content, however, and the views expressed are his alone and do not reflect those of Unilever PLC, ULSA or INSEAD.

WHY THE REPORT? FOREWORD BY PATRICK CESCAU GROUP CEO, UNILEVER PLC AND UNILEVER N.V.

Business can only prosper and flourish if it is part of healthy, stable communities. Unilever is committed to promoting the debate about business' overall impact on society. Only by understanding our impacts can we enhance and improve them. In the past, the focus has been on minimising the negative impacts of business. The emphasis is now shifting to how companies can be part of the solution to the big issues facing the world today. I believe the sustainability agenda will increasingly be a crucial factor in determining companies' ability to grow, innovate and prosper.

That is why Unilever has developed a strategy to integrate social, environmental and economic considerations into the development of its business and brands.

In 2005, we asked Professor Ethan Kapstein to carry out research into the impacts of our South African business on the country's economy, environment and society.

The study was a follow up to the 2005 Unilever / Oxfam report, Exploring the Links between International Business and Poverty Reduction: A case study of Unilever in Indonesia. This report was the product of two years joint inquiry into the impacts of Unilever's business in Indonesia and how it impinged upon the lives of poor people.

Professor Kapstein's work has brought a valuable perspective to the debate. He has provided insights into the impact which Unilever South Africa has on economic development generally and its specific role as an agent for improving the human and competitive capacity of the country that will enable it to compete more effectively in the global marketplace. In doing so, it responds to concerns sometimes voiced by national governments about the benefits that foreign direct investment brings to their economy.

Professor Kapstein has raised a number of challenges relating to our South African business and it will be responding to them. I want to thank him and the two reference groups (one in South Africa and an international one) which have helped to connect Professor Kapstein's study with the wider debate around the role of business in society.

This report is by no means a final answer. Where it provides a positive reflection of Unilever South Africa, it supports our view on the contribution that business can make to society. Where it raises questions and criticisms, we welcome these insights and acknowledge the need to consider them further, both in the local and global context. I invite you to read the report in this light and I hope you find it a useful contribution to an important debate.

I continue to believe that companies like ours have a tremendous contribution to make and can be a part of the solution to the big challenges facing the world today. To help us achieve this goal, we will continue our efforts to expand our knowledge of the role and impacts of business in society.

Patrick J Cescau

EXECUTIVE SUMMARY

The central purpose of this report is to assess Unilever's "economic footprint" in South Africa. It builds on an earlier study jointly undertaken by Unilever Indonesia and Oxfam GB and Novib (Oxfam Netherlands), which focused on Unilever's role in poverty reduction. The present report is broader in scope and focuses on Unilever's impact throughout the South African economy.

Unilever South Africa (ULSA), a subsidiary of Unilever PLC, has been operating in South Africa for more than 100 years. It ranks among that country's "Top Forty" companies, and in 2005 it generated about R8.5 billion in sales of branded food, home, and personal care products, while employing more than 4 000 workers and managers. What is the overall impact of this enterprise on South Africa's growth and development, and on its society and environmental quality?

In this report these questions are examined using both quantitative and qualitative analysis. From an economic standpoint South Africa's input-output tables and a related Social Accounting Matrix are used to generate estimates of ULSA's direct, indirect, and induced impacts on such variables as private sector investment, household incomes, employment, and government revenues.

ULSA's direct impacts are those felt by its 3 000 suppliers and their 20 000 employees due to the company's purchases of goods and services from them; its indirect impacts are those felt by its suppliers' suppliers owing to the orders they receive; and its induced impacts incorporate the overall demand for goods and services made by the employees of ULSA, its suppliers, and its suppliers' suppliers based on their consumption expenditures out of wages paid.

This analysis shows that, in 2005, ULSA and its employees were directly or indirectly responsible for generating output of more than R32 billion and, in the process, supporting approximately 100 000 jobs throughout the South African economy. This means that for every job directly based at ULSA, another 22 workers depended upon the company for some part of their livelihood. In total this represents 0.8% of total South African employment.

The report shows that the majority of these jobs are located in the retail trade sector of the economy i.e. the network of distributors, wholesalers and retailers that ULSA depends on to get its products to the consumer. The ongoing modernisation of the retail trade sector raises the potential that the number of traditional retail outlets may diminish over time, along with the jobs and incomes they support. Similarly, many of the jobs that are associated with ULSA are located throughout the company's supply chain, which suggests that maintaining the competitiveness of South African suppliers is also essential from the perspective of employment and income generation. ULSA sources from more than 3 000 suppliers and half of its R4.5 billion purchasing spend goes to South African suppliers.

ULSA is responsible for a number of other important economic effects as well. The direct, indirect, and induced effects of ULSA operations on government tax revenues, for example, total some R4 billion, equivalent to almost 0.9% of all government revenue.

The input-output analysis shows that ULSA's contribution to value added throughout the economy amounted to R12.5 billion in 2005, or around 0.9% of the country's GDP. The GDP multiplier indicates that for every R100 of ULSA sales revenue, R145 is added to the country's GDP.

In addition to the economic analysis, the report provides an overview of some of the broader social and environmental impacts of ULSA, both in its operations and along its value chain.

As an employer, ULSA pays wages and provides comprehensive benefits that include medical care (including for HIV/Aids) and a private pension scheme. The company also offers extensive amounts of training for its own workers, and for non-workers including the unemployed, who participate in South Africa's learnership schemes, which is a key component of the government's skill-building initiatives. The cost of this training was equal to 2.7% of corporate payroll in 2005. The quality of the training that ULSA provides is demonstrated in part by the fact that its employees are often lured away by its competitors. While this presents retention challenges to ULSA, it could be viewed as a positive for the South African economy as a whole, since local firms - that may not have the capacity to provide extensive training programmes - essentially benefit from the investment that ULSA makes in its workers.

As a producer of fast-moving consumer goods, ULSA contributes to consumer welfare through its products and brands. South African consumers have been using products like Sunlight Soap and Rama margarine for more than 100 years. Today, ULSA's market shares for most of its products indicate that it is continuing to meet consumer needs in a rapidly changing marketplace. With growing affluence among the emerging black middle-class, however, ULSA faces increasing competitive pressures as new entrants appear on the scene. These pressures will require ULSA to continue building trust in the quality of its brands with a new generation of consumers.

ULSA further influences South Africa's economy and its social well-being through its broad range of Corporate Social Investments (CSI) and its efforts to promote Black Economic Empowerment (BEE). ULSA's CSI programmes have had a particular emphasis on health care, and specifically meeting the challenges of HIV/Aids; the improvement of education and of educational opportunities for the least advantaged citizens; and capacity building both within and outside government. Many of these activities have been carried out in close co-operation with the government of South Africa, including the "Brand South Africa" initiative, in which ULSA used its marketing expertise to help the country position itself in global markets.

With respect to Black Economic Empowerment, ULSA has been seeking to achieve best practice. It is now recruiting heavily among under-represented groups for its next generation of management executives; it is sourcing its inputs increasingly from black-owned firms; and its high levels of CSI spending should enable it to score maximum recognition for this element of the BEE "scorecard".

Another area in which ULSA contributes to South Africa is through its environmental policies and programmes. The report shows that the company adopts global environmental standards that meet and often exceed those found domestically. Additionally, various ULSA factories in South Africa have pursued community-specific environmental programmes that meet local needs.

But this report also suggests a number of ways in which ULSA and its Unilever parent company could be even more supportive of the South African economy. First, ULSA should seek to ensure that its local suppliers, who are under increasing competitive pressure from the global economy, receive the ongoing support needed to maintain and improve their productivity levels so they remain competitive. Second, it should continue to provide the top-notch training that workers (and "learners") require to improve their skills. Third, it might wish to consider a more targeted CSI programme that focuses on those areas in which the firm possesses a sustainable competitive advantage. Fourth, it should continue to reduce its environmental footprint, particularly with respect to packaging. Fifth, Unilever and ULSA should continue to promote Research and Development (R and D) in South Africa. Finally, ULSA should maintain an ongoing dialogue with the South African government to ensure a policy environment that promotes private sector investment, without which the country will not be able to generate economic growth and reduce poverty, inequality, and unemployment.

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1: INTRODUCTION
Measuring the economic footprint

What are the effects of multinational enterprises (MNEs) on the economies in which they operate? In this age of globalisation, that question has assumed renewed importance among economists, public officials, executives, and citizens at large, and a growing literature has sought to establish appropriate methodologies for generating some answers (Perrin and Sachwald 2004; Moran 2006). These methodologies often make use of large data sets in which the influence of many firms as a whole is aggregated. This study, in contrast, examines the question of economic impact using a "case study" approach, or a detailed examination of a single firm in a single country, namely Unilever in South Africa (ULSA).

In measuring the "economic footprint" of an enterprise, its "direct" (or "first-round"), "indirect" ("second-round") and "induced" ("third-round") effects must all be taken into account. When companies build new plants or expand existing ones, they create many direct benefits for local economies including purchasing goods and services from suppliers, hiring workers and providing them with training, paying taxes, and introducing new products. Their operations may also impose some costs on the community in the form, for example, of air and water pollution. When analysts try to calculate the economic effects of corporate investment on a given market, they sometimes focus narrowly on these direct or first-round costs and benefits in an effort to estimate the net impact (OECD 2000; Edwards 2000).

But from the perspective of a host country's economy, even more important than the firm's direct impacts are its secondary and tertiary or *indirect and induced* effects, meaning those generated by its business decisions on the many suppliers, retailers, consumers, competitors and government agencies who are somehow touched by its operations. By purchasing from local suppliers, for example, a multinational enterprise will induce domestic entrepreneurs to make investments, to hire workers, and to buy a variety of intermediate inputs. In turn, the wages that ULSA, its suppliers, and its supplier's suppliers pay their workers enable them to make purchases in the economy, and these consumption decisions make any number of business activities viable, from the local grocery store to an online travel agency (these are the "induced" effects). As a consequence of these direct, indirect, and induced effects, the impact of multinational firms magnify far beyond their factory gates.

Tracing these wider circles is vital to any analysis of how the multinational enterprise influences a host country's economy, and this study tries to do just that by providing an assessment of ULSA's economic footprint in South Africa. ULSA's management decisions over who it recruits, how much it pays in wages and benefits, the training opportunities it provides, the suppliers it sources from and the kinds of support (e.g. technology transfer and financing) it provides them, the price and quality of its products, the packaging materials it uses, the social investments it makes - all these will play a role - big in some cases, smaller in others - in the daily lives of thousands of South Africans.

But precisely how many South Africans depend upon ULSA for their incomes and employment and in what sectors of the economy are they located? In what ways is the country's environment and social well-being shaped by this one firm? And what can a single case study suggest about the health of the South African economy more generally? These are among the questions this study tries to address.

Methodology

How can the "economic footprint" of a single firm be measured? This report draws mainly upon South Africa's Input-Output (I-O) tables and Social Accounting Matrices (SAMs) in order to generate macro-data on such economic effects as job creation and labour income. The report also makes somewhat more implicit use of Economic (or Social) Rate of Return (ERR) models, which focus upon the "opportunity cost" of a company's operations, or the question of what would happen (for example to ULSA's workers) if the company disappeared from the economic scene. Each of these approaches is described in turn.

Measuring economic impact using input-output tables and social accounting matrices

Given South Africa's high levels of poverty, inequality, and unemployment, job creation and income generation have ranked among the highest priorities of each democratically-elected South African government. For that reason, this report focuses on generating some numbers with respect to ULSA's contributions to these objectives. In seeking to develop data of this type, economists have traditionally employed Input-Output (I-O) tables and Social Accounting Matrices (SAMs) as a way of assessing the effects of various industries on such macroeconomic variables as output, incomes, and employment. In this report the I-Os and SAMs have been provided by a South African economic consultancy, Quantec Research. Figure 1.1 provides a condensed representation of the I-O/SAM framework that is used here.

Basically, the purpose of an input-output table is to reconcile what goes into an economy with what emerges from it. Suppose, for example, that the single output of the South African economy is automobiles. In order to produce automobiles, the economy requires inputs like labour, capital,and raw materials. The difference between the cost of the inputs and the price of the outputs indicates the value-added that is associated with car manufacture. In short, by examining a country's input-output table, analysts gain a clearer idea of what resources are being used for what purposes, and how much value-added is generated through the production of goods and services.

The Social Accounting Matrix or SAM, in turn, makes use of a country's national accounts to determine, inter alia, how incomes and employment are distributed among different industries, regions, social groups, and households. For example, let us suppose that automobile manufacture takes place in certain regions and uses a mix of different types of labour: managerial, skilled, semi-skilled, and unskilled. Further suppose that the suppliers to the automobile industry are similarly scattered around the country and use their own types of labour. Again, the SAM indicates how the production process is distributed in terms of its effects on such economic units as regions and households, and can even be broken down by race or gender, to the extent that such data are available.

FIGURE 1.1
Measuring ULSA's economic impact on South Africa

ULSA's Direct or "First-Round" Economic Impact
(the effects of ULSA's operations in terms of the number of jobs it creates, its investments in plant and equipment, its turnover, and taxes paid, and its economic effects on its immediate suppliers including retailers)

+

ULSA's Indirect or "Second-Round" Impact
(the effects of ULSA's expenditures on its suppliers' suppliers)

+

ULSA's Induced or "Third-Round" Impact (the effects generated by the consumption decisions of ULSA's, its suppliers', and its suppliers' suppliers' employees)

=

ULSA's Total Economic Impact on the South African economy

As Figure 1.1 suggests, the central purpose of this report is to trace and measure the effects of ULSA's operations on the South African economy. Thus, when ULSA places orders with suppliers or delivers its products to supermarkets, these companies will generate revenues and will pay wages to their workers. These suppliers may have to invest in additional capacity owing to ULSA's orders, leading them to make purchases from a variety of local South African industries. In parallel, the workers who are directly and indirectly employed by ULSA and its suppliers will make their own consumption decisions, causing the purveyors of the goods and services they buy to place new orders for items and also to invest in additional capacity as needed. This study thus provides a quantitative and, to a lesser extent, qualitative assessment of all these effects on the broader South African economy.

To date, there have been relatively few firm-level studies that have made use of this type of analysis (but for useful examples see Moore School 1999 and Honda 2004). There are several reasons for this, which are important to note so that readers are fully aware of the shortcomings of the I-O/SAM methodology:

First, reports of this kind are extremely data-intensive and technically demanding. Their accuracy depends largely upon the availability and quality of both national and firm-level data.

Second, the I-O/SAM is best used as a "snapshot" in time (in the case of this study the time is generally 2005) of a company's economic activities. If one is interested in time-series research or in tracking how a set of economic variables (e.g. employment, incomes) have changed over some period, the data can be useful but only with certain caveats. For example, I-O data generally do not account very well for technological change as the tables (and the underlying model of the economy on which they are based) are only updated infrequently. Since most industrial sectors engage in technological change over time, however, the analyst who relies on this data may miss some important effects, like the possibility of capital-labour substitution; and indeed, other national-level data point toward such capital-labour substitution in the South African case. (Note that the net employment effects of that shift are not immediately obvious: thus, while capital-labour substitution could result in less direct demand for workers by firms like ULSA, the increased productivity of such companies could lead to lower consumer prices and thus higher demand for the goods produced, so that the overall economic and employment impact could well be positive.)

Third, the I-O/SAM does not provide a good method for comparing the productivity of foreign and domestic firms. The framework assumes that, for example, the capital-labour coefficients for similar types of firm are essentially the same, thus equivalent injections of, say, investment into the economy by a foreign or domestic firm would generate comparable distributions of employment and income. Yet many economists have argued that foreign investment is indeed more productive for the economy as a whole because of the specific linkages that it forges with domestic suppliers, for example through technology transfer and financing (Alfaro and Rodriguez-Clare 2003). This type of "linkage analysis," however, fails to yield much information on broader economy-wide impacts.

Despite these shortcomings, the great attribute of the I-O/SAM approach is that it yields a macro-perspective on a single firm's operations. As one report that made use of this methodology points out, "One of the major virtues of the I-O approach is that extensive industry-specific impacts can be tracked" throughout the economy (Moore School 1999, p. 31). Given ULSA's desire to understand its broad economic "footprint", this approach therefore seems to have particular relevance. Specifically, the I-O/SAM framework focuses on the financial and economic impacts of a company's investments and ongoing operations within a national setting, and should give some sense of the "multiplier effects" associated with a company's operations throughout the economy. That information, in turn, can be used by corporate executives and government officials as they seek to understand which sectors in particular benefit from the activities of a company like ULSA, and also the potential vulnerabilities that might exist with respect to future employment and income generation should, for example, certain types of suppliers lose their competitiveness.

Economic (or social) rate of return (ERR) models

A second and complementary approach used by economists for making impact assessments draws upon Economic (or Social) Rate of Return (ERR) models. The purpose of these models is to gain insight into the effects of a given project, say a green-field investment, on a firm's diverse stakeholders, including labour, the local community and so forth (Esty, Ferman and Lysy 2003). The ERR is based on the notion of "opportunity cost" or on what the various social actors involved with a given firm's operations would lose if it were not present in the local marketplace.

Thus, the ERR forces us to ask such questions as: if ULSA were to pack up and leave South Africa tomorrow, what kinds of jobs would its employees be able to find in other industries and at what wages? Would they lose income as a result? If so, that income loss would be one measure of the opportunity cost or real economic value of ULSA's operations to workers in South Africa. If it costs nothing for an employee to find a similar job with similar wages (say if ULSA simply sold its operations to another multinational firm that kept running the business "as is") then ULSA's unique contribution to the South African economy would be limited. If, on the other hand, it would prove costly or impossible for workers to find jobs with another firm at comparable levels of pay and benefits, then the company's operations are of some measurable added-value. The ERR perspective is important to incorporate into economic impact analysis, since it focuses attention on the counterfactual of a South Africa without ULSA.

An ERR model, however, is difficult to build when the relevant comparative data are lacking. Indeed, one limitation or shortcoming of this report is that it generally lacks data with respect to similar companies' operations. Further, it could reasonably be argued that the use that is made here of other types of comparative data (for example on average South African wages) is misleading in important respects. After all, is it even appropriate to compare the wages of ULSA employees, or the environmental emissions of ULSA plants, with *average* South African wages or industrial emissions?

The methodology adopted in this report is to analyse ULSA's economic footprint drawing mainly on I-O/SAM models, with more implicit use made of the ERR framework where comparative (if not always strictly comparable) data are available. Specifically, input-output models help capture the company's "macro" influence on employment, incomes, and government revenues, while the ERR models focus on the firm's "value added" for a variety of stakeholders. In those areas where quantification has not been possible, the costs and benefits of the firm's operations have been described qualitatively. Overall, while it is has not been possible to come up with one single number that expresses fully the size of ULSA's "economic footprint", much less its social and environmental impacts, hopefully the analysis will lead readers to gain a clearer understanding of how corporate operations influence the economies of the countries where they are located.

Scope

The report unfolds in eight chapters. Following this introduction are two background chapters that are devoted, respectively, to a snapshot of the South African economy and then to ULSA's history in the country. The purpose of these chapters is to provide readers, particularly those unfamiliar with South Africa, with some context for the analysis that follows. Chapter Four provides the core of the report, providing a detailed examination of ULSA's contributions to the South African economy. Next, the report turns in Chapter Five to a brief discussion of ULSA and its consumers, followed by two chapters which provide, in turn, admittedly broad-brush treatments of the company's corporate social initiatives (CSI) and its environmental impacts; all three of these topics are deserving of more detailed study than was possible in the context of this report. The report concludes with an overall assessment of ULSA's economic footprint. Annex I then provides additional and alternative views on the research presented here from both Gail Klintworth, Chairman of ULSA, as well as an external "Reference Group" or number of stakeholders who were asked for their comments; Annex II provides a detailed discussion on the economics of foreign direct investment; while Annex III provides a detailed SAM for ULSA.

2: THE SOUTH AFRICAN CONTEXT

The Republic of South Africa (RSA) is a country with a population of nearly 44 million and per capita income (in terms of purchasing power parity or buying power) of approximately US$13 000. The country's population is nearly 80% black with whites and "coloured" persons contributing 18% and Indian/Asians another 2%.

Despite its middle income ranking, South Africa is characterised by high levels of income inequality and widespread poverty; in many respects, the RSA may be conceived of as two distinct countries living side-by-side, one of which is technically and industrially advanced and rich, while the other is still developing and quite poor. Indicative of these income and welfare gaps is the fact that the RSA has a life expectancy at birth of about 43 years of age, a level associated with nations that are much poorer in terms of per capita income. Part of this low life expectancy is due to the devastating effects of HIV/Aids: in 2006, more than 5 million South Africans carried the virus. Infant mortality rates, at 59.4 per 1000 live births, are also quite high for a middle-income nation. Mexico, for example, which has a per capita income of about US$11 000, has infant mortality of 19.6 per 1000 live births (and life expectancy of 75 years). Table 2.1 provides a snapshot of South Africa's vital statistics.

TABLE 2.1
South Africa's vital statistics, 2006

Total population	43,997,828
Black	79%
White	10%
Coloured	9%
Indian	2.50%
Infant mortality	59.4/1000
Population living with Aids	5.3 million
Aids Deaths	370,000
GDP(USD BN, in PPP)	587.5
GDP percap (USD, in PPP)	13,300

Source: CIA World Factbook

In terms of the income distribution, South Africa is among the most unequal nations on earth, with a "Gini coefficient" - a measure of income inequality - of about 60, similar to the level found in Brazil. Putting this into words, in South Africa the poorest 10% of the population has only a 1% share of the total national income, while the wealthiest 10% claims almost 50% of national income. Indeed, if South Africa has any single, defining economic characteristic, it may be its extraordinary level of inequality. It also is a land in which one in two South Africans lives below the poverty line.

South Africa has further suffered from chronically high levels of unemployment, standing officially at nearly 30% of the active population; the unofficial number is probably significantly higher (see Table 2.2). This is not only due to a lack of economic growth, which between 2000-2003 hovered around 3-4% per annum before increasing to 5% beginning in 2004 (see Table 2.3); it is also due to the structure of the South African labour market. Despite the high levels of unemployment, for example, the country suffers from a labour market "mismatch" in which the demand for skilled labour, such as engineers, cannot be met from the existing pool of unemployed, most of whom are unskilled. It is for this reason that the government of South Africa has emphasised the importance of education and of worker training to the nation's economic and social well-being, a theme that will be developed throughout this report, and particularly in Chapter 4.

