



Unilever

Sustainable  
Development  
Report 2007:  
Economic  
development



# Economic development

**Unilever has a presence in over 150 countries around the world.  
Developing economies are an area of growth for our business.**

## Contents

Economic development .....	2
Developing & emerging markets.....	8
South Africa .....	10
Indonesia.....	13
Tax policy and transfer pricing .....	16

This section of the online Sustainable Development Report 2007 is available at: [www.unilever.com/ourvalues/environment-society/sustainable-development-report/economic-development](http://www.unilever.com/ourvalues/environment-society/sustainable-development-report/economic-development)

# Economic development

**Unilever has a presence in over 150 countries around the world. Developing economies are an area of growth for our business.**

## Creating & sharing wealth

The presence of multinationals in developing economies has been a subject of debate for many years.

Some national governments and campaigning organisations have expressed concerns about the role multinationals play in local economies and whether they are ultimately a force for good.



We believe that business is an important generator of wealth and jobs. Multinationals in particular play a vital role in sharing technology, developing best practice and setting standards of behaviour. But we also recognise that they have broader social, economic and environmental impacts, both positive and negative.

The challenge for businesses like ours and the partner organisations we work with is to identify and measure these impacts, and to find ways to maximise the positive impacts and minimise the negative. Recently we have worked on two studies to explore these impacts, one with Oxfam and the other with Professor Ethan Kapstein of leading European business school, INSEAD.

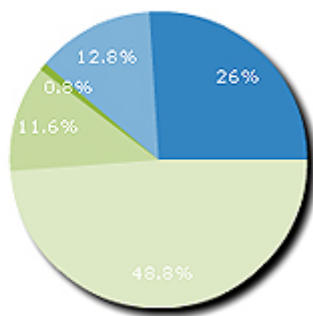
These research projects have supported our views on the role business can play in society. They have also raised useful insights on where we can enhance our local impacts.

### **Our economic impacts**

We generate wealth by adding value to the raw materials we purchase, manufacturing our products to exacting standards and marketing them to consumers. Employees, governments, investors and many others in the communities where we operate benefit economically from our activities (see chart).

### Unilever Group distribution of cash value added 2007

% of total (€11 351 million)

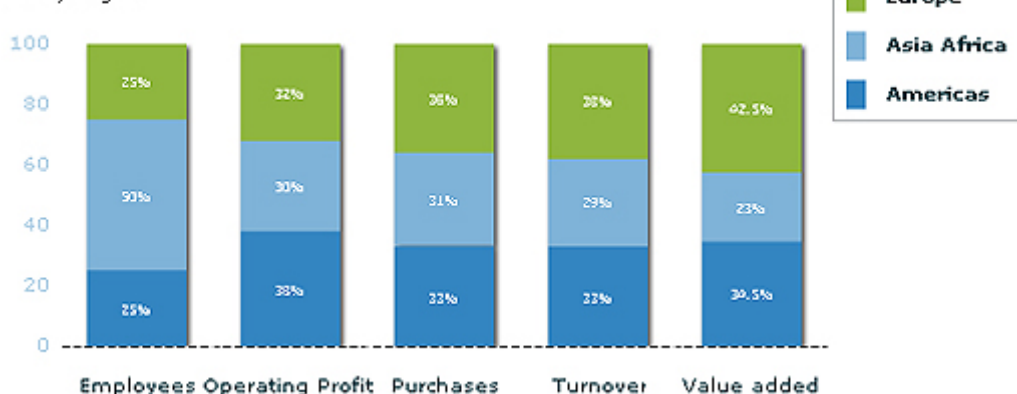


\*Excluding the one-off effect in 2007 of share buy-backs totalling €1.5 billion.

In 2007, out of €40.2 billion sales income (turnover), we spent over €28.8 billion with suppliers and so created €11.4 billion value added through our operations. Our employees gained the largest share, earning €5.5 billion or 48.8% of the total. The providers of capital who finance our operations gained the second-largest share (26%), from dividends paid. This group includes both individual shareholders as well as large holdings by pension funds on behalf of individual policyholders. Total shareholder return, which reflects the value of dividends and changes in share price, is calculated on a three-year rolling basis. By the end of 2007, Unilever ranked eighth against a peer group of 20 international consumer goods companies.

