

CONTENTS

EXE	CUTIVE SUMMARY	1
1	INTRODUCTION & OBJECTIVES	3
2	MODEL DESCRIPTION	3
2.1	MODELLING APPROACH	3
2.2	SOCIAL ACCOUNTING MATRIX	4
2.3	ASSUMPTIONS	5
3	NILE BREWERIES & THE UGANDA ECONOMY	6
3.1	ECONOMIC OVERVIEW	6
4	NILE BREWERIES' CURRENT ECONOMIC IMPACT	7
4.1	HOUSEHOLD INCOME, WAGES, AND GOVERNMENT TAXES	7
4.2	EMPLOYMENT GENERATION	7
4.3	BALANCE OF PAYMENTS	8
5	NILE BREWERIES & THE COMMUNITY	9
5.1	THE EAGLE LAGER PROJECT	9
6	NILE BREWERIES & THE ENVIRONMENT	10
7	NILE BREWERIES' SCENARIO ANALYSES	11
7.1	COMPARISON WITH IMPORT-ONLY BEERS	11
7.2	OTHER POSSIBLE SCENARIOS	11
8	CERVECERÍA HONDUREÑA & THE HONDURAN ECONOMY	12
8.1	ECONOMIC OVERVIEW	12
9	CERVECERÍA HONDUREÑA'S CURRENT ECONOMIC IMPACT	13
9.1	HOUSEHOLD INCOME, WAGES, AND GOVERNMENT TAXES	13
9.2	EMPLOYMENT GENERATION	14
9.3	BALANCE OF PAYMENTS	14
10	CERVECERÍA HONDUREÑA & THE COMMUNITY	15
11	CERVECERÍA HONDUREÑA'S SCENARIO ANALYSES	16
	COMPARISON WITH IMPORT-ONLY BEERS AND SOFT DRINKS	16
11.2	OTHER POSSIBLE SCENARIOS	17
12	CONCLUSIONS & RECOMMENDATIONS	17

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CERVECERÍA HONDUREÑA

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EXECUTIVE SUMMARY

The central purpose of this Report is to assess the socio-economic impact or footprint of two SABMiller operating companies: Nile Breweries (NB) in Uganda, and Cervecería Hondureña (CH) in Honduras. NB, which became a subsidiary of SABMiller PLC in 2001, has been operating in Uganda since 1956, when it was established by the Madhvani Group. Today it ranks among the two largest breweries in the country whose brands dominate the marketplace (the other being Uganda Breweries (UB), a subsidiary of Diageo, which has a slightly larger market share, while a third brewer, Parambot, holds a much smaller market position). Although a tiny brewer by global standards (NB operates a single brewery in Jinja, near the source of the Nile River), the international renown of NB is attested to by the awards the **100 JOBS**

company and its products have

received from professional brewery

associations around the world.

ECONOMY FOR EVERY JOB AT For its part, CH is both a brewer -NILE BREWERIES enjoying a near monopoly in Honduras's relatively small beer market - and the local Coca Cola franchise bottler; indeed, carbonated soft drinks (CSDs) are responsible for about 60% of total revenues. Like NB, it has deep roots in its marketplace, and CH's internal history states that the company's distant origins are found at the turn of the 20th century. It also operates a single brewery, with its water drawn from the deep aquifers found in and around San Pedro Sula.

In this report the issue of NB's and CH's socio-economic impacts or footprints is examined using both quantitative and qualitative analysis. From an economic standpoint, the Input-Output (I-O) tables (and the related Social Accounting Matrix (SAM)) of Uganda and Honduras are used to generate estimates of NB's and CH's direct, indirect, and induced impacts on such variables as private sector investment, household incomes, employment, and government revenues.

The direct impacts generated by these companies are those felt by their immediate suppliers (distribution and retail) and their employees due to the companies' purchases of goods and services from them; the indirect impacts are those felt by its suppliers of inputs and their suppliers' owing to the orders they receive; and the induced impacts incorporate the overall demand for goods and services made by the employees of NB and CH, their suppliers, and their suppliers' suppliers based on their consumption expenditures out of wages paid.

This analysis shows that, in 2007, NB and its employees were directly or indirectly responsible for generating value added of USD 92M (including USD 76M generated by NB itself) and, in the process, the company supported approximately 44,000 jobs throughout the Ugandan economy. For every job directly based at NB, therefore, approximately a hundred farmers and workers depended upon the company for some part of their livelihood. CH, in contrast, generated value added of USD 405M (including USD 389.5M generated by CH itself). The total impact of CH's presence, in contrast, generates approximately 100,000 jobs, for a job multiplier of about thirty-three times. This reflects the differences in the structures of each economy and also the intensive use of local agriculture in the Uganda case.

The Report shows that, for both companies, many of these jobs are located in the retail trade sector of the economy

i.e. the network of distributors, wholesalers

and retailers that NB and CH depend upon to get their products to the consumer. Agriculture is also a major beneficiary, and it has become increasingly linked to NB in particular through the company's commitment to using local sorghum and barley for its beers; this trend is expected to SUPPORTED IN THE UGANDAN grow among the members of the SABMiller family of companies, where these are available, and indeed CH is studying the use of more local inputs. Similarly, many of the jobs that are associated with NB and CH are

> located throughout the domestic supply chains in each country, which suggests that maintaining the competitiveness of local suppliers is absolutely essential from the perspective of employment and income generation. NB also sources 70% of its supplies from outside the Ugandan economy, including such items as glass bottles from Kenya, while CH sources 55% from outside Honduras, including all the maltose used in the brewing process.