In a recent study for the government, Harvard economist Dani Rodrik has explored in depth the "tragedy" of South African unemployment, and provided his own views for what needs to be done to fix it (Rodrik 2006). His analysis is so pertinent to this discussion of ULSA's economic footprint that it merits a lengthy citation: "High unemployment and low growth (in South Africa) are both ultimately the result of the shrinkage of the non-mineral tradable sector since the early 1990s. The weakness in particular of export-oriented manufacturing has deprived South Africa of growth opportunities that other countries have been able to avail themselves of… The relative shrinkage of manufacturing…has entailed a collapse in demand for relatively unskilled workers" (Rodrik 2006, 3).

Rodrik claims that the employment situation could have improved if either wages had fallen or the informal sector had grown. But neither of these occurred to the extent necessary to absorb the continuing inflow of unskilled labour. As a consequence, he asserts that South Africa needs "an export-oriented strategy that increases the relative profitability of producing tradables for world markets", thereby generating economic growth and reducing unemployment. In short, "the cures for low growth and high unemployment are largely one and the same" (Rodrik 2006, 4). While this prescription may be contested, it indicates South Africa's relative lack of competitiveness in the manufacturing sector, an issue that will be revisited again in this report.

TABLE 2.2
South Africa unemployment (numbers and percentage), 2000-2005

	2000	2001	2002	2003	2004	2005
Number Unemployed	4 336 022	4 506 792	4 750 085	4 876 394	4 696 788	4 403 029
Unemployed as % of Labour Force	27,9	28,6	29,7	30,1	28,7	26,6

Source: Republic of South Africa data

TABLE 2.3
Average annual GDP growth in Sub-Saharan Africa (SSA) and South Africa (RSA), 2000-2005

	2000	2001	2002	2003	2004	2005
SSA	3	3	3	4	5	5
RSA	4	3	4	3	4	5

Source: World Development Indicators database

TABLE 2.4
South African exports of goods and services, 2000-2005
(volumes in rand mm and percentage changes in volume)

2000	2001	2002	2003	2004	2005
257,011	261,541	262,938	263,653	270,214	288,190
% Change	1.8	0.5	0.3	2.5	6.7

As Rodrik suggests, South African export growth has been relatively weak over the past five years, with the exception of 2005 (see Table 2.4). At the same time, imports of goods and services have grown substantially, resulting in trade and current account deficits.

Although the South African economy has enjoyed continuous growth over the past five years, gross fixed capital formation has not kept pace with the expansion (South African Reserve Bank Quarterly Bulletin March 2006). This failure of the industrial sector to respond to rising demand indicates that there may be concerns among investors about the long-term sustainability of the economic boom. As the South African Reserve Bank asserts, "Further substantial strides in fixed capital formation are required…" (South African Reserve Bank Quarterly Bulletin March 2006).

In order to augment domestic levels of capital spending, foreign investment has been welcomed in developing countries and emerging market economies around the world in recent years, including in South Africa (Gelb 2004). Nonetheless, investment flows to the country have proved disappointing thus far, averaging less than US$2 billion per annum over the past 10 years. Despite making major improvements in its public institutions, which are now identified by investors as a source of confidence in the government, South Africa faces a number of challenges as it seeks to provide a more welcoming environment for foreign direct investment, including:

(1) limited opportunities for regional trade;
(2) low growth rates compared with other emerging markets, particularly in Asia;
(3) exchange rate volatility, and particularly the presently over-valued Rand due to commodity price movements;
(4) labour market regulations and rigidities;
(5) Black Economic Empowerment (BEE) legislation and its consequences for corporate ownership and operations; and
(6) lack of efficient railroad and port infrastructure (CREFSA 2005).

Overall, the World Bank ranked South Africa 29th in 2006 with respect to the "ease of doing business", but only 87th in terms of the ease of employing workers (www.doingbusiness.org).

In sum, the South African economy presents analysts with a mixed picture. While the country has experienced sustained growth in recent years, thanks not only to high commodity prices but also due to improvements in the policy environment and the optimism that the peaceful transition to democracy has generated, the benefits of that growth have not yet been equally distributed across the population. Further, investment levels need to be stronger if growth is to continue and expand. In the absence of high levels of growth, credible policy commitments, and a more dynamic economy, South Africa may find it difficult to absorb its unskilled labour, and to reduce its high levels of unemployment and the poverty it breeds.

3: UNILEVER IN SOUTH AFRICA:
A brief history

Unilever has been established in South Africa for longer than any other foreign manufacturing firm. Its predecessor company, Lever Brothers, first began to analyse the country's market potential in the late 1880s, and by 1887 it had registered the Sunlight trademark in Cape Town. In 1895, William Lever visited South Africa to size up the market for himself, and one year later he sent an agent to begin marketing the company and its products, particularly Sunlight soap. This was soon followed by the opening of new plants through green-field operations, and of acquisitions that would create the foundations for ULSA's strong position in the South African marketplace today (Hall 2002).

Unilever's first factory in South Africa, devoted to soap manufacture, was opened in Durban (where ULSA's headquarters remain) in 1911 (note that at this time the corporate entity was actually Lever Brothers, though the name Unilever and its acronym in South Africa ULSA will generally be used in this report). This marked the beginning of direct manufacturing investment by a multinational corporation in the country and with its establishment, mass production techniques became available which would, over time, help modernise the entire economy. This factory was the company's largest in the world outside England at the time, evidence of Lever's confidence in the South African marketplace. In 1912, building had already started on a second factory in Cape Town, which was opened the following year. ULSA's growth, in short, was rapid.

Newspapers of the day reported on the opening of the new plant with enthusiasm, noting particularly that the "finest equipment" was used, an observation that is of some interest, since it suggests that even a century ago multinational firms were often introducing "best practices" into their developing country operations. Journalists drew attention to the "completeness and efficiency" of the firm's operations, with one article stating that "labour-saving devices abound everywhere". The company's early emphasis on quality control also impressed reporters, who described in detail the "very finely fitted laboratory where will be tested everything used in connection with soap manufacture…" (citations in Hall 2002).

Unilever was also growing its South Africa business through acquisitions at this time. As its second plant was being built in 1912, the Transvaal Soap Company was purchased in Auckland Park to enable the company to better serve the Witwatersrand area. It is notable that the company focused on the soap and detergents business up until the end of World War 2, markets in which the company continues to hold particularly strong positions to the present day. The firm's entry into the food business would come much later in an effort to diversify and stabilise its earnings structure.

Given the significant communication and transportation difficulties associated with operating a multinational firm in the early 20th century, it seems incredible that by 1913 Unilever had already become a major player in the South African marketplace. Factories were located in various parts of the country, essential in view of the immense distances that had to be covered to reach customers. From its plants and offices in Durban, Cape Town and Johannesburg the country could be covered on a national scale, in contrast to other local soap manufacturers which operated only a single factory and focused on a single region.

During these years, the company continued to grow by investing in both vertical and horizontal integration. Given this rapid growth, problems of managing the enterprise efficiently became apparent early on, and various administrative innovations were required. This history is of particular interest as "One Unilever" - the integration of ULSA's foods and household and personal care (HPC) divisions - becomes a reality as of the writing of this report. It demonstrates that even the most successful firms struggle with the management challenges posed by rapid growth and how best to organise to meet the needs of a rapidly evolving consumer goods market.

After Word War 2 ended in 1945, South Africa experienced an economic boom and Unilever sought to expand by entering new markets. The company was instrumental, for example, in lobbying the government to allow the manufacture of margarine. Up until 1947 margarine manufacture had been prohibited due to the impact this would have on the butter market. However, after protracted negotiations with Pretoria, the firm began to produce vitamin-enriched margarine. The company had accurately predicted a strong demand for inexpensive fat, and indeed its Rama brand of margarine continues to be a particularly strong brand among South Africa's low-income households.

Nonetheless, ULSA's long-term prospects in South Africa were inevitably shaped by the country's politics, and especially by the institution of apartheid. Between the 1950s and the early 1990s the country experienced almost continuous political unrest. A turning point came in 1960, when police opened fire on a mass demonstration at Sharpeville, killing 69 black people and wounding more than 180. The government responded by declaring a state of emergency, arresting many members of the African National Congress, and banning the organisation.
Throughout this entire period the United Nations acted with a rare degree of unanimity as it attempted to persuade South

Africa to end apartheid. In 1962 the UN General Assembly passed its first successful sanctions vote against South Africa and in 1974 South Africa was suspended from the United Nations, signalling the country's "pariah" status. As for ULSA, business historian Geoffrey Jones has written of this period, "By the mid-1970s South Africa's importance to ULSA was considerable, but it looked increasingly risky…Change of some kind appeared inevitable" (Jones 2005, 180). During the 1976 Soweto riots, for example, black high school students demonstrated against a government ruling that required Afrikaans to be taught in certain black high schools, resulting in the deaths of at least 575 people as rioting spread throughout the country. Again, as Jones writes, "there seemed to be a growing risk that the change might be violent" (Jones 2005, 180).

Jones observes that "South Africa posed moral dilemmas for ULSA…The essential issue for ULSA was whether it wished to act as a social pioneer to challenge the system, or whether it would act as a law-abiding corporate citizen and follow government policy" (Jones 2005, 1980). The company itself states that "Throughout the sanctions era, ULSA refused to compromise on its principles in regard to labour and business practices. Management had been constructively engaging with elected labour representatives long before local labour unions were legalised, and amenities at ULSA office and factory sites were desegregated well in advance of the repealing of the law" (ULSA, Touching the Lives of All South Africans, n.d.). Jones recognises that the company was active "behind the scenes", putting into place training programmes for black employees, eliminating discrimination in salary schemes, and gradually increasing the number of black managers. These apartheid-era initiatives helped build a cadre of well-trained black executives, many of whom would eventually leave Unilever to contribute in other ways to building the new, post-apartheid South African economy.

By the 1980s the effects of the struggle for democracy were starting to be felt politically and in 1983 Prime Minister P.W. Botha introduced limited reforms in the form of a tricameral parliament with three racially separate chambers (one for white, Asian and coloured people). Black people, however, were excluded. Violent protests again ensued and the government declared successive states of emergency. These developments, in combination with decreasing investor confidence, led to a deep economic slow-down.

External pressures were also weighing on South Africa. International financial institutions began to regard the country as unsafe for investment, while demands for sanctions within the United States led more than 200 American companies to withdraw or sell their subsidiaries during the 1980s. The Rand devalued and foreign investment virtually came to a halt.

ULSA, in contrast, continued to invest heavily in the country, despite its recognition of the political and economic risks. In 1976, for example, ULSA acquired various local tea businesses and incorporated them into Lipton South Africa. In addition, in the second half of the 1970s, capital was invested in erecting warehouses in both Boksburg and Durban and in adding capacity in the margarine business. During the 1980s, there was further expansion through organic growth and acquisition, including that of Natal Oil and Soap Industries, which was South Africa's second largest soap manufacturer. Indeed, the company's capital expenditure between 1980 and 1985 exceeded R192 million, and the second half of the 1980s saw ULSA involved in a number of significant acquisitions.

With the election of F.W. de Klerk as president of South Africa in 1989, a political turning point was reached. Recognising that the country had no choice but to reform, he ordered the release of many black political prisoners and lifted the ban on anti-apartheid organisations such as the ANC. Nelson Mandela's release from prison in 1990 signalled that the transition to a new South Africa was irreversible. South Africa's first truly non-racial democratic election was held in April 1994 and the ANC, headed by Nelson Mandela, came to power.

After the first democratic elections and an upswing in the world economy, the country once again began to show growth. ULSA continued to consolidate its interests and in 1996 Lever Brothers and Elida Ponds were merged to form a new Home and Personal Care Company. As of 2007, the Foods and HPC divisions would form the basis for "One Unilever".

Looking back on this charged history, it is difficult to argue with Jones's assessment that "ULSA built an extremely strong business in South Africa on the basis of an early start in the market and subsequently sustained investment" (Jones 2005, 183). To be sure, its decision to remain in the country during the height of the international sanctions movement will remain contested, and this report does not provide the appropriate venue for advancing, much less settling, that debate. Still, the fact that Unilever's market presence and corporate reputation remain strong in South Africa indicates that the citizens of this now democratic country continue to respect its products and its brands.

4: UNILEVER SOUTH AFRICA'S ECONOMIC FOOTPRINT IN SOUTH AFRICA

In 2005 ULSA was among the Republic of South Africa's top 40 companies, with sales of R8.6 billion, net income of nearly R1 billion, and somewhat more than 4000 workers who were based at the company's headquarters in Durban and five factory sites, the largest of which is in Boksburg, outside Johannesburg (see Table 4.1 for a corporate overview).

ULSA manufactures and distributes a large variety of products across the food and home and personal care (HPC) sectors, and its brands include such household names as Rama margarine, Sunlight cleansing products, and Omo detergent. The company's products are made both in corporate-owned factories and by a small number of co-packers. The products are then distributed across South Africa (and to some neighbouring countries in relatively small quantities) to retailers and wholesalers (which ULSA refers to as its "customers" as distinct from its "consumers"), who either sell directly to consumers or make deliveries to thousands of smaller shops, including the ubiquitous "spazas" or tiny, local shops found in every community, rural and urban. ULSA products are purchased by all households in the country, and across all the income brackets. *As a result of its manufacturing operations and sales, it is no exaggeration to say that ULSA touches the lives of nearly every South African.*

That fact makes this report on the company's economic footprint particularly salient. Figure 4.1 provides a snapshot of "where the money goes" with respect to who profits or gains in the "first round" from the production of ULSA's brands, before taking into account the "second" and "third" rounds of economic impact. As can be seen, suppliers are the single biggest recipients of income from ULSA's production in terms of their share of the pie, followed by ULSA employees.

As stated in the introductory chapter, the main purpose of this report is to trace ULSA's "macro" effects on the South African economy through the use of Input-Output Tables and a related Social Accounting Matrix. Before providing the macro-analysis, however, it is important to provide a more granulated or "micro" assessment of ULSA's impact on those it employs and makes purchases from - on those it touches most directly from an economic standpoint. Accordingly this chapter treats the following topics in turn:

a. Employment, Wages and Benefits, and Training at ULSA.
b. ULSA and its Suppliers.
c. ULSA and its Customers (e.g. wholesalers and retailers).
d. ULSA's Contribution to Government Budgets.
e. ULSA and its Competitors.
f. ULSA and Black Economic Empowerment.

TABLE 4.1
ULSA, key indicators, 2003-2005

Rand '000	2003	2004	2005
Net sales	8,342,271	8,548,503	8,588,307
Income tax paid	346,577	344,174	404,738
Total labour cost*	916,475	1,028,606	1,119,676
Net income	362,182	518,773	908,373
No. employees	4,804	4,510	4,382

Source: Unilever data
*Note: Total Labour cost includes the cost of benefits

g. ULSA and Research and Development
h: Measuring ULSA's Direct and Indirect Effects on the South African Economy.

a: Employment, wages and benefits, and training at ULSA

Modern economic theory highlights "human capital formation" as the single most important generator of a nation's economic growth. The South African government has recognised this lesson by placing education and skills development among its highest priorities. One of the most important ways in which a multinational firm can contribute to economic growth, therefore, is by providing its workers with ample opportunities for "upskilling". This training benefits not just the firm itself, but the economy overall, as some workers will leave the firm to join other companies, taking their skills with them.

ULSA's first contact with the South African labour market is through recruitment processes. The selection of management trainees is highly competitive and reflects the sort of formal vetting procedures one would expect to find in any multinational firm. Shop-floor recruitment, in contrast, appears in practice to be much less formalised, reflecting the nature of the South African labour market and the way that jobs for workers in the manufacturing sector get filled there.

Basically, ULSA recruits management at the most junior level through its entry-level training programmes for university graduates. On average, it attracts about 3000 applications annually for a relatively small number of new management positions. Recruitment is by functional area, reflecting in part the fact that South Africa's university education is functionally based. Thus, accounting students are generally recruited for accounting positions, finance students for positions in the finance department. Training opportunities at the managerial level, however, enable at least some employees who seek different types of positions within the company to pursue them over time.

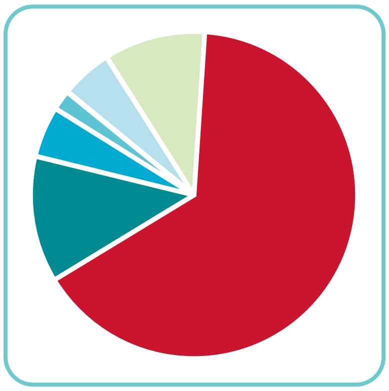
Each year ULSA scours South Africa for fresh talent, making presentations at major universities and inviting students for interviews. It also sponsors an intensive two-day recruitment event for 100 students called the Interactive Business Management Course (IBMC) which exposes students to "real world" business problems and decisions and calls upon them to engage in role-playing and case study analysis. Out of this programme, many of ULSA's future management appointments are made.

The company is striving to diversify its management ranks and approximately 70% of its management trainees are now from black, coloured, or Indian backgrounds. Still, most of these graduates come from a handful of South Africa's top universities. Accordingly, ULSA has worked for many years (since 1988) in partnership with regional faculties, especially the University of KwaZulu-Natal, to encourage students from disadvantaged backgrounds to pursue business education and, eventually, to join the company.

In contrast to the formal and selective process of identifying and hiring management trainees, shop floor workers at ULSA are recruited mainly via labour agencies or by "word of mouth". Indeed, managers report that a large number of shop floor vacancies can be met through discussions with existing workers, who generally have acquaintances who are seeking employment with the company and who are fully qualified for the open positions.

In 2005, ULSA South Africa had approximately 4300 direct employees. Of these, some 452 were in management positions; other workers were classified as either being skilled, semi-skilled, or unskilled. Table 4.3 provides summary data on employment and wages (not including benefits) for ULSA's employees by gender and by race (please note that the absolute numbers of ULSA workers are not necessarily identical in each of the labour tables as actual numbers will vary depending upon when the headcount was taken).

FIGURE 4.1
Dividing the pie



Payments to suppliers 66%
ULSA labour costs 13%
Interest payments 4.5%
Depreciation 1.2%
Tax paid 4.7%
Profit retained 10.6%

Note: Labour costs include the cost of benefits.

TABLE 4.2
ULSA annual wages by gender, race, and skill level 2005 (not including benefits)*

Skill level		Female			
		A	B	C	D
Management	Average of annual salary	316.444	375,454	307,087	370,519
	Head count	36	27	10	113
Skilled	Average of annual salary	167,168	166,608	168,878	167,526
	Head count	168	108	31	207
Semi-skilled	Average of annual salary	89,146	75,856	90,131	94,435
	Head count	99	105	16	46
Unskilled	Average of annual salary	54,756	67,029	59,689	67,950
	Head count	4	67	2	1

Source: ULSA
*Note: A=Asian; B=Black; C=Coloured; D=White
Figures are in Rands

	Male					
Weight avg	A	B	C	D	Weight avg
357,359	365,546	403,032	425,440	384,098	404,377
186	67	45	7	147	266
167,298	183,080	153,564	171,127	204,906	178,404
514	302	282	40	222	846
84,874	92,651	96,945	82,960	141,889	96,653
266	124	934	20	11	1,089
66,180	65,807	74,346	73,558	82,160	73,879
74	31	503	3	2	539

TABLE 4.3

Average annual RSA manufacturing wages among RSA listed companies, by skill level, 2005 (not including benefits)

	Average among RSA listed companies (rands)
Management	210,789
Skilled	71,999
Semi-skilled	37,703
Unskilled	37,703

Source: Quantec Consultancy

Table 4.2 reveals that white males continue to have very high salary levels compared with other groups, with longevity of service being the single most important factor explaining variation in wages across races and genders. Given the strong demand by South African corporations for managers from under-represented backgrounds, however, it is expected that these wage gaps will be closed relatively quickly. A comparison between Table 4.2 and Table 4.3 reveals that average wages paid at ULSA are considerably higher than the averages for RSA listed companies overall, and in setting its wage levels ULSA compares its salaries with those of competitor firms through a number of different survey instruments.

Beyond wages, ULSA provides all of its employees with a comprehensive benefits package, including pensions, medical insurance, and other programmes like housing assistance. If the employers' cost of this package were added to the wage bill, it would, on average, raise the salaries of ULSA workers by 20-25% (thus, an employee with an average annual wage of R280 000 would have, in addition to their salary, benefits equal to about R54 000). This does not take into account, moreover, the cost of many other taxes and social charges imposed by the South African government.

ULSA's pension fund was established in 1936 and during the apartheid era was among the very few funds that did not split up along racial lines. It has given its members an inflation or above linked increase every year for the life of the fund and also provides them with a "13th" cheque. In addition, it also provides educational benefits to children who continue their education beyond the age of 18. The company also makes co-payments to those families that wish to remain affiliated with the medical scheme after retirement.

The primary medical scheme covering ULSA employees has a comprehensive HIV/Aids programme for all its members, something which is of signal importance in the South African context. More generally, ULSA has expressed its policies and procedures with respect to HIV/Aids in a near-40 page document. It calls for close co-operation with government on the one hand and with its own unions on the other in putting into place a range of appropriate programmes. Of perhaps greatest long-term value, the company has also put into place an education and prevention programme aimed not only at its own employees but also those of the companies and suppliers with which it does business, through the creation of an HIV/Aids "toolkit". Indeed, given its social, economic, and health significance, HIV/Aids awareness ranks among ULSA's highest priorities.

Yet another benefit that has been provided to thousands of ULSA employees over the years is an assisted housing purchase scheme, which offers funds to build or buy a home. This programme was of particularly great importance to black workers during the apartheid era, when it was difficult to obtain bank loans, making home purchases beyond the reach of many South Africans. By making home ownership affordable, ULSA has also indirectly supported the South African construction industry and the ancillary industries that feed into home construction and purchase, including, for example, the white goods industries. It should be noted that these economic benefits to the South African economy have not been quantified in the SAM analysis provided in a later section of this chapter.

Beyond wages and benefits, ULSA contributes directly to its workers, and to South Africa's economic development more generally, through its training programmes. As has already been discussed, training of workers and managers provides one of the main channels though which multinational firms enhance a nation's productivity, and this issue is particularly salient to the South African government, which is grappling with high levels of unemployment, particularly among unskilled workers. By learning new skills, workers become more productive and more employable, and companies achieve higher levels of turnover and of profits.