### Turnover, operating profit, employees, purchases & value added 2007

% by region



Our operations create value in the countries where we source our raw materials and manufacture and market our products. The proportion of added value we create locally is highest in developing and emerging markets. While only 29% of our sales are created in Asia and Africa, 46% of our employees are in these countries and 31% of goods and services are purchased by these regions.

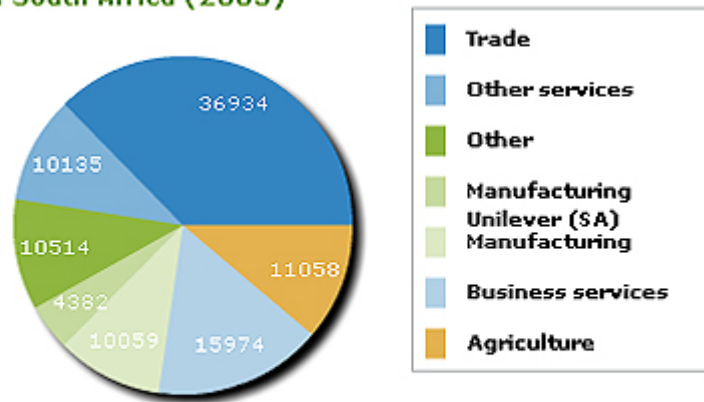
### Advancing the debate

Developing and emerging markets are a priority for Unilever. We have recently worked on two studies to understand our wider impacts in such countries. The first was a joint study with Oxfam GB and Novib (Oxfam Netherlands) on our impact in Indonesia. The second, carried out for us by

Professor Ethan Kapstein of INSEAD (a leading European business school), looked at our footprint in South Africa. This study builds on the Indonesia research with a more formal way of measuring the economic impact on jobs and incomes, using an 'input-output' analysis.

The study found that every person employed by Unilever South Africa supported another 22 people up and down the supply chain (see chart).

### Unilever impact on jobs in South Africa (2005)



Total jobs: 99 056  
Unilever South Africa jobs: 4 382

This impact on jobs is very important to South Africa as it has extremely high unemployment.

For every Rand (R) 100 of sales by the company a further R45 of value added is created in the wider economy. The economic activity associated with Unilever's operations in South Africa generated nearly 1% of the country's tax revenues. Of the company's total sales revenue in 2005 of R8.5 billion, two-thirds was spent on payments to suppliers of goods and services while employees received 13% of the share.

### Wider social & environmental impacts

The report also gave an overview of wider social and environmental impacts. Unilever South Africa provides comprehensive benefits to its employees in addition to paying considerably more than the average for South African listed companies. Training for employees and suppliers is a key focus. The company also operates to higher environmental standards than required by local legislation, with a declining footprint in terms of water use, CO2 emissions and energy per tonne of production.

Professor Kapstein also identified areas for improvement – more help to suppliers to improve their productivity and competitiveness, greater investment to improve R&D capability locally, more attention to environmental issues and especially packaging waste, and a more focused corporate social investment programme that uses Unilever's skills.



Unilever South Africa has responded to the report by committing itself to step up training of employees and suppliers and to devote more attention to energy use, water scarcity and the needs of low-income consumers.

"The scope and depth of Unilever's economic 'footprint' demonstrates the value of large corporations to the country, the economy and the broader society."

Andre Fourie, CEO, National Business Initiative South Africa.



### **Economic development through micro-enterprise**

As well as meeting consumer needs, our businesses can make a difference to the poorest communities through job creation. Project Shakti in India continued to grow in 2007. This programme creates micro-enterprise opportunities for rural women in India to sell Unilever products door to door. By the end of 2007 there were more than 45 000 Shakti entrepreneurs covering 3



million homes in 100 000 villages in 15 states. For Hindustan Unilever the initiative has significantly increased rural distribution, doubling direct rural reach since it started. For the women, it has provided a significant increase in their incomes as well as giving them a sense of pride and self-worth.

