Exploring the Links Between International Business and Poverty Reduction: A Case Study of Unilever in Indonesia

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An Oxfam GB, Novib, Unilever, and Unilever Indonesia joint research project

Foreword: Oxfam

Oxfam[1] believes that the private sector can be an important engine of development. Companies, when they act responsibly, can play a vital role in contributing to sustainable development and poverty reduction.

Our reason for undertaking this particular research project with Unilever stems from our desire to deepen understanding, on the part of both Oxfam and Unilever, of the impacts of investment by a multinational company upon people living in poverty. For many years, foreign direct investment has been seen as being key to 'pro-poor' development for what it brings in terms of wealth creation, employment, technology transfer, and other components of poverty alleviation. Yet there is a wide on-going debate about whether and how these contributions translate into real benefits for people living in poverty.

Research on corporate environmental and social impacts often focuses upon a specific aspect of operations. Our aim with this project was to examine a company's impacts more comprehensively, and especially to investigate the furthest ends where poor people's interaction with the business are indirect, informal, and possibly most vulnerable to exploitation. By researching the spectrum of Unilever Indonesia's activities, we wanted to begin to describe the 'poverty footprint' of these activities. There is much more to do to develop a methodology that consistently makes poor people a visible and integral part of the analysis of the net impacts of a company's operations.

This project was a pilot, conducted in a very complex local setting. Through it we have gained a better understanding of the importance of considering the whole value chain, including the potential for distribution chains to generate employment and income. In the future a stronger rights-based approach, more gender-differentiated data, and a more 'people-centred' methodology would enhance our findings greatly. While the research did examine UI's interaction with Indonesians as consumers, workers, producers, and citizens, this was done in the main by 'looking out' from the company, rather than 'looking in' from the perspective of people living in poverty. Oxfam is pleased that this research has generated so much learning for ourselves and others on which to build in future work with the private sector.

This initiative prompted both Oxfam and Unilever to challenge their own biases and assumptions. We have assumed that engaging the private sector in a collaborative project can bring about positive change. Through intensive dialogue, Oxfam believes that it has succeeded in raising awareness with Unilever about the potential impacts of their business choices and operations, and that this may help Unilever and others to take into account 'pro-poor' opportunities in the future. Oxfam will continue its critical engagement with companies, as part of a broad range of influencing activities. This includes respecting the choice of others who have decided to stay out of such engagements.

This project has depended on the efforts of very different actors to work together to deepen understanding and identify some potential for real change. We hope that the insights provided will generate enthusiasm for trying to fill the gaps and improve on the methodology that we have begun to develop.

I thank all of our project team colleagues for their energy and commitment to the project. I am particularly grateful to Oxfam's team in Indonesia, and to the Unilever Indonesia team, for their hard work and willingness to welcome this international learning initiative.

Barbara Stocking

Director, Oxfam GB

Foreword: Unilever

The first question asked about this report is: why did you do it? The answer for Unilever is two-fold. First, our business engages in many ways with poor people around the world as producers and consumers. Second, the Millennium and Johannesburg Declarations (2000, 2002) place poverty eradication at the centre of global strategies for sustainable development. To play our part, and support the Declarations, we needed to increase understanding of the impact of the operations of a business like ours on the lives of poor people. Different industries interact in different ways with society. We believed that there were useful lessons to be learned from exploring how industry structure, operating practice, and, indeed, individual company values could, through wealth creation and the provision of goods and services, play a part in sustainable poverty reduction.

Our project partners, Oxfam GB in the UK and in Indonesia, Novib Oxfam Netherlands, and Jason Clay, the report author, brought a new perspective to our operations as we explored our interactions with Indonesian society. They have relentlessly challenged the impacts of the business model, the basis of management data, and the values behind our working practices. We have responded to these challenges step by step, creating in the process a growing body of shared information about our interactions with society, which this report describes. Not unexpectedly, it has not always been possible to reach agreement; where this is the case, the different viewpoints are stated. Nor did we believe that we needed to articulate a defence of all aspects of our business activity. This report offers a joint study of the complex reality of some key aspects of local business operations in a developing country, and the many opportunities that these present to support the development process.