> NB and CH are responsible for a number of other important economic effects as well. The direct, indirect, and induced effects of NB operations on government tax revenues, for example, total some USD 55M (of which USD 28M directly is paid by NB), making the company Uganda's fourth largest tax payer, a fact made all the more significant when one considers that much of the country's economic activity remains in the informal or non-taxpaying sector. CH pays USD 68M directly in taxes and is among the country's top five tax payers. In addition, the total effects of CH on government tax revenues amount to USD 157M.

Beyond the quantitative, economic analysis, the report provides an overview of some of the broader social and environmental impacts of NB and CH, both in their operations and along their value chain. In particular, it focuses on the effects of NB's Eagle Lager project, made from local sorghum, on Ugandan farmers, and on CH's role in promoting human capital formation through its support for the Polytechnic Institute of Central America (IPC), based in San Pedro Sula. CH also makes important environmental contributions to the Honduran economy, and it anticipates becoming the first company in the SABMiller family to receive carbon credits for capturing and then using methane gas. These 'development projects' showcase the role that multinational firms can play in bolstering local economies.

As employers, NB and CH pay wages and provide compre-

hensive benefits that include medical care (including for HIV/AIDS) and a private pension scheme. The companies also offer extensive amounts of training for their own workers. In the case of NB, the cost of this training was equal to nearly 1% of turnover in 2007. The quality of the training that NB provides is demonstrated in part by the fact that its employees are sometimes lured away by its competitors; this is less of a 'problem' for CH, were employees rarely leave the firm. Where this presents retention challenges to NB, it could be viewed as a positive for the Ugandan economy as a whole, since local firms - that may

not have the capacity to provide

extensive training programmes -

essentially benefit from the invest-

ment that NB makes in its workers.

Both NB and CH further influence the economies and social well-being in the countries in which they operate through a broad range of Corporate Social Investment (CSI). NB's CSI programmes have had a particular emphasis on health care, specifically meeting the challenges of HIV/AIDS in the community. The company has also invested in HIV/AIDS care for employees and 'responsible alcohol consumption campaigns' - both of which are over and above CSI. Spending on Corporate Social Investment amounts to nearly 1% of corporate pre-tax profits. CH similarly places a heavy emphasis on 'responsible drinking' campaigns - particularly during the Christmas and Easter holiday seasons when beer consumption increases - but many of its CSI programmes are focused on tackling environmental problems in Honduras, to ensure that the country's great beauty is preserved for future generations. The total CSI of CH amounts to USD 350,000.

Of great importance to their local economies, NB has been instrumental in promoting the development of indigenous sorghum farming by introducing a sorghum-based clear beer, Eagle Lager, while CH has supported the Polytechnic Institute of Central America since its inception. In

Uganda, the sorghum beer project has guaranteed the income of several thousand farmers and their dependants. Now, NB is extending local production to barley increasing its local supply base. These activities add tremendous value to the Ugandan economy. Indeed, NB provides, in important respects, a model of how the subsidiary of a multinational firm can operate in such a way as to promote the development prospects of the economy in which it is embedded.

For its part, CH - in partnership with a few other multinational firms operating in Honduras, mainly in the textile or maquila sector - has played a leading role in supporting technical training through IPC, greatly augmenting human capital formation in Honduras. Like many developing countries, Honduras is experiencing a 'youth bulge' in its population, and the fate of this group will play a significant role in determining the country's future. Recognizing the poor quality of education and technical training in Honduras, CH and its partners took the matter in hand by creating, from scratch, a cutting-edge vocational training institution. The quality of this institution is such that CH now outsources most

> of its own internal technical training to IPC, and it has hired many students who have graduated with their one-year diplomas.

> > This Report also suggests a number of ways in which NB, CH and the SABMiller parent company could be even more supportive of the Ugandan and Honduran economies.

First, in both cases, work closely with the agricultural community to ensure that it has the technical capacity, financial resources, and market access needed

for increased farm incomes; CH in particular should explore using more local inputs to its beer production;

Second, and related, work with private sector associations to ensure that environmental policy becomes a priority for each nation, with the objective of making their natural resource endowments sustainable over the long run;

Third, continue to invest in training which gives high returns in terms of increased productivity;

Fourth, work with suppliers to ensure that Ugandan and Honduran companies remain competitive;

Fifth, as a major taxpayer, assist local governments in setting optimal taxes by providing fact-based reports that go beyond fiscal receipts and that indicate the impact of different tax regimes on such variables as incomes and employment.

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THE HONDURAN ECONOMY

SECTION 1: INTRODUCTION & OBJECTIVES

SECTION 2: MODEL DESCRIPTION

Between September 2008 and April 2009, a study was carried out by Professor Ethan B. Kapstein of INSEAD (Fontainebleau, France), in co-operation with Dr. René Kim and Msc. Willem Ruster of Triple Value Consultants (The Hague, The Netherlands), to assess the impact of Nile Breweries (NB) on the economy of Uganda, and of Cervecería Hondureña (CH) on the economy of Honduras. NB is the second largest brewer in Uganda and is a subsidiary of SABMiller PLC. Its major brands include Nile Special, Club, and a sorghum beer brewed with locally grown raw materials, Eagle Lager, CH, which is also a SABMiller subsidiary, dominates the beer market in Honduras and it is also the Coca Cola franchise bottler for the country; indeed, sales of carbonated soft drinks (CSDs) are greater than beer sales in terms of corporate revenues.