Corporate training at ULSA also provides an economic ripple effect throughout the economy. This is because a percentage of its workers - a relatively high number for managers, but much lower for those on the shop floor - will leave the firm to enter other businesses, many of them being locally owned and operated. Presumably, local firms seek to hire these workers because of the knowledge and skills they bring with them. In essence, ULSA transfers technology to the South African economy via the workers it "exports" to domestic companies. Further, ULSA trains non-workers through the South African "learnership" scheme, which is described below. *Overall, ULSA devotes approximately 3% of its corporate payroll on training per year, amounting to R30 000 per worker per year on average.*

The training covers a wide range of topics, from the acquisition of particular technical skills (e.g. manufacturing practices and maintenance; computer applications) to more general management training (e.g. leadership; negotiation; capital project management). A significant amount of training is devoted to Safety, Health and Environmental (SHE) management topics, including fire fighting, environmental training, and first aid. Much of the training at ULSA also emphasises quality control, including a variety of quality control courses associated with ISO 9001 standards (e.g. Control of Measuring and Monitoring Devices; Internal Auditors Training; Hygiene Cleaning Training).

Beyond training its own workers and managers, ULSA makes a considerable investment to the training of South Africans who are not company employees through its participation in the country's "learnership" schemes. The learnership scheme has its origins in South Africa's skill development programme, which imposes a 1% levy on corporations to pay for a variety of training activities, but firms can apply for a rebate if they engage in training of non-workers as well. ULSA managers have played a leadership role in the learnership scheme, thus making an additional contribution to the upskilling of the South African workforce.

For training purposes the South African economy is divided into a number of Sector Education and Training Authorities (SETAs) which are authorised to approve the learnership programmes within individual firms. ULSA, for example, not only participates in both the Food and Beverage (FoodBev) and the Chemical (CHIETA) SETAs, but, as already noted, its managers have played a leadership role in them in that executives from the firm have also served as directors of their respective training organisations. These learnership programmes enable those who are currently unemployed to receive nationally-recognised certifications in a number of corporate skills. In the first quarter of 2006, for example, ULSA had some 415 learners in its factories and offices and the company reported in interviews that a number of these learners went on to full-time employment with the firm.

Because of South African reporting requirements on training, as required by the Skills Development Act of 1998, significant amounts of information on the workplace training that ULSA offers both its own employees and the external learners it brings into the firm for certification are available. As already noted, ULSA's training schemes are divided into those that are implemented in co-operation with the FoodBev SETA and with the Chemical Industries SETA, or CHIETA. To give a sense of the extensive amount of training that ULSA employees receive, and just taking the example of the Foods Division, in 2006 there were 3 648 beneficiaries of corporate training (including learnerships), even though the Division employed just 1 000 workers. In other words, each worker, on average, took part in more than 3.6 training programmes.

The majority of ULSA's factory workers, ranging from 56 to 100% depending on the site, are unionised, and temporary or contract workers appear to constitute about 10 to 20% of the workforce at any one time. Specifically, there are three unions at ULSA plants: the Chemical Paper Printing Wood and Allied Workers Union (CEPPWAWU), the Food and Allied Workers Union (FAWU), and the National Union of Food Beverage Wine Spirits and Allied Workers (NUFBWSAW). The first two of these are part of the Congress of South African Trade Unions (COSATU) while NUFBWSAW is federated with the National Congress of Trade Unions (NACTU).

In a report prepared by FNV Company Monitor, a Dutch consulting firm (a research organisation supported by the Dutch Union FNV, researching the social performance of six Dutch multinationals around the world), a number of issues regarding management-labour issues at ULSA South Africa were highlighted. For example, in interviews the researchers for FNV were told by "shop stewards and workers" that the company "only provides infrequent and ad hoc training". ULSA reports to government agencies, however, paint a very different picture. FNV also made allegations of corporate discrimination, for example against black employees "who are not properly represented at the managerial level". Again, more than 70% of young management hires are now from the ranks of black, Indian, and people of colour (FNV Company Monitor 2006).

Unfortunately for ULSA, but perhaps a net positive for the South African economy as a whole, ULSA employees do leave the company and take the training they have received elsewhere (see Table 4.4). Sometimes they join ULSA's suppliers, or even become suppliers to the company themselves. They also leave for other major South African corporations like SAB Miller Breweries. Of interest, turnover seems particularly high among blacks, coloured, and Indians, who are in particularly high demand as companies seek to diversify the ranks of their skilled employees and management. A snapshot of ULSA's turnover during the first two quarters of 2006 is provided in Tables 4.4 and 4.5.

TABLE 4.4
ULSA management turnover, 2006

Function	Actual (as % of staff)	Black, Coloured and Indian employees as % of actual
Marketing	11	50
Customer	4	100
Supply chain	5	50
Finance	20	100
Human resources	29	50
Ola ice cream	13	50

TABLE 4.5
ULSA senior staff turnover, 2006

Function	Actual (as % of staff)	Black, Coloured and Indian employees as % of actual
Marketing	10	100
Customer	11	50
Supply chain	6	33
Finance	3	100
Human resources	0	0
Ola	5	0

Interviews with workers and managers who leave ULSA suggest several reasons for changing employers. First, young managers often leave because they win promotions as they move to other firms; upward mobility at ULSA does not appear to be rapid. Second, dual-career couples find better opportunities in Johannesburg than in Durban, and in fact many ULSA managers originally come from that city, still have family members there, and ultimately decide to return home. Third, outsourcing of such functions as finance and human resources (HR) is leading some employees to seek new employment. During 2006-2007, for example, 61 positions in HR were outsourced while another 40 were outsourced in finance. Along with other multinational firms, it appears that Unilever PLC and ULSA are seeking to outsource those competencies that are no longer seen as being “core” to the business. As outsourcing becomes more prominent in both multinational and domestic firms, the South African government will wish to explore whether feasible and welfare-enhancing policy options are available for trying to keep threatened jobs “onshore”. The country has already had some success, for example, in attracting a number of telephone-based services that are now generally outsourced from industrial to emerging market economies, with India being among the chief beneficiaries.

b: ULSA and its suppliers

ULSA uses more than 3 000 industrial suppliers and provides them with approximately R4.5 billion of orders per annum; more information on which specific sectors these suppliers represent is provided later in the chapter. Half of ULSA’s supplies in terms of value, mainly raw materials, are sourced from outside the country. The strong value of the Rand in recent years, however, made foreign sources of supply increasingly attractive, and local suppliers have been in danger of losing their competitiveness; from the perspective of South Africa’s economic development, this must be an issue of particular concern, and it will be discussed in greater detail in the final chapter of this report. Table 4.6 provides details on the number of suppliers and ULSA’s total spend. It should be noted that these figures do not account for the myriad suppliers used for advertising and financial services among other corporate services.

ULSA uses industrial suppliers mainly for packaging and for intermediate inputs like agricultural oils and chemicals; different suppliers also provide the company with a wide variety of services, including travel and advertising. All these suppliers are subject to Unilever’s Code of Business Principles and its Business Partner Code (Tables 4.7 and 4.8); they are also subject to company policies on consumer safety and environmental care, and they face regular audits. In many cases, ULSA provides support to existing or potential suppliers in the form of advice, technical support and in some cases even the actual equipment, to enable them to meet its audit standards. ULSA is participating in the global review of suppliers' adherence to socially responsible practices as set out in the Unilever Business Partner Code (see Table 4.8). Of great importance given the Aids pandemic in South Africa, ULSA also shares its HIV/Aids "toolkit" with all suppliers and provides them with support in terms of promoting HIV/Aids awareness. Further, ULSA uses its supplier relationships as a way of advancing its Black Economic Empowerment (BEE) goals; more on this below.

Table 4.6
Suppliers to ULSA, 2005 (Rand MM)

	Number	Total spend
Raw material	575	2,102
Packaging	1,328	790
NPI (technical)*	1,350	1600
Total	3,253	4,492

*Note: NPI=Non-Production Items
(e.g. freight and distribution; machinery and equipment)

TABLE 4.7
Unilever code of business principles

Standard of conduct
We conduct our operations with honesty, integrity and openness, and with respect for the human rights and interests of our employees. We shall similarly respect the legitimate interests of those with whom we have relationships.

Obeying the law
Unilever companies and our employees are required to comply with the laws and regulations of the countries in which we operate.

Employees
Unilever is committed to diversity in a working environment where there is mutual trust and respect and where everyone feels responsible for the performance and reputation of our company. We will recruit, employ and promote employees on the sole basis of the qualifications and abilities needed for the work to be performed. We are committed to safe and healthy working conditions for all employees. We will not use any form of forced, compulsory or child labour. We are committed to working with employees to develop and enhance each individual's skills and capabilities. We respect the dignity of the individual and the right of employees to freedom of association. We will maintain good communications with employees through company based information and consultation procedures.

Consumers
Unilever is committed to providing branded products and services which consistently offer value in terms of price and quality, and which are safe for their intended use. Products and services will be accurately and properly labelled, advertised and communicated.

Shareholders
Unilever will conduct its operations in accordance with internationally accepted principles of good corporate governance. We will provide timely, regular and reliable information on our activities, structure, financial situation and performance to all shareholders.

Business partners
Unilever is committed to establishing mutually beneficial relations with our suppliers, customers and business partners. In our business dealings we expect our partners to adhere to business principles consistent with our own.

Community involvement
Unilever strives to be a trusted corporate citizen and, as an integral part of society, to fulfil our responsibilities to the societies and communities in which we operate.

Public activities
Unilever companies are encouraged to promote and defend their legitimate business interests. Unilever will co-operate with governments and other organisations, both directly and through bodies such as trade associations, in the development of proposed legislation and other regulations which may affect legitimate business interests. Unilever neither supports political parties nor contributes to the funds of groups whose activities are calculated to promote party interests.

The environment
Unilever is committed to making continuous improvements in the management of our environmental impact and to the longer-term goal of developing a sustainable business. Unilever will work in partnership with others to promote environmental care, increase understanding of environmental issues and disseminate good practice.

Innovation
In our scientific innovation to meet consumer needs we will respect the concerns of our consumers and of society. We will work on the basis of sound science, applying rigorous standards of product safety.

Competition
Unilever believes in vigorous yet fair competition and supports the development of appropriate competition laws. Unilever companies and employees will conduct their operations in accordance with the principles of fair competition and all applicable regulations.

Business integrity
Unilever does not give or receive, whether directly or indirectly, bribes or other improper advantages for business or financial gain. No employee may offer, give or receive any gift or payment which is, or may be construed as being, a bribe. Any demand for, or offer of, a bribe must be rejected immediately and reported to management. Unilever accounting records and supporting documents must accurately describe and reflect the nature of the underlying transactions. No undisclosed or unrecorded account, fund or asset will be established or maintained.

Conflicts of interests
All Unilever employees are expected to avoid personal activities and financial interests which could conflict with their responsibilities to the company. Unilever employees must not seek gain for themselves or others through misuse of their positions.

Compliance - monitoring - reporting

Compliance with these principles is an essential element in our business success. The Unilever board is responsible for ensuring these principles are communicated to, and understood and observed by, all employees. Day to day responsibility is delegated to all senior management of the categories, functions, regions and operating companies. They are responsible for implementing these principles, if necessary through more detailed guidance tailored to local needs. Assurance of compliance is given and monitored each year. Compliance with the code is subject to review by the board supported by the audit committee of the board and the Unilever executive committee. Any breaches of the code must be reported in accordance with the procedures specified by the joint secretaries. The board of Unilever will not criticise management for any loss of business resulting from adherence to these principles and other mandatory policies and instructions. The board of Unilever expects employees to bring to their attention, or to that of senior management, any breach or suspected breach of these principles. Provision has been made for employees to be able to report in confidence and no employee will suffer as a consequence of doing so.

TABLE 4.8
Unilever's business partner code

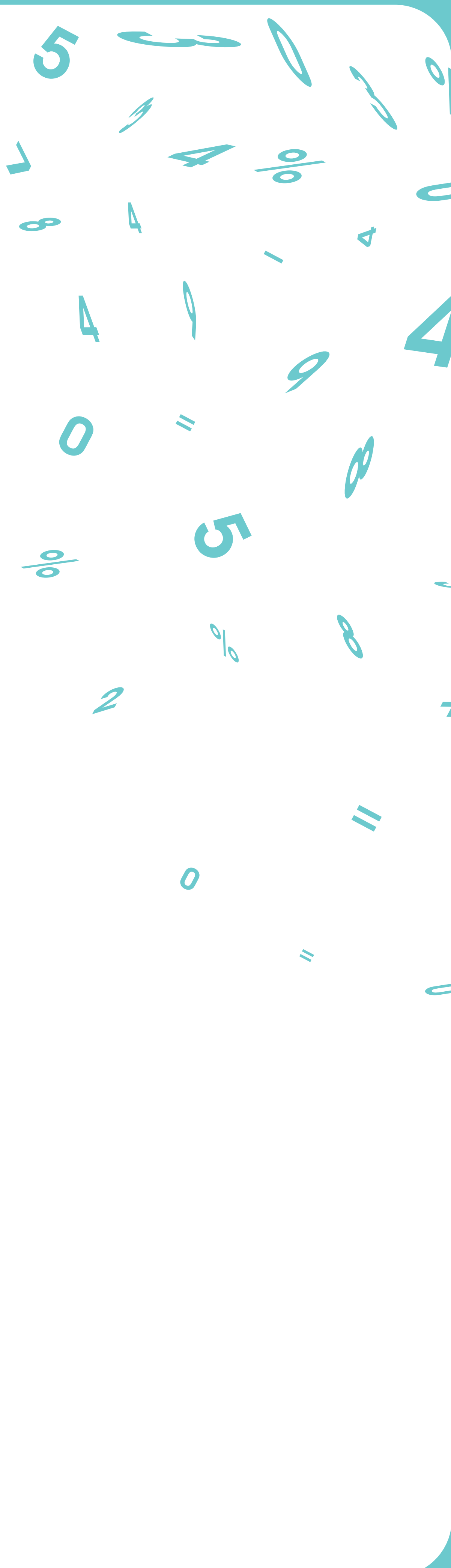
Unilever has developed a Business Partner Code that is compatible with its Code of Business Principles. The Code makes clear the standards to which Unilever expects business partners to adhere. It contains 10 principles covering business integrity and responsibilities relating to employees, consumers and the environment.
• There shall be compliance with all applicable laws and regulations of the country where operations are undertaken
• There shall be respect for human rights, and no employee shall suffer harassment, physical or mental punishment, or other form of abuse
• Wages and working hours will, as a minimum, comply with all applicable wage and hour laws, and rules and regulations, including minimum wage, overtime and maximum hours in the country concerned
• There shall be no use of forced or compulsory labour, and employees shall be free to leave employment after reasonable notice
• There shall be no use of child labour, and specifically there will be compliance with relevant ILO standards
• There shall be respect for the right of employees to freedom of association*
• Safe and healthy working conditions will be provided for all employees
• Operations will be carried out with care for the environment and will include compliance with all relevant legislation in the country concerned
• All products and services will be delivered to meet the quality and safety criteria specified in relevant contract elements, and will be safe for their intended use • There shall be no improper advantage sought, including the payment of bribes, to secure delivery of goods or services to Unilever companies.
* The right to collective bargaining is implicit in the recognition of freedom of association. In line with its own long-standing practice and its adherence to the United Nations Global Compact, Unilever expects its suppliers to recognise the right to collective bargaining (where allowable by law).

ULSA chooses its suppliers based not only on pure, financial calculations - although, as noted above, global economic pressures appear to be increasing - but also with respect to several other criteria, including in some cases social and environmental criteria, as well. When suppliers employ people with disabilities, for example, ULSA works with such companies to help make them competitive. As will be discussed in a later section of this chapter, ULSA also has, under its black economic empowerment commitments, a target to source 50% of its local procurement from BEE suppliers.

An informal, ULSA-conducted survey of its suppliers indicates that the company provides them with a variety of benefits that go beyond the value of its orders. These include technology transfer and training (including HIV/Aids training), and in some cases financing. Indeed, several current suppliers were once ULSA employees who, having found a market niche, left the company to create their own business, sometimes with ULSA financial support.

As an example of how ULSA provides South Africa with a "public good" by supporting its suppliers, consider the case of financing in more depth. Imagine that a new and small supplier is providing ULSA with goods and services and that it requires capital to expand. Let us suppose that, for whatever reason, it has faced difficulties in obtaining loans and other types of financing at reasonable rates from local banks, perhaps given the fact that it is new and lacks an established track record. To the extent that ULSA (or another multinational) provides the supplier with financing, it is actually playing a critical developmental role, in effect providing banking services where they are lacking (Alfaro and Rodriguez Clare 2003). In that sense, the company is filling a developmental "gap".

It must be emphasised that these benefits have a powerful ripple effect, particularly since ULSA has few if any exclusive arrangements with its suppliers and thus they are free to work with other firms. ULSA's business contributes to the productivity of its suppliers, who then become more attractive partners for other companies and who thus see job and income growth as a result. The sidebar of Smollan provides a perfect case in point. The South African economy overall then benefits as these externalities radiate outwards. *It is for this reason that the competitiveness of South African suppliers should be a topic of major economic concern for both corporate managers and government officials alike.*



The power of linkages

A classic example of how a multinational firm can support the “take-off of one of its suppliers is provided by ULSA s relationship with its main supplier of “field marketing” services - or direct product merchandising to its retailers - a local South African company called Smollan. In turn, this case demonstrates how strong, local suppliers can benefit multinational firms as well: the relationship is hardly a “one-way” street. By building its business in co-operation with Smollan, ULSA has considerably expanded its sales.

To understand Smollan’s value to ULSA, it is important to recognise that the South African modern trade makes extensive use of “field marketing”, with Smollan being the pioneer and leading company in this arena. Field marketing serves local retailers by taking their product orders and by stocking the shelves when the goods arrive.

In 1981 Smollan, an already successful if relatively small company at the time, had the chance to merchandise for ULSA s predecessor firm, Lever Brothers, in one region of South Africa. Over the next few years more regions were added, and in 1993, Fieldmarketing Group (Pty) Limited, known more generally as Unilever Channel Management (UCM), came into being as a Smollan subsidiary. Today, UCM covers all of South Africa and some 15 000 stores. It has grown into a Smollan subsidiary with 2 600 people marketing ULSA products, from a total Smollan employment of 8 600. ULSA has thus played a critical role in Smollan’s growth - the company is now expanding overseas - just as Smollan has bolstered the visibility and availability of ULSA brands. Interestingly, Smollan now has more employees overall than ULSA, and its subsidiary that deals solely with ULSA employs more than half the number of people that ULSA does in total.

If any example demonstrates the power of linkage effects in generating economic development, this does. As Smollan has written of this partnership, “We are privileged to be associated with Unilever, not only due to the credibility it brings to our business, but also because of the trust Unilever bestows in us, the world class learning we are exposed to… and the scope of development we are allowed to pursue for our mutual gain.”

c: ULSA and its customers

ULSA distributes its goods through a complex network that encompasses a wide range of outlets from the “modern trade” - e.g. supermarkets - to the traditional small “spaza” shops that are speckled throughout the country. The company estimates that the majority of its products are now sold through the modern trade, including major corporate wholesalers who, in turn, sell to a variety of customers including the spazas. Overall, ULSA goods are sold through some 588 800 outlets.

ULSA managers remark that retailers are playing an increasingly important role in the South African economy. A few large super- and hyper-markets control much of the modern trade and they determine which brands get on to the shelves and how much shelf space they will be allotted. Clearly, products must contribute directly to the supermarkets’ bottom line if they are to retain or grow their shelf space.

As an indication of retailer power, in the case of ULSA just seven retailers and wholesalers are responsible for more than 90% of the company’s turnover in terms of home and personal care products. ULSA, in contrast, tends to make up a relatively small share of their turnover. Table 4.9 provides a list of ULSA’s major retail and wholesale customers, indicating their share of the home and personal care (but not food) business.

Store in Tzaneen, Limpopo Province

The increasing concentration of South Africa’s retail sector in foods and home and personal care products raises issues from the perspective of South Africa’s economic development and particularly its future job creation that demand careful attention. In Unilever’s report (written jointly with Oxfam) on its contributions to the Indonesian economy and particularly to poverty alleviation in that country (Clay 2005), for example, the company found that its major employment impact was made through the thousands of small shops that sold its products. In many of these shops, Unilever brands were responsible for more than one-quarter of overall turnover, meaning that the company and its consumers were indirectly responsible for a large share of the jobs associated with these small retailers.

Traditionally, spaza shops have also played a large role in connecting South African consumers, particularly those who are under-privileged, to the marketplace for consumer goods and packaged foods, both in rural areas and in large areas of settlement like Soweto. As more and more super-and hyper-markets open, questions may be raised about the long-term viability of that traditional retail network, and about the fate of their workers. The decline in general trade is evident from the trend in sales of ULSA’s home and personal care products, as shown in Figure 4.2. Economic research might usefully analyse the consequences of the spread of the modern trade for South Africa’s spaza shop system and for employment and income generation more generally.

TABLE 4.9

ULSA'S major retail and wholesale customers as percentage of sales, 2005 (home and personal care products only)

Retail	Percentage of ULSA sales
Shoprite group	20
Pick n Pay group	18.6
Spar group	8.5
New Clicks	5
Total retail	**52.1**
Wholesale	
Massmart	16
Metcash	14.8
IBC group	8.3
Other	8.8
Total wholesale	**47.9**

Source: ULSA

FIGURE 4.2

Trends in modern and general trade, 2003-2006 (ULSA sales of home and personal care products)

Source: ULSA

d: ULSA'S contribution to government budgets

In 2005 ULSA paid to the South African government some R404 million in direct income taxes on pre-tax income of R1.3 billion; this does not include the income taxes paid by ULSA employees on their wages, or the taxes that suppliers paid on their incomes; more on this below where the SAM is analysed. *Overall, the ULSA tax burden is nearly one-third of corporate income.*

e: ULSA and its competitors

One oft-heard critique of multinational firms in developing countries is that their global brands and sophisticated marketing strategies overwhelm local competitors and drive them out of business. From an economics perspective, however, the question that should be asked of potential market concentration is the extent to which markets are contestable, meaning the relative ease with which new entrants can enter the market. Are the barriers to entry into a particular market-place high or low? Do they require huge amounts of capital and well-established networks, say of distributors? In economic terms, the barriers to entry for, say, electric power generation, are relatively high, and indeed local electricity markets are often dominated by a single supplier; it is for this reason that such markets tend to be regulated by government agencies. The barriers to entering the market for selling lunchtime snacks, however, are relatively low; anyone with food and a cart can start a business on the local street corner (assuming that the costs of acquiring the needed licenses aren't too high).