At times it has been hard for our managers to find their values and behaviours subjected to such sceptical scrutiny, and to see their achievements, when operating in a complex business context, so lightly passed over. But as we have worked through the scepticism, there has been a growing realisation of two things: the passionate commitment on both sides; and the fact that, while the organisations have different starting points, both have a contribution to make.

This report is offered, not as an answer, but as a data-rich study of just one (albeit extraordinary) company, Unilever Indonesia, and its interactions with the people, business, and economy of just one (albeit extraordinary) country, Indonesia. It is the product of a learning partnership which demonstrated how much insight can be gained by working together. I hope that the desire to learn in a spirit of goodwill and common endeavour will be extended by the reader to this text, and that it will contribute to a greater understanding of the links between wealth creation and poverty reduction.

I am indebted to my predecessor, Niall FitzGerald, and Oxfam GB Director Barbara Stocking, who together inspired this joint research work, and to Maurits Lalisang and the team in Indonesia, in particular Tonny Pranatadjaja and Unilever Indonesia's former chairman, Nihal Kaviratne, for their unstinting support. I thank the project team in Indonesia, Europe, and the USA, who have worked so tirelessly for the project's success.

Patrick Cescau

Group Chief Executive, Unilever

Executive summary

Introduction

The business activities of multinational companies (MNCs) have an important contribution to make to economic development in developing countries. This contribution is particularly significant because the volume of private capital flows exceeds that of development assistance. International business activities and investments in developing countries have the potential to create positive or negative impacts at several levels for people living in poverty. The extent to which the wealth created by business can reduce poverty is determined by many factors. An industry's operating structure – and the values and strategies of individual companies within it – are critical factors. Likewise, the opportunities open to people living in poverty, and their negotiating power – as citizens, workers, producers, consumers, and community members – are key determinants in the local context.

It was in this context that a collaboration began between a major MNC, Unilever, and a large development and humanitarian organisation, Oxfam – two organisations with very different aims and perspectives. This research project attempted to create a space in which to increase understanding of the impacts of business on the lives of poor people, to inform the poverty-reduction debate. The project was intended to improve understanding among the wider business community, government, civil-society organisations, and academics about the relationship between a multinational business and poverty. As such, it was first and foremost a 'learning' project. The research does not purport to be comprehensive, and its scope is the operations of Unilever Indonesia (UI), not those of Unilever the multinational company.

This research explores to what extent, and how, the wealth generated by the local operating company of a multinational company in a developing country is translated into poverty impacts in one particular country, in this case Indonesia. The research focuses on Unilever Indonesia, the local operating company of Unilever, one of the world's leading fast-moving consumer-goods (FMCG) companies. UI has been active in Indonesia since 1933 (see Box A), and the majority of its goods are produced for the Indonesian market.

Despite its abundant natural and human resources, Indonesia has high levels of poverty, with more than 50 per cent of its population living on less than US$ 2 a day. Poor Indonesians face insecure livelihoods, a lack of access to basic services, limited opportunities for economic advancement, and a lack of power to influence their situation.

To explore the range of potential impacts, the research design was ambitious in scope, covering aspects of UI's entire value chain. Thus the report includes sections on the impacts of UI at the macro-economic level; UI's employment policies and practices; UI's relationships in its value chain from supply through distribution; UI's relationships with poor consumers in the marketplace; and UI's wider impact in the community, on the business sector and government in Indonesia.

Independent research undertaken in mid-2004 was supplemented with data from published documents produced by UI and Unilever, internal management documents used in day-to-day decision making, and information gathered from other sources. The in-depth partnership and joint research reflected here is a valuable addition to the more common corporate social responsibility (CSR) practice of public reporting.

Impacts at the macro-economic level

It is at the macro-economic level that the policies providing the basis for national poverty-reduction strategies are made: employment generation, strong public-sector investment, improved productivity, and macro-economic stability are among the foundations needed for economic development. Given the importance of these foundations, it is important to understand the impacts of foreign direct investment within this context. The macro-economic section of the research considered UI's contributions in terms of distribution of profits, shareholder dividends, taxes, balance of payments, overall employment figures, and behaviour during the financial crisis that began in 1997.