In 2007 (the 'base year' for this report) NB had sales of USD 85.7M and employed 330 people; it provided an additional 100 jobs in casual or temporary labour. The total value added that the company contributed constituted nearly USD 92M or 0.8% of GDP. Of great importance to the government, the USD 28M paid in taxes made NB the country's fourth largest tax payer. Because of its size, NB has a significant impact on many sectors of the national economy.

For its part, CH had sales of USD 389M in 2007 and employed 3,122 people. The impact of the company on value added was equal to USD 406M or 3.1% of GDP. CH also paid USD 68M in taxes and is among the top five taxpayers in Honduras. As a consequence, the company is an important actor in the Honduran economy.

Until now, no quantitative estimation of the footprint of these companies, making use of Input-Output tables and national data, was available. The objective of this study is to quantify NB's and CH's socio-economic impacts in order to enable management, government and other stake-holders to:

- Analyse the broader socio-economic impact of the company's decisions;
- ii. Engage in dialogue about corporate and government policies based on facts derived from corporate data and official statistics.

In order to meet these objectives an economic model has been formulated. The model essentially makes use of input-output analysis. The economic model is introduced in Section 2; Section 3 briefly describes NB in the Ugandan context; Section 4 contains an overview of NB's economic impact; Section 5 deals with NB and its community efforts; Section 6 covers NB's environmental policies; while the results of some scenario analyses are presented in Section 7. Section 8 describes CH's role in the Honduran context; Section 9 consists of the results of CH's current economic impact; Section 10 contains an overview of CH's community efforts; and Section 11 presents the results of CH's scenario analysis. The final section presents the conclusions.

2.1 MODELLING APPROACH

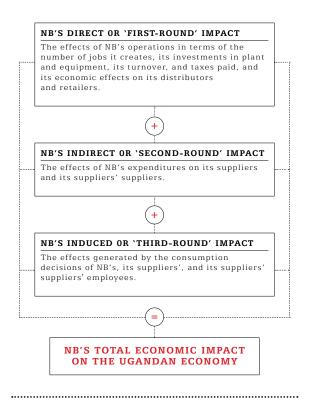
The model that was developed for this study combines the distribution of NB's and CH's revenues over its various financial stakeholders (e.g. suppliers, employees, government, etc) with an Input-Output description of the Ugandan and Honduran economies. Input-Output analysis considers inter-industry relations in an economy, depicting how the output of one industry flows toward another industry where it serves as an input; as a consequence, we trace economic interdependencies among producers of goods and services, or how one industry depends upon another both as customer of output and as supplier of inputs. Fundamentally, what the input-output table does is to reconcile what goes into an economy with what emerges from it.

Suppose, for example, that the single output of the Ugandan economy is beer. In order to produce beer, the economy requires inputs like labour and capital, along with raw materials like barley or sorghum. The difference between the cost of the inputs and the price of the outputs indicates the 'value added' that is associated with the brewing of beer. 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. These tables help governments think about how the most value-added can be generated, given the inputs that are available to the nation.

The Social Accounting Matrix (or SAM) that is related to the I-O tables, in turn, examines the national accounts in a more disaggregated fashion to determine, *inter alia*, how incomes and employment are *distributed* among different industries, regions, social groups, and households. For example, brewing takes place in certain regions of Uganda and uses a mix of different types of labour: managerial, skilled, semi-skilled, and unskilled. The suppliers to the brewery, including farmers, 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; more on this below.

As Figure 1.1 (see page 4) suggests, the central purpose of this report is to trace and measure the effects of NB's operations on the Ugandan economy, and of CH's operations in Honduras. Thus, when NB, for example, places orders with suppliers or delivers its products to wholesalers, these companies will generate revenues and will pay wages to their workers. These suppliers may have to invest in additional capacity owing to NB's orders, leading them to make purchases from a variety of local, Ugandan industries. In parallel, the workers who are directly and indirectly employed by NB 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

FIGURE 1.1: MEASURING SABMILLER'S ECONOMIC IMPACT: THE EXAMPLE OF NILE BREWERIES IN UGANDA



all these effects on the broader Ugandan and Honduran economies.

It is also important to note some of the shortcomings of the I-O/SAM methodology:

- First, reports of this kind are 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 2007) of a company's economic activities. If one is interested in time-series research or in tracking how the major variables under study have changed, the data can be useful but only with certain caveats. For example, I-O data generally do not account very well for technological change since 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. (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 NB, 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 firms 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. 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. Given NB's and CH's desire to understand their broad socio-economic impact or 'footprint,' this approach seems to have particular relevance. In particular, this framework focuses on the financial and economic impacts of a company's investment and ongoing operations within a national setting, and should give a 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 NB, and also the potential vulnerabilities with respect to future employment and income generation that might exist should, for example, certain types of suppliers lose their competitiveness.

2.2 SOCIAL ACCOUNTING MATRIX

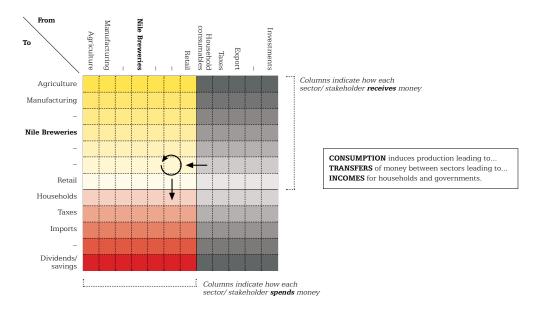
As already noted, the key ingredient of the model used in this report is the so-called Social Accounting Matrix (SAM). The SAM represents flows of all economic transactions that take place within the Ugandan economy. It is a statistical and static¹ representation of the economic and social structure of Uganda in 2007. As shown in Exhibit 1, SAMs are square (number of columns and rows are equal) because all sectors or stakeholders (industry sectors, households, government and the foreign sector) are both buyers and sellers. Columns represent buyers (expenditures) and rows represent sellers (receipts).