We are rolling out similar initiatives in Sri Lanka and Bangladesh. By the end of 2007, Sri Lanka had over 3 500 entrepreneurs covering 275 000 households in 4 000 villages, and Bangladesh had 4 250 entrepreneurs covering 400 000 households in 8 000 villages.

Spin-off projects include Shakti Vani, health awareness campaigns, and i-Shakti, online community information portals for villages.

In the Philippines, we have been working in partnership with the Philippine Federation of Local Councils of Women to help tackle poverty. Together in June 2006 they launched Kabisig, a neighbourhood seller programme which enables previously unemployed people to earn a living by selling our products directly to households in their local communities. Kabisig members are supported by the Federation which lends them the capital needed to purchase Unilever products and start their own small businesses. By the end of 2007, the programme had 380 sellers reaching over 100 000 households, resulting in turnover of 3.2 million Filipino pesos.



### **Africa**

In Tanzania, Ghana and Nigeria we have been working on an initiative which aims to establish a locally owned supply chain for Allanblackia oil, a

new type of oil that can be used to make margarines and spreads with lower saturated fat content. We have partnered with numerous non-governmental organisations, donor agencies and government agencies, with the goal of assisting local farmers, communities and small businesses to cultivate the crop commercially. To date the number of villages involved in the project has grown to 300 (of which around 200 are in Ghana) providing an additional income to about 10 000 farmers and collectors. Furthermore, 15 tree nurseries were established to produce trees which can be planted on smallholder farms.

In Kenya, Unilever has teamed up with over 30 companies as part of the Business Alliance Against Chronic Hunger, to help the Kenyan government take action against hunger in rural areas using business-based solutions. The partnership will seek to buy local farmers' produce, help them find new markets and add value to their produce, thereby generating a sustainable source of income. Unilever has seconded an executive for two years to the World Economic Forum to help drive this project forward. Unilever Kenya is also actively involved, supporting the cultivation of herbs and spices to supply bouillon cube manufacture in our factory in Nairobi. The challenge is to create sustainable business models that will not need external support in the future and which can be replicated to other areas.

### **Middle East**

Unilever Egypt 'adopted' a village called Talat Kabery on the outskirts of Alexandria. The villagers have traditionally led a subsistence existence with very high levels of unemployment. Unilever has offered start-up loans for business activities in a range of agricultural and service industries which they have backed up with monitoring and mentoring. They are now planning to roll out the model to similar villages across Egypt. The key principle has been to establish sustainable businesses with loans not donations to avoid creating a dependency culture.



### **Our contribution to the MDGs**

The Millennium Development Goals (MDGs) set out eight global targets for governments to reach by 2015, ranging from halving world poverty to halting the spread of HIV/AIDS. Our main contribution to these goals is through the wealth and jobs we create in our business, our value chain and the local community investment programmes we run. We also contribute through our partnerships with organisations such as UNICEF, the UN World Food Programme and Water & Sanitation for the Urban Poor (WSUP).

### **Available online:**

Download the INSEAD Executive summary & report

[Measuring Unilever's Economic Footprint: The Case of South Africa - Executive summary 2008 \(1.2 MB\)](#)

[Measuring Unilever's Economic Footprint: The Case of South Africa 2008 \(3.3 MB\)](#)

Download a summary of the Oxfam report

[Exploring the links between wealth creation & poverty reduction: a case study of Unilever in Indonesia 2005 \(173 KB\)](#)

Case studies

[India: Creating rural entrepreneurs](#)

[Kenya: BAACH partners tackle hunger through development](#)

Indices

[Millennium Development Goals](#)



# Developing & emerging markets

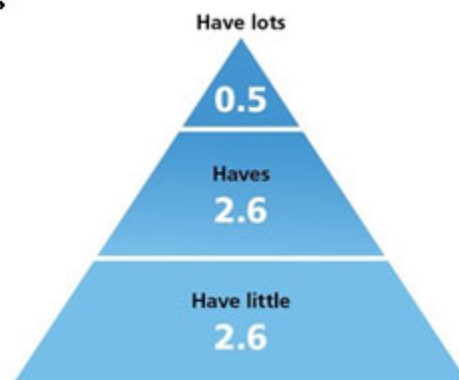
**In 2007, 44% of our sales were in developing and emerging markets and we expect to see this figure increase as population and purchasing power grow - particularly in Asia.**

## Reaching the bottom of the pyramid

It is estimated that 1 billion people will rise out of poverty in the next ten years, particularly in China and India. Our deep roots and early engagement in these markets have given us valuable experience in meeting the needs of these consumers at the 'base of the economic pyramid'.