UI, as a part of an MNC but embedded in the local economy of a developing country, has significant forward and backward linkages into the local economy: for example, forward linkages through distribution networks and retailers, and backward linkages to suppliers. The majority of revenues generated by UI remain in Indonesia, through its local sourcing, wages, margins, and dividends to local shareholders (15 per cent of total dividends). Following an earlier period of investment by the parent company, inward investment flows from outside Indonesia were nil in recent years: a result of the profitability of the local business.

Box A: A brief history of Unilever in Indonesia

UI was founded in 1933. By 2003 the company had sales of US$ 984 million, around 84 per cent of which were home and personal care items such as soap powder, household cleaning products, hand soap, and shampoos. Around 16 per cent of sales were accounted for by foods such as tea, margarine, and ice cream. Unilever estimates that at least 95 per cent of Indonesians use one or more UI products each year, and that 90 per cent of poor people in Indonesia buy UI products in the course of a year. UI is ranked as the thirteenth-largest company by sales in Indonesia and the fourth-largest company in the FMCG sector.

For the five-year period beginning in 1999, 25 per cent (US$ 182 million) of UI's total pre-tax profits were retained and reinvested in local business activities. These funds represent an investment in UI's long-term future, as well as an investment in Indonesia's long-term development, particularly in the manufacturing and distribution sectors.

Of the remaining 1999–2003 pre-tax profits, 30 per cent (US$ 215m) went to government as corporation tax, and 45 per cent of profits were paid out as dividends to shareholders, the majority of whom are overseas investors. Excluding exports of tea and palm oil purchased from Indonesia by Unilever centrally, UI contributed to Indonesia's balance-of-payments deficit in this period. Because UI imports inputs and purchases foreign currency for its business operations, and remits dividends to shareholders outside the country (85 per cent), there is a net outflow of funds, showing that even a locally based company like UI with only modest exports can have a negative foreign-exchange impact on the country.

Total taxes paid to the Indonesian government were considerable, averaging about US$ 130 million per year, or about 19 per cent of company revenues over the five-year period. While the ultimate impacts of tax revenues on development and poverty in Indonesia depend on the policy choices of the Indonesian government, it is clear that a company such as UI can represent a substantial source of public revenue, and an early contributor to the development of the formal economy.

UI maintained its operations in Indonesia through the financial crisis of 1997–98, and its behaviour during this time offers an interesting case study. For example, UI adapted its business model to ensure that products remained affordable; renegotiated contracts with suppliers to maintain business for all parties; prioritised the retention of employees; and expanded local operations through joint ventures and acquisitions.

While it is difficult to use macro-economic indicators to measure the direct impact of UI's activities on people living below the poverty line, indirect positive impacts can be assumed in the contributions to government revenue; the stability of UI's value chain in a turbulent economy, with its attendant employment benefits; and an overall business model that is deeply embedded in the Indonesian economy. The potentially negative impact of the outflow of UI funds on people living in poverty in Indonesia was not possible to measure. A deeper understanding of poverty impacts, therefore, requires a more direct analysis of UI's operations and its relationships with employees, suppliers, distributors, retailers, and consumers.

Employment impacts

Many developing countries, including Indonesia, face significant rates of underemployment and unemployment. MNCs can have an impact on employment because of their size and their reach into the local economy. Assessing the impact of employment on poverty is more than a matter of numerical quantification. Although that is an important first step, the assessment also involves ascertaining whether people, through their employment, gain skills and confidence that empower them to build economic security, accumulate assets, and make sustainable improvements in their lives. Much of the debate about corporate social responsibility has focused on the role of MNCs as direct employers. This section of the research considers UI's principles and values, and the extent to which the company takes responsibility for maintaining its standards among its own employees and contract workers.

UI's business structure consists of a core workforce of about 5,000 people, of whom about 60 per cent are employees, most of them permanent, and just under 40 per cent are contract workers, employed directly or through contracting agencies. Beyond this is a well-established network of suppliers, distributors, and retailers which is described in Chapter 4 of this report.

UI sets high standards for the treatment of its permanent employees. It adheres to the Unilever (global) Code of Business Principles. Pay and benefits are above what is required by law, positioning UI in the top quartile of Indonesian companies. In terms of policy and practice, there are high health and safety standards, good retirement and maternity benefits and workplace facilities, and a strong emphasis on training. All UI employees have a written contract, and there are clear procedures for negotiations between workers and management.