Of the four quadrants in a SAM, three are relevant here. Final *consumption* induces production which leads to money *transfers* between the various sectors which subsequently generate *incomes* for households, governments (taxes) and profits (dividends and savings)².

¹ SAMs are formulated for a specific year. Since economies are subject to change, a SAM needs to be updated perodically.

² Dividends paid by NB to its shareholders have not been included in the model

EXHIBIT 1: I-O/SAM TABLE STRUCTURE



For Uganda, the most recent SAM dates back to 2001. and, as such, the 'coefficients' associated with the company's economic activities reflect that data-set; however, it is likely that the structure of the Uganda economy has changed somewhat since that time, though we have no data, for example, on changes in capitallabour substitution. As is indicated in Exhibit 1, NB can be included in the SAM by adding a row and a column. The column is NB's re-aggregated cash-flow statement. The row is left entirely blank except for the fraction of final beer consumption that flows into NB. In that sense, beer consumption has been made an exogenous variable. For Honduras, the most recent SAM of the region Honduras, El Salvador and Belize is used and dates to 2004. This SAM is converted to a Honduras SAM using the Honduran national accounts of 2005.

The last step in constructing the SAM is to normalize it such that all columns add up to one. After that, the final beer consumption can be traced in money terms throughout the economy. In doing so, the total economic effect related to the presence of NB (or CH) can be subdivided into three effects:

- i. Direct effects: effects directly related to spending by the local companies (e.g. jobs and salaries provided by NB and CH). Included in the direct effects are distribution and retail operations;³
- ii. Indirect effects: effects due to companies in the NB and CH value chains re-spending the money that originated from the breweries (e.g. jobs and salaries provided by suppliers);
- iii. Induced effects: effects due to the increased expenditures of households due to increasing incomes generated by the direct and indirect effects.

2.3 ASSUMPTIONS

The main assumption in the model described above, especially regarding the induced effects, is that inputoutput analysis implicitly assumes that an increase in demand can be met by an increase of production at constant prices in all affected sectors of the economy. In reality, however, there are sectors that will not 'feel' the effect of an increased demand for beer and therefore will not experience an increase of production (distributors, for example, may currently have excess capacity in their truck fleet). Alternatively, there can also be sectors that are unable to increase production at constant prices because of shortages in, for example, labour. The latter possibility is not deemed too restrictive since labour (especially if it is unskilled) is abundant in both Uganda and Honduras⁴. The former possibility is very realistic – not all sectors will experience an increase in production due to an increase in final beer demand. Since most households are farmers as well, this auto-consumption is unlikely to be affected by an increase (or decrease) in beer consumption. In the model this has been incorporated by eliminating from the model all household expenditures on food crops and live stock. Whereas normally induced effects can be significantly overestimated, this approach leads to a much more robust and realistic estimation of them, without the need for a very data-intensive General Computable Equilibrium model.

³ Since the money of the end customer first 'passes' through the hands of the retailer and/or the distributor these steps are included in the direct effects.

⁴ Although according to the data of the Uganda Bureau of Statistics unemployment is quite low (1.9% in 2005/2006), 12% of the population is underemployed; in Honduras, in contrast, unemployment is near 30%.

SECTION 3: NILE BREWERIES G THE UGANDAN ECONOMY

NB was founded near the source of the Nile River in Jinja in 1952 by the Madhvani Group, and the first bottles of Nile Beer (now Nile Special) hit the market in 1956. The Madhvani Group was seriously impacted by the political and economic turmoil associated with the reign of Idi Amin (1971-1979), and for many years it was forced to abandon its economic interests within the country. Although a relative degree of stability has existed in Uganda since President Yoweri Museveni seized power in 1986, the Group eventually decided to sell its interest in NB and in 2001 the brewery was fully acquired by SABMiller PLC.

3.1 ECONOMIC OVERVIEW

Uganda has been considered by the international financial institutions as one of the economic stars in sub-Saharan Africa (SSA) since the 1990s (see Table 3.1 for some basic statistics). Its average economic growth rate of 7.5% per annum between 1990-2007 seems like the kind of number that economists associate more with East Asia than with Africa, and during this time poverty dropped from over 50% of the population to a level of approximately one-third today. Uganda has also enjoyed higher levels of growth than the rest of SSA on average (see Figure 3.1), a record that is made all the more impressive when one considers the devastation that had been wrought by the economically disastrous regimes of Idi Amin and then Milton Obote (1980-1985). Indeed, per capita GDP was at its lowest point since independence (from the UK in 1962) when President Museveni came to power.

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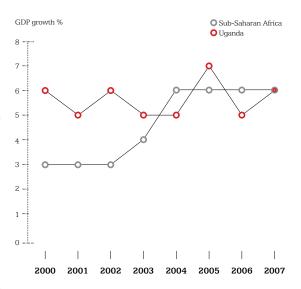
TABLE 3.1: A SNAPSHOT OF UGANDA IN 2007 (USD)

GDP PPP	USD 29.1BN
GDP (official exchange rate)	USD 11.23BN
GDP growth	6%
GDP per capita	USD 350
GDP by sector	Agriculture 30%
	Industry 25%
	Services 45%
Labour force	14M
By occupation	Agriculture 82%
	Industry 5%
	Services 13%
Pop in poverty	35%
Investment	25% GDP
Inflation	6%
HIV/AIDS rate	4.1%
Pop HIV/AIDS	530,000
AIDS deaths	78,000
Infant mortality	66/1000 births
Life expectancy	52

......