ULSA's products - margarine, tea, detergent powder, and the like - tend to be consumer goods that are relatively contested. Not only do a number of multinationals (e.g. Procter and Gamble and Nestle) sell competing products in South Africa, but there are a number of prominent local companies (e.g. Tiger) as well. A snapshot of the competitive landscape reveals an environment that is far from being dominated by any single firm. A summary table of ULSA's main competitors is provided overleaf as Table 4.10.

South Africa's food landscape

Over the recent past, South's Africa's landscape for packaged foods has become increasingly competitive. It has also experienced a fair amount of consolidation and restructuring as companies have started to refocus their portfolios and un-bundle their non-core operations. More recently, with the strengthening of the Rand, imports have also started to compete for a share of the market and a host of new players from overseas, including Tata Group, Danone, Heinz, and Pepsi, have begun operating in the country.

South Africa's home and personal care (HPC) landscape

The key HPC competitors are generally the same multinationals that compete with Unilever internationally, and include household names like Procter and Gamble (which has been notably absent to date from the laundry detergent market). However, the growth of the SA economy and the emergence of a black middle class is creating more higher-disposable income consumers who are now entering the market, and they are also becoming more experimental: more on this in the following chapter. While these consumers have an increasing need for products and services of value, they are also trading "up" to more expensive lines of products. The competition to meet their needs is intensifying as more choices in terms of brands and products become available.

The Fast Moving Consumer Goods (FMCG) market is also witnessing a growth of private label brands, which interestingly have attracted the more affluent customers in particular; more on this in the following chapter as well. On a related note, the modern trade in super- and hyper-markets is becoming of increasing importance to the South African retail landscape.

While most of the world's FMCG multinationals already compete in the key ULSA categories, some of these firms still have room to expand their product offerings. Other notable threats to ULSA come from lower-price competitors in the laundry and personal care markets. Overall, then, the HPC environment is heavily contested.

TABLE 4.10
ULSA and its major competitors

Key competitors		2005 Group company Turnover / revenue (NPS R'm)
Company	**Category**	
Foods		
Willowton Group	Spreads (Margarine)	R 2 475 *
National Brands	Tea	R 2 482 *
Master Foods	Savoury	R 500 *
Home and Personal care		
Adcock Ingram	Household Care. Skin	R 1 062
Beiersdorf	Hair. Skin. Deo	R 158 *
Colgate-Palmolive	Fabric. Deo. Hair. Skin. Household Care	R 1 358 *
Indigo Cosmetics	Deo	R 466
L'Oreal	Hair. Deo. Skin	R 600 *
Procter & Gamble	Hair. Deo. Skin	R 1 320 *
Reckitt-Benckiser	Household Care. Deo. Skin	R 678 *

* Estimated turnover (NPS) based on internal UL estimates
** Estimated number of employees based on market place estimates
Note: Private means that the company is privately owned and not publicly listed.

Origin	Type	No. of employees
Local	Private	1 500 **
Local	Listed through AVI Group	2 164 **
Foreign	Private	450 **
Local	Listed through Tiger Brands	18 068
Foreign	Private	< 100 *
Foreign	Private	507 *
Local	Listed through AVI Group	2 164
Foreign	Private	800
Foreign	Private	225
Foreign	Private	N/A

f: ULSA and black economic empowerment (BEE)

ULSA, like other firms in South Africa, is now actively engaged in meeting the country's Black Economic Empowerment (BEE) objectives. Black economic empowerment is driven by both legislation and regulation, and current policies are based upon the BEE Act of 2004. ULSA seeks to be classified as a superior BEE contributor, and it has assigned a board-level executive to ensure that the company achieves this objective. ULSA subscribes to the broad-based black economic empowerment principles reflected in the BEE Act and has adopted the balanced scorecard approach reflected in the recently published Codes of Good Practice.

The elements of BEE as set out in the Codes are as follows in Table 4.11. A recent study commissioned by the South African government provides a picture of progress to date against BEE objectives (See: Consulta Research 2007, at www.thedti.gov.za). The study shows weak performance against these objectives by South African businesses as a whole; ULSA's performance on the BEE scorecard, however, is within the top 20% of the companies reviewed. ULSA currently achieves full compliance in the areas of Enterprise Development and Socio-economic Development and its management is committed to attaining this level of achievement across the board. A description of ULSA's approach to each BEE component follows.

Equity ownership

Unilever SA is a subsidiary of Unilever PLC. Although black equity ownership forms a key element of the BEE scorecard, ULSA has to date not diluted equity by bringing black equity partners on board. The company's current position is that it will leverage all the elements of the BEE scorecard in order to fulfil its empowerment objectives. Decisions regarding equity dilution will be made in the context of its ability to achieve its objectives in the remaining scorecard elements.

Management control

Management Control refers to formal board members and top management who directly control and are accountable for results in a registered operating company. This aspect is being driven within ULSA through its employment equity initiatives, which set out the diversity targets and plans to achieve a representative workforce at all levels in the organisation. Currently four of the 11 board members are black and two are female.

Employment equity and skills development

The development and recruitment of black employees is a key focus area of the BEE Act and, as already noted, ULSA has fully supported this objective, particularly in its management recruiting. Over the past five years, the company has focused particularly on black and female representation in its management ranks and currently approximately 42% of its managers are black, Asian or coloured and more than 40% are female. As also noted previously, ULSA is active in upskilling employees and unemployed people through learnerships.

Preferential procurement

Preferential Procurement focuses on procurement from black owned and empowered enterprises. The weighting or score is reflected as a proportion of total procurement spend. Based on a preliminary internal assessment, a target of 50% of local, direct and indirect procurement by 2010 has been agreed. ULSA estimates its current procurement spend with BEE compliant companies to be of the order of 25-30%. Determining a procurement target for a company is a complex and lengthy process requiring independent assessment and certification. In short, ULSA and its local suppliers need to be assessed by an accredited BEE assessor on a balanced scorecard basis.

TABLE 4.11
Scoring black economic empowerment objectives

Element	Objective	Weighting
Equity ownership	Equity & voting rights for black people	20%
Management control	Decision making by black executives	10%
Employment equity	Recruitment of black people	15%
Skills development	Black talent development	15%
Preferential procurement	Procurement from BEE compliant companies	20%
Enterprise development	Development of black small/medium enterprises	15%
Socio-economic development	Corporate social investments	5%

Enterprise development

ULSA has been focusing on the establishment and development of black-owned enterprises in third-party manufacturing, co-packing and services that have been outsourced to facilitate Black Economic Empowerment. Some examples of activities to date include the establishment of Gauteng Soap Powders as a contract manufacturer; the sale of Quality Products to a black empowered company; and the establishment of several small black owned companies to provide various services on an outsourced basis (e.g. catering and landscaping) at its manufacturing sites. In addition, the company is currently involved in three specific enterprise development opportunities which will contribute towards achieving its overall BEE score:

a. ULSA demand for chilli peppers equates to approximately 25% of all chillies produced in the country. Currently, the company's requirements for chillies are met by foreign suppliers as a result of pricing and quality considerations. In recent years, however, ULSA has been investing in the development of small chilli growers by providing seed capital and expertise that will result in a guaranteed off-take agreement with the growers. ULSA has finalised an agreement with the Development Bank of South Africa to investigate the feasibility of extending this project to other rural communities and other crops such that a globally competitive local supply source for herbs and spices can be established.

b. ULSA is funding a pilot project whereby unemployed people are set up as vendors of grilled chicken meals through which they can earn a daily income of between R100 and R200. It is expected that some 1 500 vendors will eventually be able to earn an income in this manner.

c. Unilever PLC has acquired the global exclusive licence to the patents on the use of an extract of a plant called Hoodia gordonii, which is indigenous to South Africa, Namibia and Botswana. Studies on specific extracts from this plant have shown its potential effect on reducing calorie intake. The extract therefore has significant potential for the development and bringing to market of innovative weight management products. Unilever PLC is currently engaged in a large clinical trial programme to demonstrate the safety and effectiveness of the extract. Successful trials on proven safety and efficacy are needed to get the regulatory approvals needed to market the products. Currently pilot cultivation sites covering around 100 hectares are under growth in the Northern Cape province of South Africa and this was being expanded further throughout 2007. This area is characterised by high unemployment and low skills and could potentially benefit from further investments in plant processing facilities, in addition to infrastructure investments associated with cultivation of the plant. It is expected that a further substantial area will eventually be required to be cultivated, providing direct and indirect jobs for people working in farming and associated services and industries.

Socio-economic investments

Corporate Social Investments (CSI), which provide an additional element in the BEE scorecard, are extensively covered in Chapter 6 of the report. ULSA is striving to achieve the maximum BEE score in this category.

g: ULSA and research and development

South Africa, like other emerging market economies, recognises that sustained economic growth requires the presence of a vibrant research and development (R&D) base. It is only through continuous R&D that new innovations are created and unleashed, and countries that promote such innovation successfully, like the United States, tend to have high levels of growth over long periods of time. This raises the question of what a multinational firm, like Unilever, contributes to R&D in the South African context.

As a general rule, Unilever PLC invests in research and development (R&D) to create new product innovations that allow it to stay competitive and to differentiate itself in the marketplace. In doing so it offers consumers new products and higher quality. Most of Unilever's R&D for the Africa, Middle East, and Turkey (AMET) Region is done within South Africa. Durban is home to Unilever's regional Technical Centre (RTC) for Laundry, Fabric Conditioners, Skin and Deodorants. This centre sits independently from ULSA, the local operating company, and it leads innovation in these product categories for the region it serves. It is the link between the operating businesses in these regions and the global category and is a point of expertise and skill for the region. In terms of economic impact, the centre accounts for an annual spend by Unilever PLC of €6.8m in South Africa and 72 FTE jobs.

TABLE 4.12
The impact of ULSA on the South African economy

Description	Initial injection: ULSA	Direct impact: ULSA and first round suppliers	Indirect/ second-round impact	Induced/ third-round impact	Economy-wide impact
Rand millions					
Output (At consumer prices)	8,588	12,552	5,966	14,317	32,834
Capital stock	1,394	4,941	4,648	11,842	21,431
Employment (number, incl. informal sector)	4,382	19,206	17,254	62,602	98,522
Labour income	594	1,338	921	2,881	5,140
Government tax revenue	985	1,424	689	1,900	4,013
Goods imports	1,487	1,946	1,359	1,250	4,555
Value added (GDP)	2,391	4,013	2,096	6,348	12,457
Multipliers					
Employment (Economy-Wide/ULSA only)	–	–	–	–	22.6
Employment (Economy-Wide/direct)	–	–	–	–	5.16
Output (Economy wide/direct	–	–	–	–	2.61
GDP/ULSA sales	–	–	–	–	1.45

h: Measuring ULSA's impact on the South African economy

This section examines in detail ULSA's overall or macroeconomic contribution to the South African economy. The company's contribution - its economic "footprint" - can be assessed in terms of the direct purchases it makes from suppliers, and the indirect and induced effects that these purchases have on investment and consumption decisions throughout the country; also included in the analysis are the economic effects of spending by ULSA's and suppliers' employees on goods and services out of wages paid.

As a leading producer of fast-moving consumer goods and as one of the larger manufacturing companies in the country, ULSA provides employment and incomes to thousands of workers. But this initial injection of economic activity by ULSA is only the beginning of a process of manufacturing, packaging, marketing and ultimately delivering its products to consumers. As a consequence, ULSA stimulates economic activity across many sectors, encompassing a wide range of upstream (e.g. agriculture and raw materials) and downstream (e.g. retail trade) industries. These upstream and downstream activities create additional income and tax revenue, which in turn is spent in the economy, inducing further economic benefits.

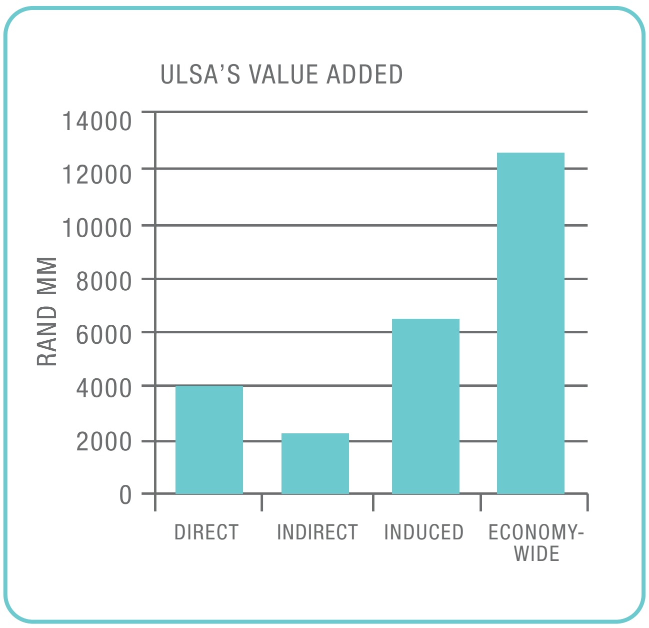
The aim of this section, which represents the core of the report, is to provide estimates of the total contribution of ULSA to the South African economy. To do so, the Social Accounting Matrix (SAM) for South Africa, developed and published by Quantec Research, has been modified in order to trace and measure the ripple effects of ULSA's operations. The SAM utilises the initial injection of operational spending by ULSA (e.g. ULSA's sales revenue, capital expenditure, taxes and wages paid), along with a series of inter-industry technical coefficients and multipliers which reflect the linkages between ULSA and the rest of the economy, to estimate the total impact of ULSA's operations on different sectors and on the whole. More precisely, the SAM differentiates between:

- First round or direct impacts - the effects of ULSA's operations on direct suppliers to the company (e.g. production, employment and tax revenue stimulated at first round suppliers);
- Second-round or indirect impacts - the effects that occur when ULSA's suppliers purchase goods and services from their suppliers, who in turn remunerate their employees and pay taxes;
- Third-round or induced impacts - the effects that occur when the supplying sectors and their employees and households, along with ULSA's employees, re-spend in the economy, generating further economic activity;
- The total economy-wide impact - the sum total of the direct, indirect and induced effects.

The successive rounds of indirect and induced impacts do not go on forever, as workers will use a portion of their labour income to pay taxes, to spend outside the South African economy and/or to augment their savings. The indirect and induced impacts will therefore get smaller and smaller over time and eventually dissipate. In this study the focus is solely on the first three rounds of economic activity. The economy-wide impact of ULSA's operations is estimated for its contributions to output (i.e. the value of production), investment in capital stock, employment generation, labour remuneration, government tax revenue and value added (i.e. the gross domestic product). The direct, indirect and economy-wide impacts of ULSA's total footprint are summarised in Table 4.12 and a snapshot of ULSA's contribution to the South African economy (in terms of value-added or GDP) is presented graphically in Figure 4.3. More detailed discussion of each element follows in subsequent sections.

As Table 4.12 indicates, ULSA sales of R8.5 billion generate output throughout the South African economy amounting to more than R32 billion. In terms of value-added, ULSA's "multiplier" is 1.45, meaning that for every R100 of ULSA sales, the South African economy realises a GDP gain of R145. The employment effects are even more dramatic. For every job based at ULSA, another 22 are supported throughout the nation.

FIGURE 4.3
ULSA's contribution to value-added (GDP)



*Note :
Direct=ULSA + First-Round Suppliers;
Indirect = Supplier's Suppliers; Induced = Effects of Consumption Decisions by Direct and Indirect Employees

Contribution to output

The production of food and HPC products is only possible because a variety of other industries supply the necessary intermediate goods and services, ranging from agricultural products, chemicals, packaging materials, as well as energy and transport capacity. In a Social Accounting Matrix framework, these industries are considered intermediate output sectors, supplying the goods and services necessary to produce the final product. During 2005, ULSA purchased goods and services (including capital equipment) from its direct suppliers to the value of R4.5 billion. Among the largest industrial sectors to supply ULSA included the petro-chemicals complex (equivalent to 22.3% of all ULSA purchases); agriculture (8.3%); and transportation (4.7%). ULSA also makes substantial purchases from a range of business and financial services suppliers (33% of all purchases).

In order to produce the goods and services required by manufacturers like ULSA, these industries in turn must hire workers and purchase goods and services from their suppliers (the indirect or second-round impact). These recurrent purchases set a chain of economic activity into motion where different sectors produce output, employ and remunerate workers and pay taxes, generating income that is re-spent throughout the economy. In all, the economy-wide value of production stimulated by ULSA's operations amounted to R32 billion in 2005. Figure 4.4 below shows the specific sectors which contributed to this production in terms of their share of total output.

Capital requirement

The production of food and HPC products requires the use of different capital goods, such as electric machinery and other equipment, as well as transport equipment, not to mention the buildings in which the manufacturing plants, distribution centres and offices are housed. Whereas ULSA's own capital stock is valued at approximately R1.5 billion, the value of the capital stock sustained throughout the economy due to the direct, indirect and induced impacts of ULSA's operations amounted to R21 billion in 2005, or 0.7% of the total value of all capital stock in South Africa. Buildings and construction works account for 70% of the total capital requirement, while machinery and other equipment and transport equipment constitute 20% and 10% respectively.

Contribution to employment

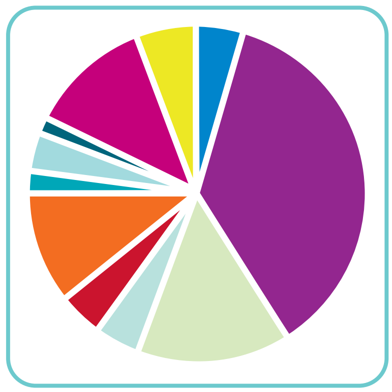
ULSA directly employed more than 4 300 workers in 2005. ULSA's operations supported an additional estimated 15 000 jobs at its first round suppliers and, overall, nearly 100 000 formal and informal jobs are sustained throughout the economy as a result of all the activities related to the production and sale of ULSA products, with the wholesale and retail trade sector being the main beneficiary; as already noted, Unilever also found this to be the case in its study of Indonesia. *Given this sectoral impact, and again given the great importance that the government of South African places on job creation, it would be of economic interest to assess the likely effects of the expansion of the modern trade on employment and income generation.*

Figure 4.5 shows the sectors in which the jobs associated with ULSA are created. The 100 000 jobs supported by all the activities surrounding ULSA's operations represented 0.8% of total (formal and informal sector) employment in South Africa (66 000 are formal and 32 000 are informal). The SAM suggests that 70% of the 100 000 employees are black, while 63% of the jobs are filled by either low skilled employees in the formal sector or by informal sector workers.

FIGURE 4.4
First round output effects from ULSA purchases (2005)

- Finance & business services 31.8%
- Petroleum, chemicals, rubber & plastics 22.3%
- Community & social services 8.6%
- Agriculture 8.3%
- Trade 5.1%
- Transport and communication 4.7%
- Food and beverages 3.8%
- Metals and machinery 3.8%
- Other sectors 11.6%

FIGURE 4.5
ULSA'S effect on employment, by sector
WHERE THE JOBS ARE CREATED:



- Agriculture 12%
- Other 5%
- Petro-chem 4%
- Trade 38%
- Business services 17%
- Food & beverages 3%
- Transport & communication 4%
- Community & social services 10%
- Metals & machinery 2%
- Transport equipment 4%
- Construction 1%

Contribution to labour income

The results from the input-output analysis show that the total labour remuneration directly and indirectly related to ULSA's operations amounted to R1.3 billion in 2005, while the economy-wide impact is estimated at R5.1 billion. The labour income figures favour the higher skilled occupations in the formal sector. As a result of the large share of black employees in the informal and lower skilled occupations, black employees earn 36% of the total labour income while comprising 70% of all workers.

Contribution to government tax revenue

The direct (e.g. income) and indirect (e.g. sales) taxes collected on the production and sale of ULSA's products amounted to nearly R1 billion in 2005. However, the tax revenues arising from the indirect and induced impacts through the economy as a whole quadrupled the government's take to R4 billion, or 0.9% of total government tax revenue.

Contribution to GDP or value-added

The results from the input-output analysis show that the total contribution of ULSA to value added amounted to R12.5 billion in 2005, or 0.9% of the country's GDP (look back at figure 4.3). The GDP multiplier - based on ULSA's sales - is 1.45, indicating that for every R100 in sales revenue generated by ULSA (i.e. turnover at company level), R145 is added to the country's GDP.

Contribution to the current account of the balance of payments

The results from the input-output analysis show that the total goods imports generated as a result of ULSA activities in South Africa amounted to R4.5 billion in 2005, or 1.25% of the country's total goods imports. *The analysis shows that somewhat more than 40% of ULSA's intermediate goods inputs are imported; further research could usefully show whether this number has been rising over time, and whether that trend is expected to continue.*

In 2006, ULSA's exports amounted to more than R361 million. Its imports of goods and services, in contrast, amounted to R621 million, resulting in a net outward flow of capital. However in 2005, this negative capital flow amounted to less than 5% of ULSA's turnover in that year and around 0.15% of South Africa's total imports and service debts.

As indicated in Chapter 2, to the extent that the government of South Africa might consider giving more attention to an export-oriented manufacturing strategy in future, it would be useful to analyse the possible implications for ULSA.

Conclusions

This analysis of ULSA's impact on the South African economy demonstrates that its multiplier effects are significant: for every R100 of ULSA output, the South African economy overall generates some R145 of goods and services. The associated employment numbers are even more impressive: for every single job at ULSA, more than 20 are supported across the nation. This multiplier can be compared with the number estimated several years ago for Coca-Cola in South Africa, which was 10 (Moore School 1999). In their study of Indonesia, however, where Unilever directly employs 7 000 people, Unilever Indonesia and Oxfam estimated that a full time equivalent of 300 000 people make their livelihood from Unilever's value chain, giving a multiplier of around 42 to one. (The precise methodology by which that number was reached, however, was unclear). It should be noted that in both of these other studies, as in the present case, the largest share of employment was found to be in the retail trade sector.

The data generated by the SAM suggest that private sector investment plays a crucial role in employment and income generation. This means that the government of South Africa, and firms like ULSA, must be ever-vigilant with respect to the country's manufacturing competitiveness, especially given its high levels of unskilled labour and of unemployment. At the same time, the modernisation of various sectors and capital-labour substitution across the South African economy could mean that the employment multiplier effects associated with companies like ULSA will decline over time. Tracing the potential effects of these changes on the South African economy is a crucial research task for future.