Our aim is to satisfy the needs and aspirations of consumers at all levels of the pyramid with quality products. This means a differentiated portfolio in terms of price and packaging format to address the needs of different income groups.

### Population in billions



## Developing new business models

Whether it is through new distribution channels, using smaller formats or creating new products, we are developing business models to reach the poorest members of society.

Our new Pureit in-home purifier was designed to provide an affordable safe drinking water solution to low and middle-income families. In India, where Pureit has been launched, one rupee can buy you 3.5 litres of Pureit safe drinking water (including the initial one-off cost of the purifier unit). This makes it a more affordable alternative to boiling water, where one rupee will buy you 2.5 litres, or bottled water where one rupee will buy you just 0.3 litres.



Another example is the Pepsodent Fighter, a quality low-cost toothbrush which brought better oral care within the reach of millions of low-income consumers in 2007. Our research centres in Italy and India have worked together to develop the toothbrush which is now available in 30 countries

across Asia, Africa and Europe for 20 – 70 euro cents. We sold 40 million Pepsodent Fighter toothbrushes during 2007.

Replicating this approach across a broader range of brands is a much bigger task. Nonetheless, finding more ways to reach consumers at the base of the pyramid makes business sense and enhances our ability to improve the lives of the poorest communities.

Some trade-offs are currently inevitable, however, in trying to meet all our social, economic and environmental commitments. Making products available in small-pack sizes and single-dose sachets brings quality brands to some of the world's poorest consumers, but it also contributes to litter in markets where waste management infrastructure cannot always provide facilities for reuse and recycling. We are working with stakeholders on how best to solve this dilemma without affecting the affordability and accessibility of our products.

**Available online:**

Case studies

[Economic development](#)

Downloads

[Unilever commits to the ICF \(117 KB\)](#)

[Millennium Development Goals: Unilever Speech 2004 \(31 KB\)](#)

# South Africa

**Unilever asked INSEAD to examine the economic impact of its operations in South Africa. We wanted to know what impact Unilever has on the country's growth and development.**

## Understanding our economic footprint

The report, called "Measuring Unilever's Economic Footprint: The Case of South Africa", focuses on Unilever's impact throughout the South African economy. It is part of an ongoing effort by Unilever to understand its economic, social and environmental impacts on the countries in which it does business.

Authored by INSEAD Professor Ethan Kapstein and discussed at the World Economic Forum in Davos in January 2008, the report builds on an earlier study undertaken by Unilever Indonesia with Oxfam GB and Oxfam Novib (The Netherlands) which focused on Unilever's role in poverty reduction.

Data and analysis from Unilever South Africa and the South African Government was used to estimate the company's impact on issues such as private sector investment, household income, employment and government revenue. The report was scrutinised by two reference groups including national and international academics, government advisors, business associations and NGOs.

### Key findings

Unilever South Africa has been operating in South Africa for more than a century. It ranks among the country's top forty companies, generating approximately R8.5 billion in sales in 2005 (the year the study focused on), while employing just over 4 000 people. The findings show Unilever South Africa is responsible for a number of important economic effects:

- Unilever South Africa generates more than R32 billion for the South African economy, and supports approximately 100 000 jobs.
- For every person employed directly by Unilever South Africa, another 22 people depend on the company for some part of their livelihood. This represents 0.8% of total South African employment.
- The report shows that the majority of these jobs are in the retail sector, for example the network of distributors, wholesalers and retailers that Unilever South Africa depends on to get its products to consumers.
- The direct and indirect contribution of Unilever South Africa on government tax revenues totals R4 billion, equivalent to almost 0.9% of all government revenue.
- The economic value added to the economy by Unilever amounted to R12.5 billion in 2005, around 0.9% of the country's GDP. For every R100 of sales revenue, R145 was added to the country's GDP.