Source: CIA World Factbook

FIGURE 3.1: GDP GROWTH IN SUB-SAHARAN AFRICA AND UGANDA,



During the past 15 years, the structure of the Ugandan economy has also changed considerably. Whereas agriculture had traditionally occupied the largest share of the economy – and coffee today remains the single largest export item – services have now emerged as the nation's biggest sector in terms of share of GDP (though not employment). The share of industry in the economy has also doubled from 12% in 1990 to 24% by 2006.

.....

Still, Uganda's road to industrialization is proving long, and identifying the impediments to industrial growth has become a central concern of the government in Kampala along with the World Bank and International Monetary Fund (IMF). Among the chief barriers appear to be a shortage of credit, an exchange rate that has often been overvalued, poor infrastructure, and perhaps tax policies that discourage formalization and thus heavy capital investments. Uganda is also an aid-dependent economy and critics often charge that foreign aid creates something akin to a 'Dutch Disease' phenomenon, in which productive effort goes into capturing aid rents rather than into growing businesses. Observers have noted that despite large aid flows, and despite its inclusion in the Highly Indebted Poor Countries (HIPC) debt relief programme of the IMF and Paris Club, Uganda has not shown any major changes in the World Bank governance indicators since 1996. Certainly, better governance remains an ongoing challenge for Uganda as it continues to grow and modernize its economy.

SECTION 4: NILE BREWERIES' CURRENT ECONOMIC IMPACT

In this report an input-output model, as described in a previous section, has been applied to determine the economic impact of NB. This section reports on the major results. First NB's impact on value added (incomes and taxes) within Uganda is discussed. The employment generated by NB, and the company's impact on income distribution, is discussed subsequently. We leave to the following section the discussion of NB's impact on its community, where we focus on the Eagle Lager project and its influence on sorghum farmers.

4.1 HOUSEHOLD INCOME, WAGES, AND GOVERNMENT TAXES

NB's value added consists of three components: salaries paid to households; taxes paid to the government; and company profits, household savings and dividends. Each of these components is made up of direct, indirect and induced effects, described in Section 2. As is shown in Exhibit 3, NB's presence generates USD 92M in value added for the Ugandan economy. Of this, USD 76M (83%) comes from direct effects⁵ and USD 17M (17%) from indirect and induced effects. Of the three components of value added, tax income is the biggest with USD 55M. Of all taxes, 94% are direct taxes generated by the sale of NB products and 80% of this is paid directly by NB (in total USD 42M).

In terms of household income, NB contributes to the Ugandan economy through the wages it pays its workers and through the wages that its suppliers receive. Focusing on NB itself, the company's average wages for the lowest paid workers are many times the Ugandan average. In 2007, the minimum wage for the lowest salary grade was UGX 449,133 a month, which equals about USD 264. The lowest salary (including benefits) paid by NB is at UGX 883,835 almost twice as high (given Ugandan per capita income of USD 350 per annum, one can see the important difference). Indeed, when dependants are taken into account, no NB worker falls below the Uganda poverty line.

In addition to wages paid, NB workers – all of whom are unionized at the shop floor level – receive an array of benefits from the company, including: access to free medical treatment; maternity and paternity leave; and participation in the company's pension scheme (workers retire from NB at age 55). The fact that NB suffers very little turnover (less than 10% of the workforce) suggests that its wages and benefits are competitive in the Ugandan context. The average time that employees have been with NB is almost 10 years. Further evidence of NB's attractiveness is suggested by the scores of applications that the firm receives for each available position. Finally, it should be noted that in 2004 and 2005 NB was voted 'Best Employer of the Year' in Uganda.

EXHIBIT 2: NB'S IMPACT ON HOUSEHOLD INCOME (IN USD M)

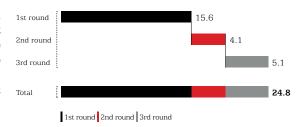
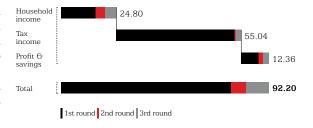


EXHIBIT 3: NB'S IMPACT ON VALUE ADDED (IN USD M)



Further, NB provides its workers with extensive training opportunities. Every single employee is entitled to 5 training days per year, though currently the company estimates that employees received in 2007 an average of nearly 8 days. This training varies from technical specialities like qualification as a 'master brewer' to more general managerial topics like 'problem-solving' and 'performance management'. The training is provided by in-house staff, by managers from the SABMiller Group, and by outside consultants. The training budget of USD 190,000 is equivalent to almost 1% of turnover.

It is important to stress that this investment in training yields both 'public' as well as 'private' benefits. For example, to the extent that NB training makes a worker more productive, and that worker eventually leaves NB for another firm in Uganda, the other firm will have received the benefits of NB's investments. NB thus contributes to human capital formation within Uganda, and in so doing contributes to the country's capacity for sustained economic growth.