The closer and more formally workers are linked with UI's operations, the more they benefit directly from the company. In the period studied (2003/2004), the number of contract workers engaged by UI grew as a proportion of employees, because more workers were needed to cover periods of change at two UI sites. While future trends in contract employment at UI are unclear, Oxfam is concerned that the number of contract workers functioning within UI is significant, at around 40 per cent of the workforce in 2003. Although contract employment is recognised as an integral part of UI's business strategy, the research indicated two respects in which the application of standards needs improvement, on which UI is committed to take action. One of these is the need to ensure that UI's labour-supply companies observe legal requirements concerning the transfer of temporary employees to permanent employment contracts; the other is the need to respond to the concerns raised by a female contract worker that illness or pregnancy could result in loss of employment. These cases illustrated how contracting out employment may reduce a company's ability to monitor the situation of contract workers or suppliers' employees, and thus result in gaps between corporate policy and practice in respect of these workers.

The value chain from supply through distribution

The business operations of a large company like UI are at the centre of a long and complex value chain with both forward and backward linkages. This section of the research aimed to assess the extent to which the producers and suppliers (backward linkages) and distributors and retailers (forward linkages) who are linked to UI through its value chain are able to participate in the benefits of UI's success. The creation of value, income, assets, and employment in itself is not necessarily an indicator of positive impacts for people living in poverty: this depends on how the benefits of the value chain are distributed, which depends in turn on other factors, an important one being their bargaining power within dynamic markets for raw materials and labour.

Supplier companies

UI purchases the majority of goods and services for its business operations through a local supply chain consisting of a large network of more than 300 supplier companies. UI's business model over the past two decades has come to focus on high-volume, high-technology, and high-value-added operations, while other parts of the business became independent operations or were outsourced. In this way, UI was able to expand its business while at the same time building production capacity among independent companies.

In 2003, UI purchased goods and services valued at more than US$ 254 million, mostly from Indonesian companies. Many of these supplier companies were originally set up by UI, and (while direct ties are reduced over time) relationships between them tend to last for many years. Almost all these companies have contracts for 6–12 months. UI has boosted the quality and standards of local manufacturing, through technical assistance programmes and the extension of UI's quality-management systems throughout the supply chain.

UI's investment in local suppliers ensures a steady supply of high-quality inputs for the company, while creating local jobs, assets, profits, and tax revenues. This represents both an ingredient of UI's success and a major economic-multiplier effect of UI's investment.

The major benefit for companies of being in UI's value chain is a predictable market with high volume sales, and UI's reliability in paying them. Yet negotiating prices with UI, and the need to comply with stringent quality requirements, may be challenging for local supplier companies.

The research showed that supplier companies exceed legal regulations governing wages and benefits in Indonesia, but the pay and employment conditions for suppliers' employees and contract workers were lower than the levels among UI's direct workforce. Like UI, supplier companies employ contract workers within their workforce, and this raises some of the same issues that relate to contract workers within UI.

Producers of raw materials

The home and personal-care and food products that UI sells are made from a wide range of industrial and agricultural raw materials, sourced from many different producers, traders, and processors. The small-scale agricultural producers who grow the crops such as coconut, sugar, and black soybeans are among the poorest people in UI's value chain, so changes in their situation can have considerable impacts on their livelihoods. The value generated by the goods that they produce must be shared among a large number of supply-chain actors, of whom they are usually the least powerful. The indirect relationship also makes it difficult for a purchasing company like UI to influence producer conditions.

This research included a case study of the production of a brand that UI had acquired recently: Kecap Bango, a sweet soy sauce made from black soybeans and coconut sugar. Because sales of Kecap Bango are growing rapidly, UI needed to find a steady and consistent supply of high-quality black soybeans. In partnership with researchers at a local university, the company started to work with a small group of producers, offering them three things that they valued: security of market for their product; credit; and technical assistance. In good harvest years the producers also get a better return on investment and labour than they do from other crops that they might grow. Both UI and the producers have benefited from this arrangement, and the number of farmers wanting to participate has grown steadily.