TABLE 4.13

ULSA's international trade flows and net foreign exchange impact 2002-2006

	R'000					
Activity	**2002**	**2003**	**2004**	**2005**	**2006**	**5-Year average**
Exports	457,003	453,770	376,827	325,373	361,174	394,829
Imports of goods and services	338,165	428,979	463,167	593,002	621,576	488,978
Expatriated dividends	420,000	150,000	306,552	150,000	0*	205,310
Net foreign exchange impact	-301,162	-125,209	-392,892	-417,629	-260,402	-299,459

*Expatriated dividends were 0 for 2006

5. ULSA AND ITS CONSUMERS

This chapter provides a brief examination of ULSA's relationship with its consumers. From an economic perspective, a company like ULSA could be expected to contribute to consumer welfare in the following ways: first, by offering consumers new products; second, by offering existing products at lower prices; third, by improving existing products without raising prices accordingly. Calculating the welfare gains from these product enhancements is beyond the scope of this report.

From a broader perspective, ULSA can also contribute to consumer welfare through the positive "externalities" generated by its products, for example by meeting consumer needs for cleanliness or nutrition, whose benefits might spread beyond the immediate users of Unilever soap or margarine. And by helping prevent diseases (say through hand-washing with soap) or by reducing water use through more efficient detergents, companies like ULSA generate even greater benefits for local economies. On the other hand, critics might add that corporations can also reduce consumer welfare by selling people goods and services they don't really need, or by contributing, for example, to a new generation of health problems (with one prominent example being recent controversies over the role of processed foods as a cause of obesity).

In many respects, ULSA's relationship with its consumers is the most crucial one of all for the company, since their satisfaction is critical to everything else the company might wish to achieve. Given the rapid changes that are occurring in the South African economy and to South African consumers - notably the rise of the black middle class or the so-called "black diamonds" - as well as in the country's retail environment with a continuing shift toward the modern trade, the company must be ever vigilant if it is to maintain its traditionally strong consumer base.

The importance of ULSA's brands

Many ULSA brands, like Sunlight, have been part of the South African marketplace for more than a century, and they have become deeply embedded in the country's economic and even social fabric. In fact, Sunlight is not just a brand name, but it has become a generic term for the cleansing functions it performs. By providing reliable, high quality goods to consumers, and particularly to consumers whose incomes must be stretched far to make household ends meet, ULSA arguably performs its most fundamental and important economic role within South African society.

The success of ULSA's products in meeting the needs of individuals and families is attested to by the fact that at least some of the company's brands are found in every single South African household. These include iconic names like Rama margarine, Sunlight soap and Omo detergent, each of which continues to have a strong market share across South Africa's different income groups. Marketing specialists report that South Africans have a strong "emotional attachment" to many ULSA brands. These brands, like Sunlight, were present in the home when today's consumers were children and they remain in the home throughout the family's life cycle. Table 5.1 provides a list of the major ULSA brands sold in South Africa.

Throughout its history, ULSA has invested heavily in building brands upon which people rely and trust. Indeed, ULSA has been the largest single advertiser in South Africa for the past eight years. In 2005, Unilever spent R460 million on advertising, equivalent to 5.4% of sales turnover. The second largest advertiser in 2005 was Vodafone, which spent R435 million. The rapid increase in spending by consumer-goods firms and the "closing of the gap" - for most of recent history ULSA spent a minimum of twice that of its rivals - is suggestive of South Africa's consumption explosion and the more challenging environment for market-share that the company faces.

The asserted "emotional attachment" or bond that consumers form with ULSA's products is not trivial from the economic perspective, since it reflects the role that companies play in building trust with individuals and households within societies where that crucial variable may be in short supply. And it must be emphasised that the "brand equity" generated by ULSA provides benefits that go well beyond individual consumers. For example, small vendors and shop-owners rely on well-known brands such as Sunlight Soap to generate demand from consumers who are looking for brands they can trust. In fact, the key socio-economic role played by "trust" is a common theme that is found throughout ULSA's relationships with its employees, its suppliers (look back at the quote provided by Smollan, cited in an earlier chapter), its customers, and its consumers. Establishing trust is a crucial "public good" in that it provides the essential, relational cornerstone of social and economic life without which economic development cannot be achieved. Beyond ULSA's material contributions to South Africa, therefore, its contribution to building a wellspring of trust throughout society is of no small economic value.

TABLE 5.1
ULSA brands in South Africa

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

FIGURE 5.1
ULSA advertising channels (2005)

- Television 74%
- Radio 12%
- Print 8%
- Outdoor 6%

Building trust with OMO "everyone's favourite detergent"

One of ULSA's iconic brands is Omo detergent. Since 1989, ULSA has sponsored a radio programme entitled "Omo Mailbag", which provides families with advice on various issues. Experts on psychology, education, and parenting are invited on to the programme to answer listener queries, along with Omo's "Agony Aunt". An Omo Mailbag column appears in leading magazines, where consumers can also share their concerns. Through the Mailbag and the Agony Aunt, Omo has created a trusted source for vital information on health, safety, hygiene and good parenting.

Omo has also used its brand recognition to encourage children to stay in school, by offering bursaries through a competition. Over a five-year period some 200 bursaries have been awarded, with a value of R3.4 million. Again, through the bursary programme, Omo has signalled its commitment to South Africa's long-run development.

Ladies doing their laundry,
Valley of 1000 Hills, near Durban

TABLE 5.2
Household consumption expenditure, 2005

HOUSEHOLD CONSUMPTION OF:	%
DURABLE GOODS	11
SEMI-DURABLE GOODS	13
NON-DURABLE GOODS	36
SERVICES	40
TOTAL HOUSEHOLD CONSUMPTION	100

Source: Unilever Institute of Strategic Marketing: University of Cape Town

An overview of the South African consumer

Recent years have been good economically for many if not most South Africans. The country has enjoyed its longest period of expansion in modern history, and since 2004 growth has averaged more than 4.5% per annum. Interest rates and inflation have been low (although they were back on the rise as of early 2007), and consumer confidence was at the highest levels ever recorded. The dramatic economic improvement for many South Africans is apparent in the population shift out of the lowest "Living Standard Measures" (LSMs), which are an income-equivalent measure of socio-economic status that includes not only consumption of goods and services but also access to transportation, electricity, running water, and so forth. Basically, there are 10 LSMs, with LSMs 1-3 representing low-income households, LSMs 4-6 representing middle-income homes, and LSMs 7 and 8 representing upper middle-income groups; LSMs 9 and 10 represent the wealthiest members of society.

In 2005, South Africans had a per capita income of $13 000 in terms of purchasing power parity (equal to about R75 000). Of household consumption expenditure, the vast majority was devoted to services and to non-durable goods; durables and semi-durables occupied less than one-quarter of all expenditures. In particular, the South African Bureau for Economic Research reports that "consumer spending on… communication services surged following the explosion of cellphones and the internet in South Africa". The Bureau also notes "a substantial increase in the demand for health care" (Bureau for Economic Research 2005). Table 5.2 summarises household consumer expenditures in 2005.

Overall, the South African consumer of fast-moving consumer goods has done especially well in recent years. *According to consumer analysts A.C. Nielsen, the price of a basket of ULSA's home and personal care products vs. South Africa's consumer price index (CPI) or rate of inflation reveals that ULSA prices have fallen in relative terms by more than 4% during the past two years.* At the same time, disposable incomes have increased for all but the lowest LSMs. And while relative prices have been falling, ULSA has continued to make product improvements, for example by introducing more vitamins into its Rama margarine.

Despite ULSA's strong household penetration, the company's market position remains contested, and the competitive pressures are likely to grow stronger. Specifically, as South African consumers become wealthier, they tend, ironically, to eschew brand names in favour of private labels. Indeed, the lower income LSMs tend to be particularly brand conscious, because with little disposal income they wish to be certain they are receiving value for money; in other words, they cannot afford to take chances on the products they buy for their households. Upper income groups, in contrast, can experiment among products, and if one doesn't meet their needs they consider it simply as a one-off failure and move on to another brand. As the UCT Unilever Institute of Strategic Marketing notes, "Consumers have more disposable income and this affects the way they shop, both in terms of how much they buy and what they buy. More disposable income allows them to experiment more" (UCT Unilever Institute 2006). Notably, a growing number of these affluent consumers are black people, who are entering the middle and upper classes in great numbers; this group is often called the "black diamonds". In sum, the average South African consumer is growing wealthier and consuming more. That is good news for South Africa and for companies like ULSA. But as these consumers become wealthier and more sophisticated, they will probably be willing to take more chances with the products they buy. This could well mean that brand loyalty, at least for fast-moving consumer goods, will not be as strong in the future as it has been in the past.

Reaching lower income consumers

In South Africa today, more than 5 million households live on less than R20 per day, and unlike the "average" consumer, this group shows a very different pattern of expenditures. The largest shares of income are taken for food and transportation, with smaller amounts devoted to clothing, telecommunications, and diversions.

Owing to the importance of these low-income consumers to the South African economy, ULSA has begun working on what has commonly been called, after C.K. Prahalad's work, a "bottom of the pyramid strategy" (Prahalad 2005). Drawing on Unilever PLC's vast experience in this area in such markets as Brazil and India, ULSA is examining its entire strategy, from product range and packaging to marketing and distribution, in the interest of capturing an even larger share of the market in the lower LSM categories. In particular, across Africa Unilever has adopted smaller package sizes for food products like margarine and consumer goods like detergents to ensure its products remain available to low income consumers. Further, margarine is sold in special packages that do not require refrigeration, allowing spaza shops that lack electricity to sell this product to local consumers.

ULSA has also pioneered outdoor sales and marketing techniques which reach out to consumers in poorer communities in rural areas. Promotional events such as "mobile shows" are often a rare form of "entertainment" for rural villages and people have reportedly walked for miles to attend these. Alongside product demonstrations, these shows have communicated basic health, nutrition and hygiene information to audiences, such as the importance of brushing teeth for oral hygiene and washing hands with soap to improve health and prevent the spread of communicable diseases.

The degree of trust that consumers in low-income groups place in ULSA products is particularly noteworthy and it emphasises a theme raised earlier in this chapter. As one small rural shop owner explained, "My customers are poor people…because they are so poor, quality means a great deal to them. They've got no time for unfamiliar brands…" Beyond these comments, academic research into the "bottom of the pyramid" provides support for this shop owner's observations. Survey evidence suggests that the poor in developing countries have very high levels of brand loyalty. Because money is so scarce, they simply cannot afford to take chances on the products they buy. Once a product establishes itself in the household as being trustworthy, it tends to stay there (Chardon 2005).

But ULSA's "bottom of the pyramid" strategy is not simply driven by a desire to serve the poor more effectively; it has also apparently been motivated by the belief that in South Africa's fast-moving economy, a significant number of persons who are now in lower LSMs will, over time, achieve higher levels of income and an improved standard of living, ultimately entering the middle class; in fact, this seems to be part of Unilever PLC's strategy more generally ("Unilever Intensifies its Focus on Developing-World Markets," Wall Street Journal Europe, 22 March 2007). ULSA's goal, presumably, is to create brand loyalty at an early stage no matter a household's present LSM, in the hope that at higher income levels the family will continue to consume Unilever products.

In selling products to its "bottom of the pyramid" consumers, ULSA also seeks to provide them with a variety of health and vitality benefits. As already noted, motivating people to wash their hands offers widespread health spin-offs: SOAP SAVES LIVES, proclaimed a 2006 issue of Unilever Magazine, which focused on the Lifebuoy brand's efforts to encourage cleanliness (and it should be noted that ULSA has been a major contributor to South Africa's "WASH" campaign which encourages children to wash their hands). Similarly, using vitaminised products, like Rama margarine, can improve the health of children in particular. Unilever's strategy toward low-income groups, therefore, has a social as well as a market-driven agenda.

Conclusions

ULSA and South Africa's consumers have known one another for more than a century. Since that time, the company has won consumers' trust and its brands have entered every household in the country. Its products are thought to provide good value for money, and loyalty is especially high among low-income consumers.

Yet the South African consumer and marketplace are rapidly changing. The most significant and positive change is found in higher incomes and rising consumer confidence. While these trends bode well for producers of fast-moving goods like ULSA, they also suggest that these companies will have to work harder than ever before to win and maintain the loyalty of those in the higher income brackets. ULSA's continued investment in "brand-building" and R&D will be crucial to its efforts.

At the same time, these trends cannot overshadow the fact that South Africa remains an unequal nation with persistently high levels of poverty. Overcoming these social ills will take many decades and probably cannot be achieved by government policies alone, although good policies are certainly crucial. In addition, the private sector will find itself increasingly called upon to engage in the battle against global poverty and global diseases. Finding new ways to provide consumers with affordable and high-quality products will remain a continuing challenge for firms like ULSA.

OMO bursaries

Computer centres

Nelson Mandela Scholarship

Thokomala volunteers

6. ULSA AND ITS COMMUNITY

With the arrival of a democratically elected government in 1994, ULSA made a major commitment to play a leading role in the country's political, economic, and social transformation and development. Accordingly, it launched a wide range of charitable and community-oriented activities which have sought to augment governmental capabilities and to improve the quality of life for the country's citizens, particularly those who are least advantaged or stricken by HIV/Aids. Many of the company's Corporate Social Investments (CSI, often known as Corporate Social Responsibility (CSR) initiatives elsewhere) have been designed in close consultation with the government, while others have come to life as a result of employee-led initiatives. The result is a set of projects and programmes that tackle issues which are critical to most South Africans, including education, the environment, social entrepreneurship, the well-being of children, and health. The company's major projects are listed in Table 6.1.

AS the numbers in Table 6.1 indicate, in 2006 ULSA spent more than R24 million on its CSI activities, equal to 3.2% of its profit after tax. The average corporation listed on the Johannesburg Stock Exchange, in contrast, spent just 1% of its post-tax profit on CSI. ULSA's exceptionally high level of donations, in comparison with other South African firms, provides one specific indication of ULSA's "value-added" and suggests that were it to leave the economic scene, its space would not necessarily be immediately filled by the competition. While other firms might pay comparable wages to ULSA workers, and while they could match many of ULSA's products in the supermarkets, they would not necessarily provide ULSA's level of social support to the people of South Africa.

TABLE 6.1

Unilever SA – Corporate social investment (CSI) projects and programmes

Unilever South Africa social investment spending	2004 Rands	2005 Rands	2006 Rands
Education			
Nelson Mandela scholarship	R 5 200 000	R 2 100 000	R 4 700 000
Unilever Institute of Strategic Marketing at University of Cape Town	R 673 000	R 702 000	R 726 000
OMO bursaries/school sports facilities	R 1 000 000	R 1 000 000	R 1 000 000
Unilever Ethics Centre at University of KwaZulu-Natal	R 638 000	R 664 000	R 697 000
The Business Trust	R 1 300 000	R 890 000	R 890 000
Health/nutrition/hygiene/HIV/Aids			
Thokomala – HIV/Aids	R 548 000	R 725 000	R 1 243 000
Sunlight safehouse partnership with Childline	R 750 000	R 750 000	R 2 750 000
Wash campaign - Vaseline partnership with the Department of Water Affairs	R 3 000 000	R 1 000 000	R 1 000 000
Nutritional education – Rama Good Start games	R 3 000 000	R 3 400 000	-
Empower women/enterprise development			
100 Women Unilever Centenary Project - grants	R 1 000 000	-	-
100 Women Unilever Centenary Project - enterprise loan fund with mentorship	R 1 281 000	-	-
Enterprise development - Robertson's chop-chop	-	-	R 500 000
Enterprise development - Robertson's chillies	-	-	R 50 000
Water			
Unilever Centre for Environmental Water Quality at Rhodes University	R 485 000	R 445 000	R 460 000
Rehabilitation of Boksburg Lake	-	-	R 83 000
Living lakes	R 300 000	R 330 000	R 346 000
Government capacity building			
Branding South Africa in SA Tourism and KZN Tourism (Incl secondment of senior mgt)	R 1 000 000	R 1 000 000	R 400 000
Unilever Academy of Communications and Marketing at Wits University	R 680 000	R 700 000	R 780 000
Restructuring of higher education sector - Secondment of senior mgt to dept of education	R 700 000	R 700 000	R 700 000
Volunteer programme			
School Computer Centres	R 37 000	R 37 000	R 37 000
Young Performers	R 250 000	R 260 000	R 160 000
Living Lakes – Sacred Forest	R 27 000	R 40 000	R 36 000
Thokomala Volunteers	R 20 000	R 35 000	R 45 000
Grab a School	R 52 000	R 50 000	R 35 000
Charitable donations			
Financial	R 400 000	R 400 000	R 400 000
Product	R 7 500 000	R 7 500 000	R 7 500 000
Total	**R 29 841 000**	**R 22 728 000**	**R 24 538 000**
Csi budget as % of profit after tax	4.5	2.5	3.2

Source : ULSA data

An overview of ULSA's CSI programmes

As already noted, ULSA's CSI activities cover a wide range of issue areas, and this brief chapter cannot do justice to all of them or to their impact on South African society. Briefly, the company has sought to promote a cleaner environment (some of ULSA's related projects in this domain are discussed in the following chapter on the company's environmental impact); nutrition, hygiene and health; education and child welfare; and capacity-building in the public and non-profit sectors.

As of 2006, some of its most prominent programmes in terms of spending included the Nelson Mandela scholarships, which have provided grants to budding future leaders of South Africa who come from disadvantaged homes for a period of study in the United Kingdom (this programme ended in 2007, having run for almost a decade); Thokomala foster homes for orphans of HIV/Aids (see sidebar); Sunlight "safe houses" for children at risk (child abuse is a major social problem in South Africa); the Omo bursaries for high school students; and ULSA's support of the South Africa Business Trust, an association that provides direct technical assistance to the government and its International Marketing Council by promoting employment, tourism, and the South African "brand". Further, ULSA has committed management resources to support a variety of other government-related activities. For example, former Unilever PLC chairman Niall Fitzgerald served on President Thabo Mbeki's International Investment Council, and it has already been noted in Chapter 4 that ULSA executives have played an active role in the leadership of the country's Sectoral Education and Training Authorities (SETAs).

The South Africa “brand” initiative that ULSA contributed to, with the now-familiar stylised South African flag draped across advertisements - which helped place South Africa on the map as a popular tourist and convention destination, and now as host to the 2010 World Cup - provides an excellent example of how a company can leverage rather modest direct programme costs into huge social benefits. According to data from South Africa’s tourist board, between 2001-2005, both domestic and international tourism grew at an average annual rate of more than 6% (and more than 10% each year in 2004 and 2005) with tourist spending accounting for some R50 billion, making it one of the country’s largest industries (contrast this number, for example, with total ULSA sales of approximately R8.5 billion). The government estimates the direct and indirect impact of tourist spending at more than R100 billion and reports a total employment impact of more than a million people. It should be further emphasised that the growth in tourism has far outstripped the growth in global tourism; during 2004 and 2005, for example, South African tourism grew at twice the global rate. These numbers, of course, are expected to skyrocket as the country plays host to the next World Cup football tournament in 2010, and the effects of that increase are likely to be permanent.

The South African government and its International Marketing Council (IMC) attribute much of their success in marketing the country to foreign tourists, investors and sponsors of tournaments like the World Cup to the “brand” initiative. They give much of the credit for the branding project to the firms that helped instigate it, among them ULSA. According to the Chief Executive Officer of the International Marketing Council, Yvonne Johnston, “Only a company with the stature of Unilever would understand the imperative of building a national brand ... Indeed, it may be said that the insistence of … top business leaders that the reputation of the country needed to be managed was the catalyst for government thinking on this issue…The role played by Unilever in this entire process cannot be overstated.”

In a related vein, ULSA has also worked with the government, the Mandela Rhodes Foundation and with Wits University to create the “Unilever Mandela Rhodes Academy of Communication and Marketing for the Public Sector” (UMRA), whose objective is to improve public sector communications. The post-graduate course had more than 100 students as of 2006 who received a professional certificate in government communications and marketing. Students come from across South Africa’s various provinces and across the levels of government. Feedback from graduates has suggested the course was valuable in helping them and their departments shape messages concerning matters of public policy.

ULSA has also worked closely with and provided financial support to leading universities with the objective of capacity-building in the interest of developing new knowledge that is directly business relevant. The Unilever Institute of Strategic Marketing at the University of Cape Town, for example, has played a leading role in identifying new trends in the rapidly changing economy, including the emergence of the black middle class or “black diamonds” who are driving the nation’s evolving economy. Research from this institute, which has an extraordinarily able and active staff, has served the entire South African business community. Again, by marrying its access to consumer information with the best academic thinking in management the company has created “public goods” - specifically in-depth analysis of changes in the marketplace - from which all firms can profit.

ULSA has also acted to support the business aspirations of South African women through its “100 Women” project. This project has picked 100 outstanding women social entrepreneurs and made loans available to them in support of their enterprises, which include nursery schools and arts and crafts shops. The common thread running through “Brand South Africa,” the UCT Unilever Strategic Marketing Institute, and the 100 Women project is their reliance on ULSA’s accumulated business experience.

But it is not just in the commercial arena - even broadly defined - where ULSA is making its biggest difference to the well-being of South Africans. The company has also demonstrated its powerful commitment to ridding the country of the scourge of HIV/Aids. This commitment is reflected in nearly every corporate action and activity, from its internal health care policies for employees, to its HIV/Aids toolkit aimed at suppliers, to its various HIV/Aids-related campaigns aimed at consumers, to its CSI activities in this arena, the most significant among them being the Thokomala children’s homes for HIV/Aids orphans; for more on Thokomala, see the associated sidebar. In a related vein, it has sought to improve the welfare of children through the establishment of Sunlight safe houses which provide protection in the event of child abuse. The value of such activities is not readily quantifiable, but conversations with South Africans suggest they readily identify ULSA with these CSI initiatives.

Thokomala: Bringing hope to Aids orphans

According to a Unicef report released at the end of January 2007, South Africa has 1.2 million Aids orphans - the most in the world. This figure is projected to rise to 2.5 million by 2010. Many of these children are simply abandoned, becoming street children or being placed in overcrowded orphanages.

Against this backdrop, the Thokomala orphan care model was introduced as an alternative to the traditional way of caring for orphans. An ambitious and long term undertaking, Thokomala is a humanitarian organisation and independent section 21 company (not for gain) developed by ULSA in partnership with the Child Welfare Bureau. The aim is to provide a family home for children, providing vital support to counteract the children's emotional and social scars. Each Thokomala house is run like an ordinary home, housing six children and a foster mother.