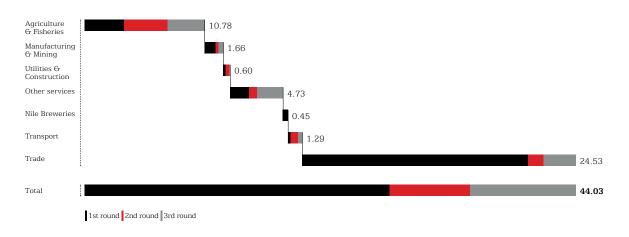
4.2 EMPLOYMENT GENERATION

The Uganda Bureau of Statistics (UBOS) conducts labour and household income surveys of the Ugandan economy. These surveys provide information about the sectors in which people are employed. Together with the size of the labour population of 10.9M people, this leads to an estimation of the employment per sector and, in combination with the output per sector from the SAM, the employment intensity (number of jobs per USD X of output) can be determined.

⁵ As was discussed before, these include the distribution and retail parts of the value chain.



EXHIBIT 5: NB'S IMPACT ON EMPLOYMENT PER SECTOR (IN '000 JOBS)



Using the model results of industrial output (corresponding with the 'transfers' quadrant in Exhibit 1) and the employment intensities per sector, the employment generated by NB, both in the direct value chain as well as in the broader economy, can be computed. The results are shown in Exhibit 4. As can be seen, NB provides employment directly for 430 people. In the direct value chain (from farmers supplying sorghum until small retailers selling the final product) another 27,000 jobs are provided. This brings the value chain employment multiplier to 60, i.e. for every job within NB a total of 60 jobs are supported in the value chain.

Because companies in the NB value chain also provide indirect employment and the additional spending of households provides induced employment, the total amount of jobs that are generated by NB's presence is over 44,000. This implies an overall employment multiplier of 100.

Employment generation in the value chain is unevenly distributed. This is shown in Exhibit 5. The bulk of the jobs are associated with distribution, in the retail G transport and recreation (e.g. bars) sectors. These numbers compare well with the estimations of 20,000 jobs made together with the operations manager of NB. The more than 10,000 jobs in agriculture compare very well with the 8,000 nearly *full-time* jobs that participate in NB's sorghum project.

4.3 BALANCE OF PAYMENTS

NB is not 'self-sufficient' in beer production and distribution. It imports raw materials and bottles from overseas, and exports some of its output to neighbouring countries. Exhibit 6 shows that NB's net impact on Uganda's balance of payments is USD -28M, since it imports about USD 40M of inputs and exports about USD 12M of beer. Should the political situation improve in the countries that border Uganda (Sudan, Rwanda, Democratic Republic of Congo, Kenya), it may be hoped that NB will be able to increase its beer exports.

SECTION 5: NILE BREWERIES & THE COMMUNITY



NB is well-known in Uganda for its forward-looking corporate social investment (CSI), and in 2006 it was recognized by the Uganda Manufacturers Association for 'best practice in corporate social responsibility' for its ongoing programmes targeted at HIV/AIDS. The company spent about USD 50,000 on CSI projects in 2007, equal to somewhat less than 1% of turnover. These projects included environmental protection via the planting of tree seedlings, health care with a focus on HIV/AIDS prevention and cure (done in collaboration with USAID), and entrepreneurship development targeted at sorghum farmers: more on this below. **11,600 TONNES** These CSI activities seem to be well-targeted and consistent with

broader concerns within Uganda.

1.600 TONNES IN 2002 NB's attention to health care deserves special mention. Working in collaboration with the USAID-sponsored Health Initiatives for the Private Sector (HIPS) programme, NB has committed itself to designing and implementing comprehensive workplace programmes in the area of HIV/AIDS, Tuberculosis, Malaria, and Reproductive Health and Family Planning over and above conventional CSI. Notably, NB's clinic is now certified for the testing and treatment of HIV/ AIDS, and for providing education about the disease, and these services are open to families of NB workers and to the local community. Further, working with HIPS, NB has extended these same health services to its suppliers, including wholesalers (who rely on long-distance truckers, an activity closely identified with the geographic spread of AIDS) and farmers. While Uganda has been considered reasonably successful by African standards in its confrontation with HIV/AIDS, continued vigilance by both the public and private sectors is essential to its further containment.

5.1 THE EAGLE LAGER PROJECT

NB's largest impact on its community, however, lies outside its formal CSI programmes. Since 2002, the company has championed the introduction of a beer



- 1. Eagle Lager the sorghum based beer that offers an affordable product to low-income consumers.
- 2. HIV/AIDS education of smallholder farmers undertaken by Nile Breweries

- Eagle Lager - made exclusively from local raw materials, in this case sorghum. Indeed, Eagle was the first sorghum 'clear beer' introduced in the Uganda market by a leading brewery, though of course 'traditional' beers continue to be brewed informally, many with questionable health effects. The purpose of Eagle was to provide low-income consumers with a safe product that uses home-grown agriculture, and today this one brand is responsible for 50% of NB sales.

NB's sorghum project was carried out in close consultation with the government of Uganda, in line with two major initiatives: the Plan for the Modernization of Agriculture (PMA), and the Poverty Eradication Action

> Plan (PEAP), whose objective is to bring Uganda into line with the United Nations' Millennium Development Goals. In return for making intensive use of local agriculture – today, some 8,000 farmers earn close to 70% of their income by growing sorghum for NB - the government allowed a zero excise tax rate on Eagle from 2002-2003 and a preferential rate of 20% beginning in July 2003, versus the 60% excise tax applied to malt beer (which tends to use

imported barley; more on this below). When the Eagle project was launched in 2002, NB's initial demand for sorghum amounted to

Based on the success of the Eagle project, NB is now beginning to grow local barley, which of course is an essential ingredient for malt-based beers. While Uganda as a whole does not present the topography for large-scale barley production, parts of the country are high enough that barley farming is possible. Given the right incentives, NB believes that a significant share - if not all of its barley - could be produced locally, which of course would represent a major new investment for the country.