However, there are some problems with the black-soybean pilot scheme, the most important being the fact that the farmers bear a major financial risk within this new contracting arrangement, and the fact that UI's strength as a large company limits farmers' negotiating power. Moreover, the success of farmers selling this 'niche' product cannot be easily replicated if there is not a 'business case' for it. This holds true for crops for which there is greater supply than demand, such as the other ingredient of Kecap Bango: coconut sugar. Still, the case is very useful in increasing understanding of different perspectives and impacts within UI's value chain. Such an understanding, if combined with a search for more business cases that also increase the value-adding potential and hence power of poor producers, could enhance the longer-term trading partnerships between agricultural producers and large companies.

The alternative black-soybean supply chain established by UI removes layers of middlemen, thus creating potential for increasing producers' incomes. In this and other ways, companies or buyers can increase incomes or promote savings among producers. Opportunities to do this include direct purchasing at higher prices, pre-financing production, and direct bargaining on prices between producers (or producer associations) and buyers.

Distributors

UI's complex distribution chain consists of a mixture of wholesalers and 'modern' retailers (self-service stores and supermarkets) and 'traditional' or 'general' retailers and vendors. It extends to small shops, family-owned *warungs* (small sales outlets inside family houses), kiosks, and street hawkers. It is striking that more people are employed, and more value is generated, on the distribution side of the value chain than on the supply side. It is also notable that employment generation in distribution is often overlooked as having a potential contribution to make to economic development.

UI's expansion in marketing small sachets to low-income consumers benefited the company by increasing its overall sales and market penetration, and also increased employment through the distribution system. It is estimated that up to 1.8 million small stores and street vendors sell UI products informally in rural markets and poor urban areas. So even when a product does not have a particularly large impact on employment or income on the supply side, it can still have an impact through distribution. UI's sales also contributed generally to the development of an independent distribution and retail sector in Indonesia.

As with the supply chain, the research indicated that the closer to UI the distributors and modern retailers are in the chain, the more likely they are to be able to negotiate better prices, gain skills and knowledge, enjoy higher pay and better employment conditions, and thus sustainably improve their lives. At the very edge of the formal economy, where poor families run small retail activities that may represent up to 40 per cent of the family income, both incomes and standards of product handling and storage tend to be lower. To an even greater extent than the supply chain, the local multiplier impact of the distribution chain is little understood.

The overall value chain

Overall, the research estimates that the full-time equivalent (FTE) of about 300,000 people make their livelihoods from UI's value chain. Strikingly, more than half of this employment is found in UI's distribution and retail chain, with about one third in the supply chain.

Job creation is only one way to assess the economic impacts of the value chain. Another is to seek a monetary indicator, in this case gross margins along the value chain, as a proxy for the financial value created by each group of participants in the chain. The total value generated along the UI value chain is conservatively estimated at US$ 633 million. Of this, UI earns about US$ 212 million on the value that it creates as a key player in the value chain; the remaining US$ 421 million is distributed among other actors in the chain. The value added within the value chain is even more dispersed than the benefits of employment within the chain.

Direct UI operations account for about 34 per cent of the total value generated throughout the supply chain, while taxes paid to government by UI represent 26 per cent, retail operations about 18 per cent, suppliers about 9 per cent, distributors 6 per cent, farmers about 4 per cent, and advertising and other expenses 3 per cent. The total value captured declines towards either end of the value chain. The value captured by poorer people working at either end of the value chain, especially primary producers at the supply end, is much lower than the value captured by those who are in direct interaction with UI and closer to the centre of UI's value chain. The value captured by those people working at the ends of the value chain increases where they have a stronger negotiating position in relation to their product or service, where value chains are restructured to change the distribution of benefits, or where they can increase the value of their products or services, for example through innovation.

Low-income consumers in the marketplace

International FMCG companies are increasingly reaching out to people living on low incomes around the world. The result is an increase in the worldwide consumer base for MNCs, and an increased use of branded products by people on low incomes. This part of the research reviewed four areas:

- access to UI products, including the types of purchaser, pricing, and market share
- the role of brands in the marketplace
- the role of promotion and advertising
- the extent to which companies like UI are meeting, or creating, needs for poor consumers.

This was a particularly challenging aspect of the overall project, given Oxfam's and Unilever's very different approaches and attitudes to these issues at the outset, and the fast-changing market dynamics that affect a company like UI. The findings are important nevertheless, as lessons for Oxfam and Unilever, and as points of departure for further work in this area by other companies and organisations.