ULSA volunteers help with the maintenance of the home and become involved with the children. There are currently 14 "homes" in KwaZulu-Natal, Gauteng, Eastern Cape and the Free State housing 84 children, and foster clusters housing 916 children. The project's growth depends totally on the ongoing sustainability of private-public partnerships between business and society. Continual success hinges on forming more partnerships to match the rapid escalation of the epidemic and the increase in the number of orphans.

One of the most obvious problems is what happens to these children when they reach the age of 18 and/or when they leave the Thokomala home. This is relevant at present as several of the children are at this point in their lives. Key people in the field of childcare and youth development are developing a programme to be implemented across all the Thokomala homes and foster care clusters. This pilot programme has been put into place with eight KZN children who are 15 years or older.

This programme includes life skills training and mentorship. Volunteers have already committed to mentoring a child on a one-to-one basis, which involves guiding the child with school projects, their future plans, tertiary education choices, etc. They will also arrange work experience for the child. The mentors and children meet individually on a regular basis and are generally developing a trusting and supportive relationship.

Thokomala is a costly exercise, but one that aims to permit orphaned children to enjoy happy and productive lives. ULSA has established vehicles outside South Africa which will enable donors to make contributions to this organisation, hopefully ensuring its sustainability.

Safe and sound

Thokomala logo

Garden sanctuary

Assessing CSI

There are several approaches that one could take in providing an economic assessment of a company's CSI projects. First, CSI could be conceptualised as a form of advertising and it could be analysed in terms of whether it contributes to corporate sales. Second, CSI could be conceptualised in terms of social welfare and analysis would focus on whether it is a cost-effective way of meeting societal ends, in comparison, say, with governmental projects that are supported by tax revenues and that have similar objectives. Finally, one could examine the existing portfolio of a company's projects from the perspective of cost-benefit analysis, to see whether they are effective on their own terms, no matter what the corporate motivation for them might be.

This report uses the latter approach, as it seeks to assess the impact of existing activities. From this perspective, corporate social investments raise at least three questions: *first,* are the projects being supported sustainable over the long-run? *Second,* are they scalable? *Third,* are they effective in meeting their goals? The first issue is concerned with whether or not the project could keep running if it lost its corporate sponsorship; the second on whether the "model" on which the project is based can be expanded on a larger scale; and the third has to do with the effectiveness of the particular project in meeting the problem at hand.

Answering each of these questions requires careful project evaluation, and ULSA has made some efforts at instilling this type of discipline into its decision-making with respect to which projects to support. For example, the company states that "All Unilever's social responsibility efforts stress sustainability", asserting that it looks for "long-term projects" and commits "funding to them for at least three years" *(Unilever, Touching the Lives of All South Africans, n.d., p. 18).*

Thokomala provides a case in point regarding project evaluation. ULSA has not only made a substantial, direct financial investment in this chain of foster homes for HIV/Aids orphans, but it also makes available on secondment to Thokomala one of the company's senior managers, who helps to oversee the finances of the programme and its possibilities for expansion to new homes, among other tasks. In the interest of sustainability, ULSA has also been seeking additional sponsorship for the Thokomala homes, both in South Africa and abroad, having established an independent foundation for this purpose. It is not yet clear whether the Thokomala model will prove sustainable over the long run, particularly given its "high-cost" solution to the problem at hand, but at least ULSA recognises the need to secure outside support and an endowment to provide the homes with a secure financial foundation.

As another example, take the case of UMRA. This provides an example of a programme that has the potential to be sustainable (it could eventually, for example, be programmed into government training budgets), to be scalable (the course could conceivably be taught at universities other than Wits, or it could be developed as an "e-course"), and to be effective (in that ULSA and other private firms probably have substantial assets with respect to marketing and communication). Again, by matching social needs with firm capabilities, urgent requirements in a country like South Africa can be successfully addressed.

Conclusions

Since 1994, ULSA has made a major investment in the development of its CSI programmes as another way of making a contribution to South African society. Today, the company spends more than three times the South African average for Johannesburg-listed firms on such activities. These projects run the gamut from education to health to the environment. While it has not been possible to calculate with any precision how many people have been touched by these programmes, or how effective they are compared with possible alternative methods of delivering similar services, their broad and deep reach into the community cannot be doubted, and they have certainly helped to further cement ULSA's reputation as an outstanding corporate citizen; indeed, public opinion polls tend to rank ULSA first or among the very top of South African companies in reputation.

It appears that among the most effective CSI activities are those that make relatively intensive use of ULSA's core strengths, as suggested by its contributions to the success of "Brand South Africa" and UMRA. This is not surprising, and it suggests ULSA might consider a more targeted CSI programme in future, one that emphasises public awareness, capacity-building, and other areas in which ULSA possesses special core competencies. Given the great challenges facing the country, the company will wish to ensure it matches its capabilities with South African needs in a way that ensures sustainable, scalable, and effective CSI initiatives.

7. ULSA'S ENVIRONMENTAL STEWARDSHIP

Few issues are more controversial with respect to multinational firms in developing countries than their environmental practices. Critics have complained that multinationals pit developing countries against each other in a "race to the bottom" when it comes to environmental (and labour) standards, seeking "pollution havens" for their dirtiest operations. A recent meeting of African trade union officials, for example, resulted in a declaration which "rejected 'double standard' policies used by…multinational companies that export to Africa…unsustainable production methods, not acceptable in their countries of origin" *(Johannesburg Declaration: A Common Roadmap Adopted by African Unions on Labour and Environment, 30 July 2006)*. By "unsustainable production methods" the union leaders highlighted the "environmental and social" practices of the multinational firms.

Some academic analysts, in contrast, have argued that multinational firms have seized environmental or "green" concerns as a way of gaining competitive advantage over rivals (Rugman and Verbeke 2001). More prosaically, multinational managers often assert they adopt a global set of environmental policies, practices and technologies in the interest of taking advantage of scale economies; it is more efficient for a multinational to use one set of environmental policies and practices as opposed to one hundred. Adopting different production methods at different sites is simply uneconomical in many cases. At the same time, these managers will also confess that "environmental dumping" has become unacceptable. In a globalised world and with increased NGO, media and consumer attention on sustainability issues, there are clear reputational and "licence to operate" risks resulting from "environmental dumping".

This chapter tries to assess where ULSA sits on this particular spectrum. Does the company adopt "best environmental practices" in its factories and operations, or does it use technologies and accept standards that are lower than those found in, say, Western Europe? Does it require its suppliers, including its co-packers, to adopt stringent environmental measures? This chapter does not use environmental impact assessment methodology in answering these questions; rather, it provides an overview of ULSA's policies and performance and attempts to make a preliminary assessment of its environmental impacts and how they are managed.

To examine these issues, it is necessary to begin by briefly discussing South Africa's environmental policies and standards. Next, ULSA's approach to environmental management is examined. The chapter also provides some relevant data on the company's emissions that are of particular concern from the environmental stand-point.

Environmental policy in South Africa

With the emergence of a democratic polity in South Africa in 1994, environmental issues became topics of political debate for the first time in the country's modern history. Local non-governmental organisations formed around this issue, supported in some instances by international groups with an environmental focus. In a few short years, this political process would lead to major changes in the country's approach to environmental management.

Traditionally, environmental legislation had been mainly a competence of provincial and municipal governments. With the passage of the 1998 National Environmental Management Act, a countrywide framework was established for tackling environmental issues. Of particular importance, the Act asserted "everyone has the right to an environment that is not harmful to his or her health or well-being…" *(National Environmental Management Act, no. 107 of 1998).*

The re-integration of South Africa into the United Nations in the 1990s also led the country to adopt more than 40 international treaties, including treaties with respect to climate change. The country also famously hosted the 2002 "Earth Summit" which focused on sustainable development. In short, South Africa's environmental consciousness has risen enormously in only a few short years, perhaps aided and abetted as well by the country's efforts to become a magnet for global tourism.

Still, the country is very far from being green in practice. More than 90% of South Africa's electricity is generated by domestic coal, leading to high levels of particulate matters around generators and in urban areas. Equally noxious from the perspective of public health, the nation's automobile fleet continues to burn leaded petrol (although this is changing), which is particularly damaging to children. The country's oil refineries are considered major contributors to South Africa's environmental problems *(South Africa: Energy and Environmental Issues, US Department of Energy, November 2004).*

More generally, South Africa is a major polluter on a per capita basis due to its heavy reliance on coal. According to the US Department of Energy, "In 2002, South Africa's carbon dioxide intensity was approximately 0.8 metric tons per USD 1995" of GDP produced, "larger than all other African countries and the United States". *(South Africa: Energy and Environmental Issues,* US Department of Energy, November 2004, p. 5,). There seems to be no short-term fix when it comes to this heavy usage of coal, and there are still few incentives for investments in "clean coal", much less for reducing the air pollution associated with burning this particular fossil fuel.

Unilever's and ULSA's environmental standards

Unilever reports on its global website that "Reducing the impacts of our own manufacturing operations - eco-efficiency - is a core part of our environmental strategy to reduce our own footprint. Our approach is underpinned by our environmental management system (EMS) which is based on ISO 14001. An essential element of our EMS is the setting and reviewing of targets for our key performance indicators (KPIs)." (For a full discussion, consult Unilever's website and in particular its environmental reporting on: www.unilever.com/ourvalues/environmentandsociety/env_social_report/environment)

In some areas, Unilever's environmental impacts extend far beyond its own operations. For example, while, since 1995, Unilever PLC has more than halved the amount of water used in manufacturing (per ton of production), this still only accounts for less than 5% of water use in the total lifecycle of Unilever's products. Many of the environmental impacts associated with Unilever's products take place outside the company's own plants, and depend upon the actions of suppliers and consumers, over whom Unilever does not exercise direct control. However, the company has a range of initiatives to find ways to manage and minimise its broader impacts.

- First, with respect to the supply chain, Unilever's Business Partner Code, printed as Table 4.8, sets out expectations on environmental impacts.
- Second, with more than two-thirds of Unilever's raw materials coming from agriculture, the company's Sustainable Agriculture Programme plays a key role in seeking to manage upstream impacts.
- Third, regarding consumer use, the company works in partnership with various organisations and engages with consumers to achieve improvements in the wider environmental footprint.
- Finally, research & product development is also an important part of the process to reduce the environmental impacts of products during consumer use through reformulation and other innovations.

At a global level, the company has been recognised for these and other sustainability efforts through its inclusion in the Dow Jones Sustainability Index, where it has been the leader in the food industry category for eight consecutive years.

Manufacturing operations

It is within this broader context that ULSA's approach to environmental management is set. Considering the extent to which policies, commitments and strategies are established globally, not all environmental impacts – positive or negative – occurring in South Africa can be wholly attributed to decisions taken by ULSA's management (similar comments could be made, for example, of sourcing decisions that are increasingly global in nature). Still, as a long-standing company in the South African marketplace it does have an independent reputation to maintain.

As noted above, Unilever PLC has established KPIs for its manufacturing operations with a view to achieving such outcomes as the reduction of hazardous waste, water and energy usage, and carbon dioxide. Its global output of CO_2 from its own manufacturing, for example, has fallen from 4.7 million tons to 3.3 million tons between 2001 and 2006. The company is also forthcoming with respect to its shortfalls, reporting "all environmental prosecutions and resulting fines for infringement of environmental regulations". There have been no such prosecutions or fines with respect to its operations in South Africa, and in fact the company has won several national and provincial awards for its environmental performance at its factory sites.

Unilever PLC has a standard approach to environmental management throughout its manufacturing operations around the world. This is for reasons of both operating efficiency and as part of Unilever PLC's commitment to reducing its "environmental footprint". Each factory site has safety, health and environmental management systems which are audited annually by independent auditors. Each factory site has also independently achieved the International ISO 14001:2004 standard certification for environmental management.

As one example of ULSA's health and safety management, the company's standards with respect to proteolytic enzymes include exposure levels similar to those of Unilever's operations in the United Kingdom, along with stringent efforts to prevent respiratory exposure through a variety of means of control. A frequently levelled critique is that multinational firms expose their workers to especially hazardous conditions in developing countries. A consulting report on ULSA produced by *FNV Company Monitor* on behalf of several labour organisations concluded "the company strictly enforces health and safety standards…" (FNV Company Monitor 2006).

Individual ULSA sites and factories are required to set annual emission reductions targets and report on progress and achievements. The "targets" methodology provides a tool by which the parent company and its subsidiaries can compare their relative performance. These are further aggregated to provide Unilever-wide targets. The targets and performance data are publicly reported annually via the Unilever corporate website and the Unilever Sustainable Development Report. The performance of ULSA sites is shown in Table 7.1.

TABLE 7.1
ULSA'S environmental emissions in South Africa, 1997-2006

Parameter	Units	1997	1998	1999	2000	2001
Total production	Tonnes	615,805.0	598,374.0	735,263.4	724,996.4	653,278.6
COD - direct discharge	kg/Tonne	0	0	0	0	0
COD - muncipal treatment	kg/Tonne	4.196	5.14	2.038	1.183	2.853
Total COD	kg/Tonne	4.196	5.14	2.038	1.183	2.853
Hazardous waste	kg/Tonne	10.571	5.315	3.128	3.354	3.915
Non hazardous waste	kg/Tonne	15.708	18.839	19.833	31.71	14.393
Total waste	kg/Tonne	26.279	24.155	22.962	35.065	18.308
Boiler SOX (As SO2)	kg/Tonne	1.4911	2.0645	1.2788	1.2393	0.8475
ODP	kg/Tonne	No Data	No Data	No Data	No Data	No Data
Energy	GJ/Tonne	4.274	3.921	3.136	2.883	2.985
CO2	kg/Tonne	476.926	470.479	378.768	349.109	401.195
Total water	m3/Tonne	2.256	2.686	2.111	2.202	2.187
Potable water	m3/Tonne	2.256	2.686	2.111	2.202	2.187
Non potable water	m3/Tonne	0	0	0	0	0

Source : Unilever

Note to table: ODP = ozone depleting potential, COD = chemical oxygen demand, SOX = sulphur dioxide, CO2 = carbon dioxide.

Parameter	2002	2003	2004	2005	2006	TARGET 2007
Total production	640,508.2	700,934.1	618,450.1	581,339.2	577,886.8	
COD - direct discharge	0	0	0	0	0	0
COD - muncipal treatment	3.121	1.392	1.189	1.281	1.662	1.483
Total COD	3.121	1.392	1.206	1.281	1.662	1.483
Hazardous waste	3.15	4.655	1.906	3.973	3.407	3.475
Non hazardous waste	6.12	7.797	8.246	5.136	3.937	4.297
Total waste	9.27	12.466	10.152	9.109	7.344	7.772
Boiler SOX (As SO2)	0.3916	0.3696	0.0192	0.0357	0.0152	0.0152
ODP	0.00002	0.00001	0.00002	0.00004	0.00001	
Energy	3.315	2.98	2.321	1.84	1.836	1.774
CO2	443.092	400.912	342.601	237.896	260.792	253.708
Total water	1.982	1.646	1.551	1.384	1.466	1.078
Potable water	1.982	1.646	1.551	1.347	1.466	1.078
Non potable water	0	0	0	0.037	0	0

TABLE 7.2

Environmental targets for ULSA and Unilever PLC

ULSA target acheivement							
	Units	2000	2001	2002	2003	2004	2005
Total COD	Kg/Tonne	YES	NO	NO	YES	YES	NO
Hazardous Waste	Kg/Tonne	NO	NO	YES	NO	YES	NO
Non hazardous Waste	Kg/Tonne	NO	YES	YES	NO	NO	YES
Boiler SOX (As SO2)	Kg/Tonne	YES	YES	YES	YES	YES	NO
Energy	Kg/Tonne	YES	NO	YES	YES	YES	YES
CO2	Kg/Tonne	YES	NO	NO	YES	YES	YES
Total water	Kg/Tonne	NO	NO	YES	YES	YES	YES
		4/7	2/7	5/7	5/7	6/7	4/7

TABLE 7.2
Environmental targets for ULSA and Unilever PLC

Unilever plc							
	Units	2000	2001	2002	2003	2004	2005
Total COD	Kg/Tonne	YES	NO	NO	YES	YES	YES
Hazardous Waste	Kg/Tonne	YES	YES	NO	NO	YES	YES
Non hazardous Waste	Kg/Tonne	NO	NO	YES	NO	NO	YES
Boiler SOX (As SO2)	Kg/Tonne	NO	YES	YES	YES	NO	YES
Energy	Kg/Tonne	YES	YES	NO	YES	NO	YES
CO2	Kg/Tonne	YES	NO	YES	NO	NO	YES
Total water	Kg/Tonne	YES	NO	YES	YES	NO	YES
		5/7	3/7	4/7	4/7	2/7	7/7

Source : Unilever PLC

On the local South African level, ULSA's various factories around the country have also adopted a number of site-specific environmental projects, depending upon the particular issues faced by the plant and its community. Some of these issues have been identified through global corporate initiatives and others are part of regional or national efforts to identify environmental "wins". For example, in 2006 Unilever PLC rolled out a regional "Triple R" waste reduction programme for sites in Africa, the Middle East and Turkey. Through this initiative the sites in the region achieved a significant 27.5% reduction in total waste per ton of production.

More specifically, the Avenue East Site in Durban has taken a number of dedicated steps to reduce waste, water use, and energy consumption, and part of its programme of reducing food waste includes the composting of such powders as those that are used to make Knorr Soups. At the Pietermaritzburg factory, which packages tea, the focus has been placed on reducing its non-hazardous waste, including filter paper, packaging, tea dust, and pallets. At the Boksburg factory that makes household products, a major restructuring of the plant was undertaken. During this restructuring, environmental efficiency considerations were high on the agenda and decisions on plant equipment were taken with environmental targets in mind. Boksburg has also been deeply involved in the Boksburg Lake "sustainable water initiative" that is aimed at a major cleaning up of the lake (These environmental anecdotes were gathered from interviews with and internal files of ULSA Safety, Health and Environment (SHE) managers). Other initiatives are linked to the company's CSI programme, with the most prominent being "Living Lakes"; a sidebar on this project is attached.

Despite ULSA's efforts at reducing its environmental footprint, there is one area in which the firm's performance requires particular vigilance if improvements to environmental quality are to be achieved, and that is with respect to packaging. Even the most casual visitor to South Africa must be shocked by the heaps of garbage that one finds along roadsides and just outside human habitations. Clearly, this garbage constitutes a safety and health hazard on many levels, as well as being an eyesore and a waste of valuable resources.

While at the global level the company has a clear commitment and approach to reducing the environmental impact of its packaging (see Figure 7.1 and Table 7.3), tracing this approach to ULSA is a complex task as not all decisions on packaging formats and materials are made at the local level. Some are made by global brand teams or regional cross-category teams.

ULSA relies on paper and board, glass, plastics, and metals in making its packages (see Figure 7.1). These packages are not only used to store goods, but they also attract customers and provide information about what is inside. Overall, packaging is generally considered by marketing specialists as a critical ingredient in product sales. In making those packaging decisions which are within its scope, ULSA seems to take environmental considerations into account, but it is difficult to assess how these criteria are weighted against other factors, such as visibility, attractiveness, cost, and so forth. A more detailed analysis of this decision-making process, outside the scope of this report, is required to make such judgements.

A significant challenge for a company like Unilever is the disposal of packaging by consumers, which is beyond its direct control. Even if recyclable materials are used, it is up to the consumer, on the one hand, to recycle used packaging, and local government, on the other, to provide the infrastructure to enable consumers to do so. In meeting these problems, ULSA (and Unilever more generally) might consider teaming up with retail customers, for example, to encourage consumers to dispose of their packaging responsibly and even to provide recycling facilities, where existing infrastructure is weak.

Conclusions

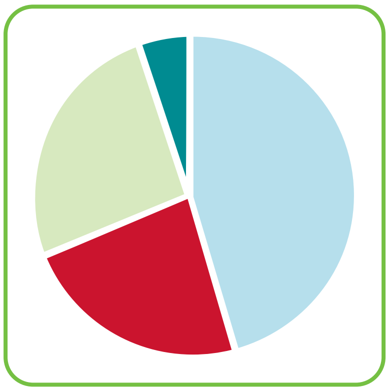
The South African economy presents a significant challenge to all those who seek a cleaner environment. The country is heavily dependent on coal, and the transportation network still makes use of leaded petrol. As a developing country, environmental policy has not been at the top of governmental concerns.

But the situation seems to be changing, as South Africa has entered into any number of international environmental agreements, has articulated its own environmental legislation, and has seen the emergence of several environmentally-oriented non-governmental organisations. Further, as a growing tourist destination, South Africa is beginning to take a greater interest in maintaining a "green" environment.

ULSA has adopted the global standards of its parent firm and in many areas of environmental performance there are no significant differences between its operations and those of other Unilever companies around the world. In fact, in some areas, like water consumption, the company is even more efficient than its parent.

Still, there is much to be done both at the corporate and national levels in South Africa. In particular, packaging is an area where Unilever and ULSA should explore opportunities to reduce its environmental impacts. It must also continue to reduce its levels of hazardous waste. Creating a sustainable environment is essential to the long-term well-being of ULSA and every South African.

FIGURE 7.1
Unilever's use of packaging material



- Paper / board 40%
- Glass 27%
- Plastics 25%
- Metals 8%

TABLE 7.3
Unilever's global approach to packaging

Remove: to eliminate, where possible, unnecessary layers of packaging such as outer cartons and shrinkwrap film – an area where our retail customers are increasingly setting reduction targets.
Reduce: to reduce packages to the optimal size and weight for their contents.
Re-use: to re-use packaging from the materials we receive at our factories.
Renew: to maximise the proportion of packaging from renewable resources and to investigate the technical feasibility of biodegradable and compostable materials. In 2004, 83% of our European paper-based packaging came from sustainable sources.
Recycle: to increase the use of recycled, recyclable and single-material components in packaging for easy sorting and recycling at the end of its use.

Conserving SA's unique living assets

One of the biggest environmental issues today is the availability of clean, potable water, and ULSA is the principal backer of the Living Lakes Project. In South Africa, the company has supported the development of an integrated environmental education and sustainable development project within the communities and neighbouring Greater St. Lucia Wetland Park (recently renamed iSimangaliso Wetland Park), promoting a greater understanding and awareness of the unique natural value of the park.

The project's aim is to keep Lake St Lucia pristine by educating the local communities on sustainability and conservation, and involving them in helping to conserve the area, its flora and fauna. Volunteers from ULSA and the University of KwaZulu-Natal visit the area over weekends and have formed eco-clubs. In partnership with the Wilderness Trust and the Wildlands Trust, the programme has focused on the local Khula community to foster the values of conservation and eco-tourism.
A key aspect of the project has been Trees for Fees, through which hundreds of schoolchildren are involved in tree-planting, and a community barter system is being set up.