1,600 tonnes; by 2007, demand reached 11,600 tonnes. During that time farmer income has increased from UGX500M to UGX 3.6BN. Further, NB provides farmers with a guaranteed minimum price for their sorghum, providing them with an important 'insurance policy' in the face of significant commodity price volatility. Thus, while farmers today are tempted to move into such bio-fuel related crops as corn and sugar, the guaranteed price offered by sorghum means that at least some farmers will hedge their bets by continuing to grow that crop.

NILE BREWERIES' DEMAND FOR

LOCAL SORGHUM UP FROM

SECTION 6: NILE BREWERIES G THE ENVIRONMENT







Smallholder sorghum farmer checking his crop prior to harvest.

Following the 1992 Earth Summit, Uganda began to recognize the importance of environmental policy for sustainable development, and by 1994 it had passed a National Environment Action Plan. That plan entails annual reports on the state of the Uganda environment along with policy recommendations for the various ministries that have some environmental oversight. Environmental policy within Uganda is coordinated by the National Environment Management Agency.

Perhaps the first step that the government has had to take in making environmental policy a priority is to educate Ugandans at all levels of the importance of the environment and of natural resources to the country's economic (and social) well-being. Uganda remains a largely agricultural economy, and fishing from Lake Victoria (along with smaller fisheries in other lakes) provides another important source of income for the country. Tourist arrivals depend largely on the possibility of seeing wildlife, including some of the rare mountain gorillas that inhabit the border with Rwanda. Slowly, a coalition of interests is forming with a shared interest in environmental enhancement.

Still, these interests must face deteriorating environmental conditions in many respects. The water level in Lake Victoria is falling due to irrigation and drought; Uganda, like most African countries, is experiencing increasing climatic variability. As a consequence, climate change is becoming an agenda item for the government although concrete steps have yet to be taken. Like many developing countries, environmental policy in Uganda is lagging behind policymaking in other spheres of activity.

Given that context, action by the private sector becomes of even greater importance. To the extent that private firms – and in particular multinational corporations, which have access to 'best practices' – invest in environmentally-friendly technologies and processes, they generate 'public goods' which benefit the economy as a whole. This raises the question of how NB is tackling its environmental responsibility at the present time.

As a subsidiary of SABMiller, NB receives 'scores' for its performance that are compared with corporate targets. In the environmental area, the company is assessed for its use of water; energy, and carbon; packaging and packaging waste; and hazardous, organic, and general site waste. The results of these scores, along with interviews at the NB Brewery in Jinja, suggest that the company's biggest challenge lies with its water use, which is high by SABMiller standards. NB is aware that its water use is relatively inefficient (again, by SABMiller standards) and it is seeking ways of making more efficient use of water inputs. A number of major steps in this direction have already been taken, including capturing and cleaning more of the water that is currently used for washing tanks and bottles. Water that is boiled is also being recaptured for re-use.

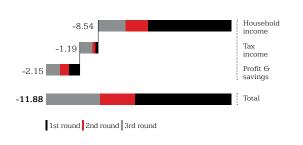
With respect to packaging waste – the company's other major environmental challenge – it has made strong efforts to recycle its glass bottles. Deposits are paid for bottles, providing an economic incentive for users to return them to the company. These bottles are then washed and re-used, or crushed and returned to the company in Kenya that manufactures the bottles. Similarly, the oil used by the company is recycled by its major supplier, Shell.

At the present time, there are no environmental awards given in Uganda for best practices. NB – along with the private sector umbrella organization Private Sector Foundation Uganda – might wish to consider sponsoring such an award. In both industrial and developing countries, environmental awards have helped raise consciousness about ongoing degradation and what can be done to stop it in a cost-effective manner. Given the relatively low standing of environmental policy on the government's agenda (while recognizing its increasing importance), private sector action of this kind could help to raise the nation's environmental consciousness.

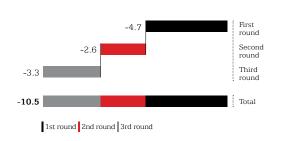
SECTION 7: NILE BREWERIES' SCENARIO ANALYSES



VALUE ADDED (IN USD M)



EMPLOYMENT (IN '000 JOBS)



One of the objectives of the economic footprint model is to enable management to analyse the broader socio-economic impacts of its decisions on the basis of scenario planning. This section describes one *hypothetical* scenario that has been analysed using the model. After that, some examples of other scenarios are presented that may lend themselves to further research at NB's request.

7.1 COMPARISON WITH IMPORT-ONLY BEERS

The bulk of NB's revenues come from products that are manufactured locally. As was shown already in Section 4.3, local production has a widespread and broadly positive economic impact. As the Ugandan economy further develops, it is to be expected that competitors based outside Uganda will start exporting their products to the country. In order to compare the impact of locally-produced vs. imported products, a hypothetical scenario has been constructed that assumes all NB products to be imported from abroad rather than produced locally. This demonstrates in sharp relief the 'value added' of local production. The characteristics of this *purely hypothetical* scenario are:

- **A.** Local NB production is replaced by importation of all final products;
- **B.** NB becomes a trade company of imported beer.

The main outcomes of this scenario are:

- A loss of more than 10,000 jobs, of which 45% are directly lost and 55% are indirectly lost;
- ii. A decrease of value added for the Ugandan economy of USD 11.9M. Households lose about USD 8.5M and profits and savings will be USD 2.2M lower. Tax revenues will decrease by USD 1.2M.