According to UI data, 95 per cent of Indonesians use at least one UI product, across all socio-economic groups. Many of UI's product sales represent basic goods, such as hand soap, laundry products, and tea. People on low incomes tend to spend a larger portion of their income on FMCGs than those with higher incomes. Many of UI's products have become more affordable for people living in poverty in recent years, in part because they are sold in smaller packages, called 'sachets'. While the unit cost is higher, owing to packaging and distribution costs that are reflected in the sale price, this marketing strategy responds to the reality that people on low incomes have limited cash in hand.

The FMCG industry in Indonesia is highly competitive, and within it UI leads in market share in some categories, like toothpaste and hair care, while in other categories, such as powder detergents, local companies lead. UI's recent success is in part based on the expansion of sachet packaging, and the very extensive distribution network for UI products that reaches into all parts of a very large country. UI aims to provide low-income consumers with access to products that are of consistently high quality and value. Moreover, UI's partnerships with a range of producer companies and distributors mean that its expansion supports employment within the local economy.

UI's success and expansion as a company raises questions for Oxfam about whether UI is displacing smaller-scale local producers, ultimately constraining competition in the marketplace, rather than stimulating it. Oxfam endorses the view that a good industrial policy for developing countries includes nurturing the ability of independent small producers to compete successfully with global brands in the local marketplace. Such competition does exist in Indonesian FMCG markets: while UI market share has grown during the period under review, the number of companies in the market has also grown. However, within this project it was difficult to judge the overall balance of market share between international and locally owned businesses across the wide range of product categories provided by the industry. Equally important, Oxfam questions whether companies like UI may be creating rather than meeting needs for poor consumers, and over time turning luxuries into necessities through advertising and promotion.

It was impossible to measure the overall benefit or loss for either poor consumers or small-scale local producers resulting from UI's increasing market share and success within the FMCG industry. What is clear, however, is that other companies learn from UI's marketing strategies, and will have to keep up with it in order to compete successfully within the sector.

Determining impacts on poor consumers through their purchase of UI products, especially trying to compare them with alternative purchases, was equally difficult. Many consumers within each socio-economic group are influenced by the 'image' of a brand. If local non-branded items are becoming less common, how much is this due to marketing and distribution versus better value for money? Given the wide prevalence of both TV and print, responsible standards of advertising and good communication links with people at all socio-economic levels – both of them important aims of UI – are at least two benchmarks for social responsibility.

UI's wider impact in the community

UI's wider impact in the community was briefly considered, in terms of both corporate community involvement and UI's influence on government and the business community more widely. UI invests in a wide range of philanthropic activities, often linked to an aspect of its business expertise. Oxfam and Unilever agree that the greatest potential for pro-poor impacts lies within UI's mainstream operations and value chain. Nonetheless, voluntary community involvement can also provide a positive interaction with society, bringing benefits to communities and directly and indirectly to the business itself.

UI's main influence on other businesses has been among its own business partners, which often support similar activities, and which appear to have adopted UI's practices in other respects, such as health and safety standards. One identifiable area of UI's influence in society was in taking a public stand against corruption, for which UI has been cited by other NGOs.

Conclusions

In concluding the report, Oxfam and Unilever set out what each organisation has learned from the research and from the process of working together. A selection of key lessons learned by each organisation is presented in Boxes B and C. Feedback from our external reference group helped to shape the final report, and some of the group's questions and suggestions are highlighted in Chapter 7. The report concludes with an indication of further topics for research, and some next steps for both Oxfam and Unilever.

In the end, both organisations came to realise that, despite their very different missions and goals, they share a common commitment to contributing to poverty reduction and development. By the end of the project both Oxfam and Unilever were much closer to understanding the limitations and opportunities that determine what companies can and cannot be expected to do to contribute to poverty reduction.