8. MEASURING ULSA'S FOOTPRINT: THE NEXT STEPS

ULSA has been part of the South African landscape for more than 100 years and today its brands are found in every one of the country's homes. This history and presence gives the company a special place in the country's landscape. Although ULSA directly employs only a few thousand workers, and its sales represent only a small fraction of the country's Gross Domestic Product, there isn't a South African who hasn't been touched by the company in some way.

This report has tried to put some numbers on ULSA's economic impact, beyond those provided by the annual financial statements. It has demonstrated that ULSA's influence on the South African economy goes way beyond its own offices and factories and well beyond its immediate suppliers and customers. Through its direct, indirect, and induced impacts, the ripple effects of the company's operations reach to the most distant shores of South Africa's evolving market-place.

This chapter provides an overall assessment of ULSA's economic footprint in South Africa, emphasising several issues that management may wish to contemplate as it considers the company's continuing relationship with a country where it has been embedded for so long.

Overall assessment

ULSA in 2005 was a corporation with R8.5 billion in sales, R1 billion in net income, and some 4 000 employees. In conducting its operations, however, ULSA drew upon some 3 000 suppliers and half of its purchasing spend was with South African suppliers. These suppliers provided the raw materials, packaging, and business services (e.g. advertising, banking, insurance, accountancy and travel) that made it possible for the company to produce, distribute and sell its branded products. These suppliers employed more than 15 000 workers in direct support of ULSA. They also made millions of rands in investments to maintain or grow their businesses.

These suppliers, in turn, purchased goods and services worth millions more rands from other companies. Further, the employees of ULSA, its suppliers, and its suppliers' suppliers, used part of their wages to make consumer expenditures and paid taxes, which also supported the South African economy. Altogether, these *direct, indirect and induced* effects of ULSA's operations were responsible for nearly 100 000 jobs in South Africa in 2005.

ULSA also provided its employees with competitive wages and benefits. Nonetheless, the company regularly experiences turnover, especially in its management ranks and particularly among black, coloured, and Indian South Africans who now have many opportunities available to them. Ironically, that turnover could be considered a net positive for the South African economy more generally, as those managers with ULSA-provided skills can help boost productivity in other sectors where they are employed.

These skills also reflect the company's devotion to worker training. The company spends significant amounts training its own employees, and further it offers "learnerships" to unemployed workers, who are able to earn market-recognised certifications. This programme is of particular significance, given the priority the South African government is placing on human capital formation and the upskilling of its labour force.

The employees of ULSA, of its suppliers, and of its suppliers' suppliers, along with the companies themselves and millions of consumers, paid taxes to the South African government on the order of some R4 billion in 2005, or nearly 0.9% of all government income. Those tax revenues, in turn, enabled the government to make the investments it needs in infrastructure, social services, and the other public goods so vital to development. Using these funds wisely is, of course, one of the government's profoundest obligations to its citizens. Indeed, in the absence of "good governance", even the best-intentioned multinational can make little impact on a country's economic prospects.

Beyond these impacts from its ongoing operations, ULSA also contributes to South Africa through its myriad corporate social investments (CSI), and through its efforts in the area of Black Economic Empowerment (BEE), which appear to be consistent with best practice in terms of what multinationals are doing to make BEE a success. With respect to CSI the company has engaged in a large number of initiatives, covering issues from education to entrepreneurship to the environment, while also playing a leading corporate role in fighting the scourge of HIV/Aids. It has also worked closely with the government on initiatives like "Brand South Africa" which have contributed directly to the country's export-oriented industries, including tourism, which has been a great success in recent years.

Yet another area in which ULSA contributes to South Africa is through its environmental programmes. The company adopts global standards in its South African operations and these have led it to be far more efficient in terms of emissions per ton of products produced as compared with South African averages. Beyond these global standards, ULSA's factories have engaged in community-specific activities aimed at addressing particular problems in their local regions, like water pollution. Still, the company must continue to focus on its packaging impacts and explore ways of minimising negative environmental impacts and working in partnership with others.

This picture suggests that multinational enterprises can play a critical role in the economic development and growth of the countries where they operate, not only through their direct effects but, perhaps even more importantly, through the linkages they forge up and down the supply chain and then onward with their consumers. Still, there are many future challenges that must be addressed if future impacts are to be as strong as those of the past.

Issues for ULSA management

This report has raised several issues that ULSA executives will wish to consider, either within the firm or in co-operation with government agencies and other stakeholders, as they seek to promote South Africa's sustained growth.

First, given the importance of job creation to South Africa, ULSA management will wish to be cognizant of the ongoing effects of sectoral changes, particularly with respect to the retail trade sector, on employment and income generation. ULSA might contemplate commissioning a study that examines this particular issue in detail, with a focus on the future of spaza shops.

Second, since the linkages that ULSA has formed with South African suppliers are so critical to the nation's economy, the company must work closely with them to ensure they maintain their international competitiveness. More generally, ULSA is faced with the task of creating a supply chain strategy that reconciles the systemic pressures coming from globalisation on the one hand with domestic demands for Black Economic Empowerment on the other. ULSA's support of domestic herb and spice growers provides an example of where these two pressures may be reconciled to South Africa's economic advantage. Similarly, ULSA should continue to analyse the extent to which its outsourcing decisions can be made to the benefit of local firms that provide relevant services.

Third, ULSA and Unilever PLC should continue to invest in South Africa's R&D capabilities. Seeking niches in which South African know-how might be put to work for ULSA and Unilever PLC could be of broad economic value to both the operating companies and the local economy. One promising example is provided by Unilever's ongoing research into the weight-management potential of the Hoodia Gordonii plant.

Fourth, while ULSA's environmental performance seems to be above average for the South African context, the company must continue to work internally and with the government to ensure the country sets itself on a "greener" path. This policy of greening is in the interest of the health and safety of all South Africans, who are now exposed, for example, to high levels of emissions from coal. It is also in the country's long-run economic future as it seeks to remain a leading business and tourist destination. Of particular importance, it appears that ULSA could be more pro-active in developing environmentally-friendly packaging, and the company should consider forming partnerships with retailers aimed at better disposal and recycling practices.

Fifth, ULSA must continue to ensure the sustainability, scalability and effectiveness of its CSI initiatives. In so doing, it might consider focusing its efforts on a smaller set of programmes.

Sixth, while the departure of some ULSA managers and workers to the competition may promote the country's economic development, turnover among black, coloured, and Indian staff could be a matter of particular internal concern as the firm seeks to diversify its ranks. ULSA should continue to work with faculties across South Africa in promoting education and employment opportunities for those from the least-advantaged backgrounds. A possible solution is greater investment in local capacity building around Durban, for example, through the University of KwaZulu-Natal and Pietermaritzburg, to build a stronger local pool of potential employees.

Finally, and more broadly, ULSA must continue to work with the government to ensure it maintains a policy environment that encourages private sector investment, for without such investment the country's ability to promote economic growth and reduce poverty and inequality will be greatly diminished.

ANNEX 1

Members of the reference group and additional and alternative views

Global reference group

Becky Buell, Rob Bailey	Oxfam GB
Prof. Gilbert Lenssen	European Academy Of Business In Society (EABIS)
James Goodman, Alice Chapple	Forum For The Future
Dr. Jason Clay	World Wildlife Fund US
Jeremy Baskin	Cambridge Programme For Industry
Prof. John Dunning	University of Reading Business School
Roland Michelitsch	International Finance Corporation
Prof. Tony Venables	Oxford University (formerly of the Department for International Development UK)

Local reference group

Andre Fourie	National Business Initiative SA
Prof. John Simpson	University Of Cape Town
Michael Spicer	Business Leadership South Africa
Mohammed Motala	Oxfam SA
Raisibi Morathi	Economic Advisor To The Deputy President

Note: The SA trade union sector was invited to participate in the reference group but was unfortunately unable to do so.

ANNEX 1.A.
Reference Group commentary

1. Oxfam

For several years, Oxfam has invested in research and consultation to better understand the potential contribution of foreign direct investment to poverty alleviation in the developing world. It was in this light that Oxfam engaged with Unilever on a joint research project on Unilever's poverty impacts in Indonesia and joined the reference group on the INSEAD research on Unilever's "sustainability impact" in South Africa. We believe that both of these projects mark an important step by Unilever to explore its impacts, and to seek ways to shift its core business and practices to increase its positive impacts in developing countries. Most companies simply don't ask these questions and Unilever should be commended for doing so.

As members of the Reference Group for the South Africa study, we provided extensive inputs to Professor Ethan Kapstein on the study's methodology and the analysis presented in the report. Many of our comments were incorporated into later drafts of the report, but we believe that some fundamental weaknesses were not resolved. While this report provides a robust and comprehensive approach to estimating income and employment multipliers, it gives a partial analysis of the data which leads to one-sided conclusions on Unilever's impacts. The author claims that it builds upon the earlier "Case Study of Unilever in Indonesia". Oxfam believes that while this is true for the macro-economic analysis, it is not the case in other important areas, where, by not consulting properly with relevant stakeholders, the report goes backwards. While the author may have focused his efforts on economic impacts, he still makes broad assertions about Unilever SA's social and environmental performance. This is done without having undertaken any meaningful engagement with relevant stakeholders. The result is a subjective and largely uncritical assessment of Unilever SA's relations with its workforce, its community, its customers and the environment. In Oxfam's opinion, this seriously limits the report's usefulness as a tool for management to address Unilever's social, environmental and poverty impact. Tellingly, many of the report's recommendations are of the form 'Unilever should continue to…' instead of identifying areas for improvement.

In order to address these shortcomings and ultimately develop a report that will allow management to critically assess and improve Unilever SA's complete footprint, including its interactions with and impacts on the poor, Oxfam recommends that Unilever undertake a second phase of research to examine the broader impact of its operations on people's lives and the environment. This will mean undertaking qualitative research that engages meaningfully with stakeholders including local civil society, trade unions, and other people in its value chain.

Unilever's invitation to include these comments is further evidence that the company is genuinely seeking to understand the interactions between the company and poor people and communities along its value chain. We encourage other companies to join in this exploration, and that together we honestly and critically engage in building methodologies that allow poor people's rights and aspirations to figure more centrally in the "business of doing business".

2. Alice Chapple - Forum for the Future

This detailed report, exploring the impact of Unilever South Africa on South Africa's growth and development and on its society and environmental quality, is an extremely valuable piece of work and positions Unilever as a leader in its field. It recognises that there can be no definitive or quantitative responses, and uses a range of methodologies to understand the various ways in which this impact might be assessed. Forum for the Future, as a sustainable development charity, welcomes this report not only because it outlines the wider social and environmental impacts (positive and negative) of Unilever's operations, but also because it emphasises how these impacts have underpinned Unilever's financial success and will continue to do so.

However, in our view there is scope for a more in-depth and potentially more quantified analysis of how Unilever's activities affect environmental resources such as water, soil, air quality and biodiversity. Unilever has many serious and commendable initiatives in these areas, and the data show some significant progress, but at present the analysis is couched in terms of reducing its environmental footprint and compliance with environmental standards rather than understanding how its activities relate to natural limits. With climate change and economic growth increasing the pressure on resources, there would be real benefit from extending the analysis to include a more rigorous assessment of some of these central questions of sustainability.

ANNEX 1.A.
Reference Group commentary (continued)

3. Professor John Dunning -
University of Reading Business School

This is an excellent report, and Professor Kapstein is to be congratulated on his methodology of approach, data collection and interpretation of his findings. I was particularly gratified that the report gave some attention to the social and environmental effects of Unilever's footprint, as I believe such efforts are becoming more important in assessing the contribution of incoming foreign investors to the welfare and development of local economies.

I also appreciated the recognition by the author of the importance of the second and third round effects of Unilever's presence. These, I believe, are much more difficult to assess as they essentially embrace the extent to which Unilever has helped indigenous firms along the (local) value chains; to upgrade their technological and managerial capacities; and also to aid the economic restructuring process of the countries in which they operate.

The report gives a tantalising glimpse into some of these issues, but I believe yet more needs to be done, not only in evaluating the actual footprint of Unilever in South Africa but its potential footprint; but also in identifying the circumstances (notably those arising from South African government policy and its related institutions) in which that footprint might bring even more positive results.

4. Roland Michelitsch - International Finance Corporation

It was a great pleasure to serve as a member of the reference group for the ULSA study. With this work and the Unilever Indonesia study, Unilever is advancing the understanding of how the private sector affects various stakeholders and contributes to economic growth. The report recognises the importance of competitiveness – of the South African economy, of ULSA itself, and that of its suppliers.

Improving the competitiveness of South African firms will be essential as the country integrates more into the global economy – currently it ranks only 134th of 178 countries on the ease of cross-border trade. Lacking skills and education of the workforce is considered the top constraint by South African businesses, and the study shows how ULSA is using training to improve the skills of its own workers and that of its suppliers. The study highlights the effects of these productivity improvements for ULSA – and how they have translated into higher wages and benefits for its workers (table 4.1).

The study mentions the importance of the business environment, and that South Africa lags behind other countries in some areas, such as labour regulation. This is likely to have contributed to South Africa's unemployment problem: Research related to Doing Business has shown that a worse business environment tends to be associated with more unemployment and informality, and the poor suffer disproportionately. More than two thirds of the 100,000 workers in ULSA's value chain are "black", and more than one third is in the informal sector, not benefiting from any of the advantages of formal sector employment. Improving the business environment should thus be one of the most important tools for empowerment.

Looking forward, further research into ULSA's impacts on poverty and the Millennium Development Goals – building on Unilever's Indonesia study – would be very valuable, not only from a societal perspective, but also since the poor constitute an important market segment (see the World Bank Group's "The Next 4 Billion").

Focusing Corporate Social Investment on ULSA's core competencies (and clear goals) is likely to enhance its effectiveness, and further improving ULSA's environmental performance may well also have financial benefits – as IFC has found from its own analysis.

5. Andre Fourie: National Business Initiative SA

The content of the report is impressive and insightful. The scope and depth of Unilever's economic "footprint" demonstrate the value of large corporations to the country, the economy and the broader society. It is essential for business leaders and policy makers to take note of these contributions to South Africa in order to build on these foundations and to ensure regulations do not have adverse and unintended consequences.

It is not surprising that the economic benefits and impacts of Unilever are understood at a more strategic level than the company's environmental and social impact. For too long investors and decision-makers have undervalued these two important dimensions of corporate citizenship and the long term importance of social and environmental capital. This report is a path-breaking effort and the company must be congratulated on this brave effort to better understand the total impact of Unilever in South Africa.

The true value of this courageous report will be determined by the extent to which Unilever executives and other business leaders take note of the findings and come to terms with the contributions and impact of their companies on the people, environment and economy of the country. The report contains clear ways in which companies can enhance their contribution to sustainable growth and lessen their impact on communities and the planet. Adhering to these lessons will not only help build a better society, but ultimately make these companies more competitive and sustainable.

6. Michael Spicer – Business Leadership South Africa

It has been a privilege to serve on the local reference group for this important study. There are not many studies of this kind which seek to measure empirically the economic, social and environmental contribution of a multinational company to an emerging economy and society.

I have been impressed with the rigour and openness with which Professor Kapstein has conducted the study, using quantitative and to some extent qualitative methodologies.

The study confirms the significant impact that the operations of multinational corporations have in emerging markets, what one leading academic (Professor Gordon Redding of the Hong Kong Business School) in reference to the impact of MNC's in China, has called "the thickening of civil society". This phrase captures the multiplier effect in supporting a wide variety of institutes and relationships which go beyond the purely economic.

The Unilever South African case is particularly impressive in terms of the length of presence in the country, the reputation of the firm and the standards which it has set in its fields of endeavour, standards which are then replicated through providers and other stakeholders. I was also struck by Unilever South Africa's focus on innovation, the fact that much of its regional R&D is conducted in South Africa and its efforts to reach and service poorer consumers via "bottom of the pyramid strategies".

Finally the suggested action areas all have merit in sharpening and deepening Unilever's impact. The need for continued dialogue with the South African authorities to promote policies conducive to private sector investors, as a key contributor to income and employment generation, is particularly important.

Note: For additional reference group member comments, please access www.unilever.com.

ANNEX 1.B.
Unilever South Africa Commentary:
Gail Klintworth, Chairman

Many would ask why a multi-national would willingly participate in a study such as this, potentially exposing challenging issues and inviting public feedback and critique.

For me, it is very clear. Both as Unilever SA and personally, we believe our business is about more than just selling products. It is about making a difference in everything we do, for our consumers, our employees, our partners and our communities. It's about going beyond paying lip service to ideals but proactively being a responsible corporate citizen. However, until now, although we had an opinion of our impact, we did not have the empirical evidence to understand our broader economic impact, and exactly what "making a difference" should be and the path we would need to follow to get there.

The role of the reference group in this process was a vital one and we thank them for both their contribution and commitment to taking the dialogue established here further and to help make these opportunities realities.

We feel this final report is a fair reflection of the ULSA business. However, it is not the report itself which has been the greatest source of insight, but the process of questioning, by the author and the reference group. It has highlighted new insights, areas needing discussion, forced self assessment and quite frankly, illuminated "blind spots" such as our direct, indirect and induced impacts on the local economy. These are all positive outcomes which have already prompted action inside our business such as our investment in training and in improving the competitiveness of our employees and suppliers. They are opportunities to take an already meaningful business to the next level.

Doing good is essential to doing business. Consumers expect companies and brands to play their part in helping to tackle social, economic and environmental challenges. It is precisely for this reason that our Corporate Responsibility strategy aims to integrate social, environmental and sustainability thinking into our day to day business practices. It has to be reflected in our Research and Development programmes, HR practices, supply chain management, marketing and packaging. For an example, to what degree can we assist consumers to deal with waste that stems from our packaging?

Our business and brands have impacts at every stage of its life-cycle; from sourcing raw materials for our products, all the way through to when our consumers use and dispose of them. Following in our global Unilever footsteps, where the company has adopted the Brand Imprint Toolset, which assists our brand managers to develop specific sustainability strategies, we will significantly raise our internal consciousness and actively monitor our energy use, waste and consumer programmes. We recognise issues such as carbon emissions and water scarcity as being as significant a challenge and opportunity for our brands as obesity and nutrition is for foods, and health and hygiene for home and personal care brands.

Vitality is a compelling and competitive mission for Unilever. People everywhere want to "look good, feel good and get more out of life". But they do not want this at any price. They want to be assured that the brands they are buying are not degrading the environment or exploiting workers in far away countries. It is in this spirit that we embrace the critical aspects raised by the report and we will use these to continue to make a positive contribution to the South African economy. As a multi-national, we will use our global standards, expertise, experience and partnerships to deliver this ambition.

ANNEX 2
Foreign direct investment and sustainable development

Today, the governments of most developing countries, like their counterparts in the industrial world, seem to have drawn the conclusion that in the vast majority of cases the overall benefits, direct and indirect, associated with foreign investment outweigh the costs, and several countries (though not South Africa) even routinely offer subsidies to foreign firms to attract such companies to their shores. The reasons why governments seem to have adopted a more positive view of foreign investment have to do with the "positive externalities" that multinationals generate for local economies, as follows:

First, by operating on a larger scale than domestic firms, which is often the case, MNEs may "help jump-start the process of industrial development" (Hanson 2001, 10). This is because multinational firms introduce into host countries economies of scale and scope that were beyond the reach of most domestic competitors. When these firms enter a new market, suppliers must invest in increasing production on the one hand, while distribution networks will have to be modernised on the other to cope with the influx of greater numbers of goods. In short, the multinational firm can bring the entire industrial infrastructure within a country to a higher level of activity.

Second, by introducing leading-edge technology and worker and management training into host countries, productivity is raised throughout the supply chain and distribution network (Smarzynska 2002). A multinational enterprise will have a powerful interest not only in raising its own internal productivity, but that of its suppliers and distributors as well, so that products can be sent seamlessly through the supply chain and on to the final consumer. Otherwise, these goods risk sitting in warehouses as costly inventory, and for perishables there is the added danger of total loss.

Further, by training their employees to global standards, multinationals tend to create a most desirable labour pool from which domestic firms will almost certainly seek to draw (or to put this in a different light, to poach) both their managers and shop-floor workers. While such turnover may be bad for the multinational enterprise (ULSA has struggled with this very issue for many years) it can be considered positive for the economy as a whole, as the company's former workers bring their skills and training with them to their new employers.

Third, by introducing new products and services, multinational firms may increase consumer welfare. To the extent that these products enable consumers to become more efficient and productive, to lead healthier lives, and to make better use of their scarce resources, the society as a whole is made better off. The introduction of these goods into the developing world market-place can also make local economies more competitive. In fact, the industrial structure of developing countries is often highly concentrated, which is not surprising given that markets are often relatively small - leading to lower prices, higher quality, and again enhanced consumer welfare (OECD 2001).

Despite these and a host of other benefits (which may stem, for example, from corporate social investments in local communities), recent years have seen growing contestation over the role of the multinational enterprise (MNE) in the global economy. While many consumers continue to express confidence in the quality and value offered by the branded goods and services of multinational corporations, critics see these giant enterprises and their brands and products as part of "the problem", whether the problem be defined in terms of poverty, pollution, corruption, or a host of other social ills. The role of the firm in society, therefore, has once again become a topic of widespread popular debate (Vogel 2005).

That debate is not only found within the world's advanced industrial countries, where the "anti-globalisation" theme has found some resonance among a diverse group of citizens, including those who work in industries threatened by foreign competition and activists concerned by such issues as the environment and human rights. Even in many developing countries, the policies associated with globalisation in general and openness to foreign direct investment in particular have once again become controversial. From Bolivia to South Korea, governments have expressed concern about the effects of foreign investment and multinational corporations on national development strategies.

Further, given the salience of economic development and global poverty reduction to the international community's agenda for the early 21st century, as best articulated by the United Nations' Millennium Development Goals (see Table A2-1), an array of social actors, including governments, international institutions, and non-governmental organisations (including firms), are contemplating how the private sector, and especially the multinational enterprise, can most effectively contribute to these widely supported public objectives. As many governments around the world - including that of South Africa - become increasingly convinced that the private sector must play a leading role in economic development, one of the great purposes of public policy worldwide has been to create the background conditions that motivate risk-takers to invest and, should they succeed, to profit. Only in this way can governments meet their multiple objectives to their citizens, which include not simply poverty reduction and the promotion of economic growth but rather equitable and sustainable development in which the majority of the population can participate in the labour market and hope that their children will enjoy improving standards of living. Indeed, South Africa has articulated its own set of goals consistent with the MDGs, and they provide a framework against which the business community's contribution to the country's development can be assessed (see Table A2-2).