In addition to analysing Unilever South Africa's economic footprint, the report provides an overview of the company's broader social and environmental impacts. The report shows that the company has adopted international environmental standards that meet, and often exceed, those found domestically. Its social investment initiatives and efforts to promote black economic empowerment further influence the country's economic and social well-being.

### **Recommendations**

The report suggests a number of ways in which Unilever South Africa could further support the South African economy:

- Seek to ensure that its local suppliers receive the ongoing training and support needed to maintain and improve their productivity to remain competitive in the world economy.
- Continue to provide the training that workers require to improve their skills.
- Consider more targeted community investments that focus on the areas in which the company possesses a sustainable competitive advantage.
- Continue to reduce its environmental footprint, particularly with respect to packaging.
- Continue to promote research and development in South Africa.
- Maintain an ongoing dialogue with the South African government to ensure a regulatory environment that promotes private sector investment, without which the country will not be able to generate economic growth and reduce poverty, inequality and unemployment.

### **What did we learn?**

According to Gail Klintworth, Chairman Unilever South Africa, the report highlighted little understood areas such as direct and indirect economic impacts. This has already prompted action inside the company including investment in training and improving the competitiveness of suppliers.

The South Africa and Indonesia reports have provided us with useful insights on our business impacts. We now have a robust methodology for analysing our economic impacts and have learnt additional lessons, such as the importance of gathering stakeholder views on performance. We will communicate the lessons learnt to all Unilever operating companies, and encourage them to better understand their impacts on society. We will also share the lessons externally with key stakeholders.

"International companies can have positive and negative economic, social and environmental impacts. When managed responsibly, the private sector has an important contribution to make to sustainable development. Only by understanding their impacts can companies enhance and improve them", says Santiago Gowland, Global Corporate Responsibility Director, Unilever. "Professor Kapstein's work has added to our global corporate responsibility objective of deepening the understanding of our business impacts and their strategic relevance for our business and for society at large".

"The scope and depth of Unilever's economic 'footprint' demonstrates the value of large corporations to the country, the economy and the broader society." Andre Fourie, CEO, National Business Initiative SA and South African Reference Group Member for this study.

**Available online:**

Download the INSEAD Executive summary & report

[Measuring Unilever's Economic Footprint: The Case of South Africa - Executive summary 2008 \(1.2 MB\)](#)

[Measuring Unilever's Economic Footprint: The Case of South Africa 2008 \(3.3 MB\)](#)

# Indonesia

**Unilever and Oxfam have explored the links between wealth creation and poverty reduction – how the local operations of a business like ours can contribute to sustainable poverty reduction.**

## Understanding our contribution

In 2005 we published a detailed research report on the results of a joint project, involving Oxfam (GB) and Novib (Oxfam Netherlands). The report focused on Unilever's operations in Indonesia. By mapping our impacts, we explored how business can contribute positively so that more people, particularly poor people, can benefit from involvement in business networks.

### **Unilever in Indonesia**

Unilever has operated in Indonesia for over 75 years and is deeply embedded in the local economy. Our business contributes directly to the country's tax base and employment, and has an extensive network of local suppliers and distributors. Approximately 95% of Indonesians use at least one Unilever product, including brands such as Pepsodent, Lux, Sunlight and Lipton.

### **Key findings**

Our key finding from the research was that the potential poverty reduction impacts of a company like Unilever Indonesia are spread across the full breadth of its 'value chain': the long chain that links raw materials providers and other suppliers to the manufacturing of products, then through product distribution and retail outlets to the consumer.

Unilever Indonesia employs about 5 000 people, of whom 60% are direct employees and 40% are contract workers. In addition, nearly 2 000 people are employed in factories solely making Unilever products under contract. Indirectly, however, the full-time equivalent of about 300 000 people make their livelihoods in Unilever Indonesia's value chain.

More than half of this employment is found in distribution and retailing, among an estimated 1.8 million small stores and street vendors.

Of the total value created in 2003 (the year the study focused on) around two-thirds is distributed to participants other than Unilever Indonesia, such as producers, suppliers, distributors, retailers and the Indonesian government which receives an estimated 26% of the total.