Box B: A selection of Oxfam's lessons from the research

- We learned that our analysis needs to be more alert to the differences between multinational companies. At every point in its value chain, UI's business is highly dependent on Indonesians: as producers, suppliers, employees, contract workers, distributors, retailers, and consumers. UI's business decisions and choices reflect the embedded nature of its operations, favouring a long-term approach to optimising opportunities for business success, and an emphasis on the development of skills and industry within the wider Indonesian economy. As such, UI is very different from some of the traditional targets of CSO campaigning, such as extractive or export-processing industries. These differences have important implications for an understanding of UI's poverty footprint; moreover, an appreciation of them can help us to understand why and how a company like UI might be motivated to study and improve its poverty impacts. Our findings suggest that highly embedded MNCs and large domestic companies might in future provide a focus for useful work on private-sector poverty impacts and poverty-reduction strategies. While there is an increasing number of corporate social responsibility measures in place, there is nothing that allows companies to conduct a systematic assessment of their positive and negative contributions to poverty reduction throughout the value chain. This project has increased our understanding of UI's poverty footprint in Indonesia. It also provides the company with some insights into how they can increase their overall contribution to poverty reduction and perhaps eventually develop a 'pro-poor' policy. This is a powerful concept, which may be useful for engagement with other companies.
- We have gained a better understanding of the potential of distribution chains to generate employment and income. Our research found that for every direct employee there were many more jobs in distribution chains. For NGOs currently focusing their efforts on improving conditions for producers and other workers within supply chains, the research shows that it may also be valuable to analyse MNC policies towards the distribution and retail aspect of their value chains.
- However, as a result of this project, it became clearer that participation in value chains alone does not guarantee improvements in the living conditions of poor people. This reinforced our belief that 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, as well as diversification of income streams, to avoid dependency on any single company or market.
- We also learned how difficult it is to reach a specific definition of what constitutes 'fair practice' by companies. This issue is not as clearly defined as we would like it to be. For example, despite international definitions of 'a living wage' and how to calculate it, and despite the national definition of a legal minimum wage, it remains difficult to judge the appropriateness of MNC wage levels within a given context. For example, how much above the legally required minimum wage is it appropriate for an MNC to pay? And to what extent can the same policies be encouraged for an MNC's suppliers and contractors? Similarly we debated, but did not resolve, the concept of a 'fair price' and the question of how much expenditure on advertising is appropriate as a proportion of consumer prices.

Box C: A selection of Unilever's lessons from the research

- The primary lesson for us is the insight that we gained into the extent of the widespread 'job' multiplier in UI's total value chain. While admittedly the FTE calculations in this report are estimates, the findings nonetheless point to the potential use of value-chain policies as a tool in sustainable poverty reduction. As such it will be useful to share the insights of the FMCG value-chain multiplier, and the opportunities that it offers, with all those concerned with poverty-reduction strategies.
- The spread of value-adding activity throughout the value chain creates a broad tax base. A predictable tax base is essential for the development of the formal economy on which the government can build, and finance, its social and environmental programmes. This report addresses only the direct taxes paid by UI to the Indonesian government. Further research could explore the scale of taxes paid by the many players involved in an FMCG value chain, including both companies and individual workers.
- FMCG value chains can offer poor people an opportunity to gain basic skills within a structured learning environment and earn incremental, regular income. Although imperfect, these opportunities in turn may be the first steps towards accumulating assets, increasing independence, and improving quality of life. Oxfam has pointed out that there may be negative impacts for poor people who participate in FMCG value chains, such as poor working terms and conditions, or debt and financing difficulties. These are matters that need particular care and attention. Government, businesses, and civil-society organisations can each play a part in helping to gain the best outcomes for poor people.
- Even where there is a shared appreciation of the benefits of an alternative supply chain, as in the black-soybean project, it is recognised that there are constraints and limitations on the viability of the model, and doubts about whether the model itself represents the answer to the problems of poor farmers. Where it can, Unilever will continue to work with a wide range of partners, including NGOs, to seek better, sustainable practices to reduce negative social and environmental impacts in the production of the agricultural crops that it purchases.
- A persistent focus on the position of the individual living in poverty – whether man, woman, or child – is essential for developing sustainable poverty-reduction strategies. Oxfam held the line on this matter throughout the project, and the Unilever team acknowledged its importance. For a company like UI which interacts with people living in poverty, this mindset and the feedback that it creates offer an opportunity to increase the positive impacts of its activities and reduce the negative impacts. It also indicates that while a company has an important 'product-delivering, wealth-creating, skills-transferring' role, it is only one participant alongside other businesses, governments, international institutions, and civil-society organisations in the drive for sustainable poverty reduction. For optimum impact, a concerted effort is required.