TABLE A2.1
The UN millennium development goals

(in September 2000, the international community adopted the following eight Millennium Development Goals, to be achieved by 2015):

Eradicate extreme poverty and hunger

Halve, between 1990 and 2015, the proportion of people whose income is less than US$1 a day

Halve, between 1990 and 2015, the proportion of people who suffer from hunger

Achieve universal primary education

Ensure that by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

Promote gender equality and empower women

Eliminate gender disparity in primary and secondary education preferably by 2005 and in all levels of education no later than 2015

Reduce child mortality

Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

Improve maternal health

Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio

Combat HIV/Aids, malaria and other diseases

Have halted by 2015 and begin to reverse the spread of HIV/Aids
Have halted by 2015 and begin to reverse the incidence of malaria and other major diseases

Ensure environmental sustainability

Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources

Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation

Have achieved, by 2020, a significant improvement in the lives of at least 100 million slum dwellers

Develop a global partnership for development

Develop further an open, rule-based, predictable, non-discriminatory trading and financial system (includes a commitment to good governance, development, and poverty reduction - both nationally and internationally)

Address the special needs of the least developed countries (includes tariff- and quota-free access for exports enhanced programme of debt relief for HIPC and cancellation of official bilateral debt, and more generous ODA for countries committed to poverty reduction)

Address the special needs of landlocked countries and small island developing states (through the Programme of Action for the Sustainable Development of Small Island Developing States and 22nd General Assembly provisions)

Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term

In co-operation with developing countries, develop and implement strategies for decent and productive work for youth

In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries

In co-operation with the private sector, make available the benefits of new technologies, especially information and communications

(Source: United Nations)

TABLE A2.2
South Africa's millennium development goals

To halve the number of people living in poverty and who are unemployed.
To promote a non-racist, non-sexist society.
To create domestic political stability.
To continue the longest, most sustained period of economic growth and prosperity in the nation's history.
To promote respect for the Constitution.
To promote regional peace and stability

Source: Adapted from Dr. Essop Pahad, Minister, The Presidency, South Africa

This Annex reviews some of the major findings of the academic literature on the relationship between foreign direct investment and development, and then describes the specific methodologies that inform this report. Over the years, academics and policy-makers have come to take a much more nuanced view with respect to the effects of foreign investment on development, and Unilever has seemingly tried to learn from that body of work in the hope of making the company a more effective development partner, for example by engaging in studies similar to this one in co-operation with Oxfam on poverty reduction in Indonesia (Clay 2005) and now with the present study on its "economic footprint" in South Africa. This research is making the company increasingly aware of the costs and benefits - of the "real debates" - associated with its operations in the countries where it does business, and of the opportunities it has for leveraging its activities in a way that meets both corporate and social objectives.

To appreciate the nuances academic research has uncovered in recent years, it's worthwhile to spend a moment stepping back in time, say to the state of economic knowledge in the 1950s or 1960s. In the traditional or "neo-classical" models of economic growth popular in those days, the contributions of the multinational enterprise to development were relatively straight-forward and unambiguous, as they were viewed through the lens of the basic Keynesian identity; namely,
Investment (I) = Savings (S).

What this means, of course, is that the amount of money available to a country for its investment projects depends on the amount of savings it has on hand. As seen from this perspective, the main distinction between the advanced industrial states on the one hand and the world's developing countries on the other was found in the level of domestic savings that each possessed and that was available for investment. Developing or poor countries, by definition, possessed relatively low levels of domestic savings compared with rich nations, and thus they could not meet the internal investment needs required to meet growth targets from their own resources. Domestic savings therefore had to be augmented from overseas, in the form of foreign aid, bank loans, and foreign investment, if the "resource gap" were to be filled (OECD 2001).

The different types of funds coming from overseas were generally seen at the time as being complements to one another rather than as substitutes. Thus, in theory at least, foreign aid was primarily to be used for the purpose of building infrastructure and providing other "public goods"; bank loans were for the purpose of providing working capital to domestic firms and multinational enterprises; while foreign direct investment (FDI) was meant to augment local manufacturing and technological capabilities. In so doing, FDI contributed directly to industrialisation that was seen by most development economists, and this probably continues to be the case, as being essential to the development process (De Long, Summers and Abel 1992).

It must be emphasised that MNEs were growth-enhancing in these models not just to the extent that their investment contributed to local amounts of capital formation, but economists also assumed that these firms brought with them advanced, proprietary technology that was otherwise unavailable to domestic firms, and also organisational capabilities that generated productivity gains and hence higher incomes for their workers. The overall benefits of foreign direct investment were thus unambiguous, since capital formation and technology were obviously the key ingredients for sustained growth.

In an effort to provide these growth models with some micro-foundations, in recent years economists have begun to examine more closely the contributions of MNEs to local development through the spillovers and linkages they forge with their suppliers and downstream customers (note that ULSA calls its wholesalers, distributors and retailers "customers"). Spillovers refer to the unintentional benefits caused by foreign direct investment for the economy as a whole, such as the training provided to workers that leads to their "upskilling". To be sure, multinationals upskill workers to meet internal, corporate needs, but by providing their workers with training, these firms also inadvertently create a labour pool from which the entire economy can benefit, including local firms that can hire these workers away without "paying" the multinational for the training they received. These domestic firms, in turn, will enjoy increased productivity. In an important sense, then, training, like education, is a "public good", but in this case it is provided by the private sector in its own interest. Alternatively, a multinational's workers or managers could use their newly-developed skills to become entrepreneurs, leaving the company to establish new businesses. In fact it is commonplace that the suppliers to multinationals are run by managers who once worked for the company, since they know the business and its demands so intimately. In all these cases, the MNE has unintentionally benefited the economy as a whole through the training it had targeted at its own workers (Haskel, Pereira and Slaughter 2002; Moran 2006).

This point about the economy-wide impact of firm-level training is so central to both the academic literature and the policy debates over FDI (including whether it should be subsidised) that it must be emphasised. If multinationals contribute to development through any single activity, economists generally agree that it is through their commitment to training or "human capital formation". Just as developing countries have traditionally been conceptualised as being short of savings, so too they have been viewed as suffering from a shortage of "human capital" or, to put this in other words, skilled labour. By "upskilling" its own work force the company upskills the economy as a whole. Today, it is near impossible to engage in public policy discussions of FDI - and this is certainly the case in South Africa - without specific reference to its potential contribution to labour force training and upskilling (Kapstein 2001; Perrin and Sachwald 2004).

In contrast to spillovers, linkages refer to the intentional relationships that the multinational forges with its supply and distribution chains that can again benefit the economy as a whole (Alfaro and Rodriguez-Clare 2003). These could include technology transfer, financing, and the sharing of business and management skills that serve to increase the supplier's productivity. That productivity benefit, in turn, can be "captured" by the supplier for its own purposes, including growing the business by winning new or existing clients. Overall, these spillovers and linkages constitute the "positive externalities" generated by private firms for the economy as a whole.

Multinationals create additional spillovers and linkages through their ongoing operations. For example, MNEs often use their "best practice" environmental technologies and practices in developing countries, limiting environmental damage as a consequence, at least relative to domestic firms. That private investment, which could be motivated by internal efficiency demands as opposed to any sense of "corporate social responsibility", is nonetheless good for society as a whole. The multinational might also introduce health and safety requirements - say with respect to Aids testing and treatment, or plant safety - that are superior to those found in local companies. Since a healthy workforce yields positive benefits to the entire society, this represents yet another "positive externality". Foreign firms may also adopt distinctive organisational forms that increase corporate productivity, and these can provide models for domestic entrepreneurs who want to grow their own businesses.

Yet there are myriad other ways in which foreign firms contribute directly to development. Increasingly, MNEs tend to have highly elaborated programmes of "corporate social responsibility" or, as it is often called in South Africa, "corporate social investments" (CSI) in such areas as health care and education. To the extent that these efforts augment government capabilities with respect to the provision of such public goods or bring new ideas or new technologies for meeting contemporary challenges, they can be viewed as benefiting society as a whole. In contrast, if CSI programmes instead lead to government shirking of what are widely considered to be public responsibilities, the net effects might be more limited. Just to take a highly relevant case for South Africa, namely HIV/Aids, it is undoubtedly true that the HIV/Aids programmes of private firms augment national efforts to combat the disease, which in any case requires a massive amount of government and even international resources to deal with the problem (we will not enter the debate here of how effective the South African government actually has been in addressing its Aids problem). Table A2.3 provides an overview of the ways in which multinational firms contribute to development.

TABLE A2.3
Multinationals and development: Some examples

Examples of multinational investments	Examples of development outcomes
New plants	Jobs; incomes, tax revenues
Worker training	More productive labour force
Financing for suppliers	Grow supplier base
Environmental technology	Cleaner environment

TO summarise, it is the “positive externalities” associated with FDI and the MNE, the benefits to the economy as a whole stemming from these spillovers and linkages, rather than the more narrowly defined direct effects, that provide the primary justification for a government’s interest in attracting foreign firms to its soil, and even for subsidising them if that is necessary to winning their investment (something the South African government has not had to do given the country has few competitors in sub-Saharan Africa as an investment destination). FDI generates productivity gains that benefit the nation’s economy and its long-run growth prospects as a whole. *Since empirical support for these claims is relatively modest, however, studies like the present one play a crucial role in the debate over the relationship between FDI and a country’s development prospects.* Case studies can provide detailed information on the sorts of spillovers and linkages that multinationals form with the local economy and the effects of their investment on the economy as a whole; more on this below.

While much of the literature on FDI and growth has naturally focused on the role of the multinational enterprise, and in particular on the role of the firm as the “motor” or driver behind economic growth, in recent years economists have opened up the “black box” of government and emphasised the institutional arrangements countries must put into place themselves to promote local development. In much of the post-war economics literature, it was expected that the forces of globalisation would drive a process of global convergence of incomes (Kapstein 2006). Since returns to investors would be higher in developing countries compared with the advanced industrial states, capital would naturally flow there, as it did to the “New World” during the 19th century, driving the growth of the United States and Canada.

At the same time, government officials were assumed to behave like enlightened social planners who did their best to maximise social welfare. They could therefore be counted upon to make the policy decisions needed to make their countries attractive places to invest, for example by upgrading education and infrastructure, or by using foreign aid responsibly for such purposes. Accordingly, concepts like “rent-seeking” and “corruption”- which signify the exploitation of public office for personal, financial gain - rarely entered the development literature.

One of the puzzles of the post-World War 2 experience of developing countries, however, has been the tremendous diversity of growth experiences, rather than the hoped for convergence. And in searching for the sources of this divergence, economists have pointed to any number of domestic factors, including the presence of natural resource endowments (is oil a "curse" for development?), geography (why do northern and coastal countries generally do better than those that are south of the equator and land-locked?), ethno-linguistic fragmentation (why does such fragmentation seemingly hurt growth?), government or regime type (are democratic or authoritarian regimes more growth-friendly?), and a host of other variables (e.g. demography).

Out of all this research on divergence has come a powerful consensus, now generally shared by the policy community as well: that stable, growth enhancing institutions - like the rule of law - matter enormously for a country's development trajectory as well, and institutional effects can swamp all the other variables in cross-country regression analyses of growth. This research should be of crucial interest to students of the multinational enterprise in developing countries, for it suggests that no matter how hard these firms might try to "improve" their developmental performance, such actions can be severely limited in countries whose governments fail to promote development themselves, or which enact public policies that discourage productive investment (Easterly 2001). Corporate social responsibility, therefore, must be matched by governmental responsibility if development is to take place.

ANNEX 3

TABLE A3-1

The impact of Unilever's total interests on the South African economy - 2005

Description	**Initial injection (Unilever)**	**First round impact**
Output by industry (Intermediate at producer-prices)		
Agriculture, forestry and fishing	-	328
Mining and quarrying	-	31
Food and beverage manufacturing	3,117	150
Textiles, clothing and leather goods	-	15
Wood and paper; publishing and printing	-	76
Petroleum products, chemicals, rubber and plastic	5,472	883
Other non-metal mineral products	-	31
Metals, metal products, machinery and equipment	-	149
Electrical machinery and apparatus	-	14
Radio, TV, instruments, watches and clocks	-	7
Transport equipment	-	67
Furniture, tobacco and other manufacturing	-	38
Electricity, gas and water	-	76
Construction (contractors)	-	107
Wholesale, retail, catering and accommodation	-	201
Transport, storage and communication	-	188
Finance, insurance, real estate & business services	-	1,259
Community, social and other personal services	-	343
Total output	**8,588**	**3,963**
Output multiplier	1.00	0.46
Government income		
Direct taxes - corporate	369	140
Direct taxes - personal	196	129
Indirect taxes	419	170
Total government tax revenue	**985**	**440**
% Share of government tax revenue	0.23	0.10

Impact including gross domestic fixed investment (rand millions)				
Direct impact	Indirect impact	Direct & indirect impact	Induced impact	Economy-wide impact
328	118	446	217	663
31	369	400	248	647
3,267	176	3,443	591	4,034
15	41	56	150	207
76	310	386	403	789
6,355	1,195	7,550	895	8,445
31	92	123	81	204
149	575	725	270	995
14	103	117	61	178
7	44	52	36	87
67	292	359	463	822
38	162	200	176	376
76	127	202	252	454
107	472	579	224	803
201	136	338	5,018	5,356
188	403	591	2,080	2,671
1,259	1,183	2,442	2,549	4,991
343	166	509	603	1,112
12,552	**5,966**	**18,517**	**14,317**	**32,834**
1.46	0.69	2.16	1.67	3.82
509	180	689	586	1,275
326	166	492	516	1,008
590	343	932	798	1,730
1,424	**689**	**2,113**	**1,900**	**4,013**
0.33	0.16	0.49	0.44	0.93

ANNEX 3

TABLE A3-1

The impact of Unilever's total interests on the South African economy - 2005 (continued)

Description	Initial injection (Unilever)	First round impact
Value added		
Gross operating surplus	1,798	879
Labour income	594	743
Value added at factor costs (GDP)	2,391	1,622
GDP multiplier	**0.28**	**0.19**
% Share of RSA GDP	**0.18**	**0.12**
Capital requirement		
Buildings and construction works	742	2,703
Machinery and other equipment	612	603
Transport equipment	39	241
Total capital requirement	**1,394**	**3,547**
% Share of RSA capital stock	0.05	0.12
Labour income by race		
Black	222	263
Coloured	21	73
Asian	131	43
White	220	364
Total labour income (including informal sector)	**594**	**744**
Labour income by gender		
Male	431	485
Female	163	259
Total labour income (including informal sector)	**594**	**744**

Impact including gross domestic fixed investment (rand millions)				
Direct impact	Indirect impact	Direct & indirect impact	Induced impact	Economy-wide impact
2,677	1,176	3,853	3,469	7,322
1,337	920	2,256	2,879	5,135
4,013	2,096	6,109	6,348	12,457
0.47	**0.24**	**0.71**	**0.74**	**1.45**
0.30	**0.16**	**0.46**	**0.48**	**0.94**
3,446	3,148	6,594	8,229	14,822
1,215	1,166	2,381	2,179	4,560
280	333	614	1,434	2,048
4,941	**4,648**	**9,589**	**11,842**	**21,431**
0.17	0.16	0.32	0.40	0.72
485	327	812	1,033	1,846
94	90	184	284	468
174	55	229	221	449
584	450	1,034	1,343	2,377
1,338	**921**	**2,259**	**2,881**	**5,140**
916	665	1,581	1,933	3,514
422	256	678	948	1,626
1,338	**921**	**2,259**	**2,881**	**5,140**

ANNEX 3

TABLE A3-1

The impact of Unilever's total interests on the South African economy - 2005 (continued)

Description	Initial injection (Unilever)	First round impact
Labour income by skill		
High skill	194	245
Medium skill	235	219
Low skill	165	236
Labour income - formal sector	**594**	**700**
Labour income - informal sector	-	43
Total labour income	**594**	**743**
Employment by race (number)		
Black	969	10,479
Coloured	2,364	1,720
Asian	153	401
White	896	2,224
Total employment (including informal sector)	**4,382**	**14,824**
Employment by gender (number)		
Male	1,066	9,134
Female	3,316	5,687
Total labour income (including informal sector)	**4,382**	**14,822**
Labour income by skill (number)		
High skill	474	1,207
Medium skill	1,571	4,258
Low skill	2,337	4,944
Labour income - formal sector	**4,382**	**10,409**
Labour income - informal sector	-	4,413
Total labour income	**4,382**	**14,822**

	Impact including gross domestic fixed investment (rand millions)				
t	Direct impact	Indirect impact	Direct & indirect impact	Induced impact	Economy-wide impact
	439	330	769	993	1,762
	454	289	743	1,063	1,806
	401	249	650	588	1,238
	1,294	**868**	**2,162**	**2,643**	**4,805**
	43	52	95	236	331
	1,337	**920**	**2,256**	**2,879**	**5,135**
	11,448	12,100	23,548	45,333	68,881
	4,084	1,930	6,014	6,400	12,414
	554	560	1,113	2,475	3,588
	3,120	2,664	5,784	8,395	14,179
	19,206	**17,254**	**36,459**	**62,602**	**99,062**
	10,200	11,469	21,669	34,880	56,549
	9,003	5,783	14,787	27,720	42,507
	19,204	**17,252**	**36,456**	**62,601**	**99,056**
	1,681	1,457	3,137	4,606	7,743
	5,829	4,649	10,478	18,430	28,909
	7,281	6,461	13,742	16,166	29,908
	14,791	**12,567**	**27,357**	**39,203**	**66,560**
	4,413	4,685	9,098	23,398	32,496
	19,204	**17,252**	**36,456**	**62,601**	**99,056**

ANNEX 3

TABLE A3-1

The impact of Unilever's total interests on the South African economy - 2005 (continued)

Description	Initial injection (Unilever)	First round impact
EMPLOYMENT BY INDUSTRY		
Agriculture, forestry and fishing	-	5,478
Mining and quarrying	-	62
Food and beverage manufacturing	2,168	221
Textiles, clothing and leather goods	-	61
Wood and paper; publishing and printing	-	109
Petroleum products, chemicals, rubber and plastic	2,214	686
Other non-metal mineral products	-	47
Metals, metal products, machinery and equipment	-	351
Electrical machinery and apparatus	-	25
Radio, TV, instruments, watches and clocks	-	10
Transport equipment	-	63
Furniture, tobacco and other manufacturing	-	71
Electricity, gas and water	-	73
Construction (contractors)	-	587
Wholesale, retail, catering and accommodation	-	1,473
Transport, storage and communication	-	329
Finance, insurance, real estate & business services	-	4,158
Community, social and other personal services	-	1,017
Total employment	**4,382**	**14,822**
Employment multplier (in terms of direct jobs)		
Employment multiplier (excluding informal)	-	-
Employment multiplier (including informal)	-	-
% Share of RSA employment	**0.04**	**0.12**

Source: Quantec Research South Africa SAM Calculations

Impact including gross domestic fixed investment (rand millions)				
Direct impact	Indirect impact	Direct & indirect impact	Induced impact	Economy-wide impact
5,478	1,966	7,444	3,614	11,058
62	743	805	476	1,282
2,389	252	2,641	785	3,426
61	149	210	668	878
109	641	751	740	1,490
2,900	643	3,543	602	4,145
47	235	282	204	486
351	1,200	1,551	500	2,050
25	179	204	107	311
10	67	78	67	144
63	280	343	447	790
71	298	369	351	720
73	116	189	234	423
587	2,599	3,186	1,233	4,419
1,473	1,026	2,499	34,435	36,934
329	601	930	3,461	4,390
4,158	3,757	7,916	8,059	15,975
1,017	2,499	3,516	6,619	10,135
19,204	**17,252**	**36,456**	**62,601**	**99,056**
-	-	1.85	2.65	4.50
-	-	1.90	3.26	5.16
0.16	**0.14**	**0.30**	**0.52**	**0.82**

TABLE A3-2
Commodities/activities of the 2005 SAM for South Africa

No	Commodities/activities	No	Commodities/activities
1	Agriculture, forestry and fishing	1.1	Agriculture, forestry & fishing
2	Mining and quarrying	2.1	Coal mining
		2.2	Gold & uranium ore mining
		2.3	Other mining
3	Food and beverages	3.1	Food
		3.2	Food (ex ULSA)
		3.3	Food (ULSA)
4	Textiles, clothing and leather goods	4.1	Textiles
		4.2	Wearing apparel
		4.3	Leather & leather products
		4.4	Footwear
5	Wood and paper; publishing and printing	5.1	Wood & wood products
		5.2	Paper & paper products
		5.3	Printing, publishing & recorded media
6	Petroleum products, chemicals, rubber and plastic	6.1	Coke & refined petroleum products
		6.2	Basic chemicals
		6.3	Other chemicals & man-made fibres (ex ULSA)
		6.4	Other chemicals & man-made fibres (HPC ULSA)
		6.5	Rubber products
7	Other non-metal mineral products	7.1	Plastic products
		7.2	Glass & glass products
		7.3	Non-metallic minerals

No	Commodities/activities	No	Commodities/activities
8	Metals, metal products, machinery and equipment	8.1	Basic iron & steel
		8.2	Basic non-ferrous metals
		8.3	Metal products excluding machinery
		8.4	Machinery & equipment
		8.5	Electrical machinery
9	Radio, TV, instruments, watches and clocks	9.1	Television, radio & communication equipment
		9.2	Professional & scientific equipment
10	Transport equipment	10.1	Motor vehicles, parts & accessories
		10.2	Other transport equipment
11	Furniture, tobacco and other manufacturing	11.1	Furniture
		11.2	Other industries
12	Electricity, gas and water	12.1	Electricity, gas & steam
		12.2	Water supply
13	Construction	13.1	Building construction
14	Wholesale and retail trade, catering and accommodation	14.1	Wholesale & retail trade
		14.2	Catering & accommodation services
15	Transport, storage and communication	15.1	Transport
		15.2	Communication
16	Financial intermediation, insurance, real estate and business services	16.1	Finance & insurance
		16.2	Business services
17	Community, social and other personal services	17.1	Medical, dental & other health & veterinary services
		17.2	Community, social & personal services - other
		17.3	Government

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