### Estimated employment linked to Unilever Indonesia's value chain 2003

300 764 (full time equivalents)



Source: Exploring the links between international business and poverty reduction: a case study of Unilever in Indonesia.

By examining the jobs and the value created at each point in this chain, we learned a great deal about where companies can have most positive and negative impact on poverty reduction. The value created by people working at either end of the value chain (for example in agriculture and retailing) is much lower than the value captured by those at the centre of the chain (companies directly supplying Unilever Indonesia). It is possible to increase the value created by people at the ends of the chain, for example through producer co-operatives or alternative supply-chain models.

But participation in value chains alone does not guarantee improvements in the lives of people living in poverty: other social institutions and resources are needed. Thus a joined-up approach to poverty reduction involving governments, international institutions, business and civil society organisations is essential.

#### **What did we learn?**

Both Unilever and Oxfam learned a tremendous amount from the research and the process of working together on this project. Such learning could not have occurred without intensive and often difficult debate, which contributed to constructive discussion and analysis.

#### **Lessons learned from the research**

While the private sector has an important role to play in the drive towards sustainable poverty reduction, for example in product delivery, wealth creation, skills transfer and so on, it is only one contributor. For optimum impact, a concerted effort is required between business, governments, international institutions, civil society and others.

For all participants, a persistent focus on the position of the individual living in poverty – whether man, woman, or child – is essential when assessing impacts and developing solutions.

Analysis of private sector impacts needs to be more alert to the differences between multinational companies in different sectors and of different levels of integration into a local economy. For example the Unilever Indonesia business is very different from some of the traditional targets of civil society campaigning, such as extractive or export-processing industries.

Fast moving consumer goods (FMCG) company value chains can offer poor people an opportunity to gain basic skills within a structured learning environment and earn incremental, regular income. Such opportunities may be the first steps towards accumulating assets, increasing independence, and improving quality of life.

However from our research it also became clearer that participation in value chains alone does not guarantee improvements in the living conditions of poor people. For value chains to work for poor people, there need to be other social institutions and resources in place, such as credit and saving schemes, marketing associations, and insurance schemes.

### **Lessons learned from the partnership**

This project represented a big step for Oxfam in its work with the private sector. They had never gone so far in exploring the motivations, trade-offs and choices that companies make in their operations.

This project was the first time Unilever had worked so closely with an NGO to analyse our social and economic impacts in a particular country. The research gave us new insights and information in a number of areas, including new perspectives and ways of looking at social issues.

During the project Oxfam and Unilever came to realise that, despite our very different missions and goals, we share a commitment to contributing to poverty reduction and economic development. The greatest differences between us were determined by our varying expectations of what companies can and cannot be expected to contribute to poverty reduction, the promotion of social and economic rights, and national development. By the end of the project, we were much closer to understanding these limitations and opportunities.

The report is offered as a data-rich study of just one company, Unilever Indonesia, and its interactions with the people, business, and economy of just one country, Indonesia. We hope that it will contribute to a greater understanding of the links between wealth creation and poverty reduction.

### **Available online:**

Case studies

[Indonesia: Farmer development programme](#)

[Indonesia: Building partnerships with suppliers](#)

Read a summary of the report

[Exploring the links between wealth creation & poverty reduction: a case study of Unilever in Indonesia 2005 \(173 KB\)](#)

# Tax policy and transfer pricing

**Here we set out our approach on two issues related to our economic performance which can concern some stakeholders.**

## Tax policy

Our Code of Business Principles requires all Unilever companies to comply with the laws and regulations of the countries in which they operate, and this applies just as much to taxation as to any other issue. Our Code also encourages our businesses to represent their views on the formulation and administration of tax laws either directly or through trade associations and similar bodies. In order to create and preserve value, we will seek to minimise our tax liabilities while complying with all applicable laws.

## Transfer pricing

National governments are concerned about how multinational companies account for the value of sales between their operating subsidiaries, as 'internal' prices can be set artificially low to reduce profits in high-tax countries. Our worldwide policy is based on the 'arm's-length' principle, in keeping with guidelines developed by the OECD.