Exhibit 7 summarizes the outcome of the scenario. As can be seen, the loss of household income is relatively the same for the three household categories, meaning that the non-poor lose the most in absolute terms.

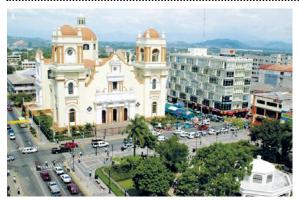
This scenario clearly underlines the importance of a local production company and the detrimental effect when imports substitute for local production. It is obvious that the loss of private sector activity and associated household and company incomes reduce the capacity of the economy to grow through increased consumption and investment. One 'lesson' from this scenario is that the Uganda Government must ensure that it maintains an economic and fiscal environment that promotes continued private sector investment.

7.2 OTHER POSSIBLE SCENARIOS

A number of other relevant scenarios could be analyzed:

- The effect of a lower excise regime on value added and job creation in the Ugandan economy;
- ii. The effect on value added and job creation of substituting imported barley by locally grown barley. Variations of the scenario could include differences in the excise duty regime and – in the longer run – the effect of producing all necessary malt within Uganda;
- iii. Inclusion of the Uganda household survey data to quantify the effects of NB on income distribution within the country (depending on the average household income of consumers of NB products, and the average household income of people in its supply chain, NB's activities may actually help to reduce income inequality, which is an issue of growing importance around the world and a topic of considerable debate with respect to the role of multinational enterprises).

SECTION 8: CERVECERÍA HONDUREÑA G THE HONDURAN ECONOMY



- San Pedro Sula, capital of Honduras and location of Cervecería Hondureña.
- 2. Brewery technician at Cervecería Hondureña checking the progress of the brewing process.
- 3. Sugarcane workers in Honduras harvesting cane.





TABLE 8.1: A SNAPSHOT OF HONDURAS IN 2008 (USD)

GDP PPP	USD 33.6BN
GDP (official exchange rate)	USD 13.8BN
GDP growth	4%
GDP per capita	USD 1.770
GDP by sector	Agriculture 13%
	Industry 28%
	Services 59%
Labour force	2.9M
By occupation	Agriculture 39%
	Industry 21%
	Services 40%
Investment	31.5% GDP
Inflation	11.9%
HIV/AIDS rate	0.7%
Pop HIV/AIDS	28,000
AIDS deaths	1,900
Infant mortality	5.4/1000 births
Life expectancy	69

Source: CIA World Factbook

Although Cervecería Hondureña (CH) adopted its present name in 1935, the company's history dates back to the turn of the 20th century, when Standard Fruit and Steamship Company (later Dole Food) established a plant in 1902 to produce carbonated beverages for the local market. In 1925, the company built a brewery in San Pedro Sula, along with a plant for carbonated soft drinks, and in 1952 CH inaugurated a brand new facility and set of offices. Today, the company has a commanding position in the beer market and, through its Coca Cola bottling operations, the largest share of the carbonated beverages market as well. CH was acquired by SABMiller in 2001, the same year that NB was acquired, and it is now a wholly owned subsidiary.

8.1 ECONOMIC OVERVIEW

Honduras is among the poorest countries in Latin America, and it is characterized by a highly unequal distribution of income and official unemployment levels that are near 30%. Unfortunately, it has also been shaken in recent years by violent crime and kidnappings, much of this undertaken by youth gangs. In recent years, the government has emphasized cracking down on the nation's crime problem while seeking ways to bring young people into the real economy; more on this below when we discuss CH's role in vocational training.

Like many countries in Central America, Honduras continues to rely heavily on agricultural exports – mainly coffee and bananas – to the United States for its economic growth. In recent years, however, the country has attracted the 'maquila industry' or apparel business

SECTION 9: CERVECERÍA HONDUREÑA'S CURRENT ECONOMIC IMPACT

to its economic free zone, and exports from these plants now equal USD 3.6BN in addition to the 105,000 direct jobs created; the country has also benefited from the US-Central American Free Trade Agreement (CAFTA) which came into force in 2006. Hondurans also rely heavily on remittances from family members, again mainly in the United States, for their incomes. According to the United States government, remittances represent approximately 25% of the country's GDP.

Honduras has suffered violent fluctuations in economic growth due to its commodity dependence and its geographic location in the Caribbean 'hurricane belt.' In 1998 Hurricane Mitch ripped through the country, killing 5,000 people and causing several billion dollars of damage. Economic growth declined following that disaster, and some observers continue to associate many current economic problems – such as the loss of agricultural land and the crime problem – to its aftermath. However, economic growth had rebounded by 2003 on the back of rising commodity prices, and before the current financial crisis the country enjoyed growth rates of 6%.

Now, like every country, Honduras must face the effects of the Great Recession that began in 2008. These effects, which will likely include some combination of lower export earnings, a reduction in remittances, and less foreign investment, could provide a severe setback to the government's plans to reduce poverty and unemployment. The fallout from the recession has also spurred the government to take what might prove to be a set of unsustainable policy actions, including an increase in the minimum wage and an increase in the number of monthly wage payments that companies must make to workers (in many developing countries companies pay a '13th' or even '14th' month of wages). Indeed, with presidential elections slated for late November 2009, the private sector is concerned by the 'populist' measures that could be put into place by the government at this time of economic anxiety, which could undermine the country's long-run competitiveness.

EXHIBIT 8: CH'S IMPACT ON HOUSEHOLD INCOME (IN USD M)

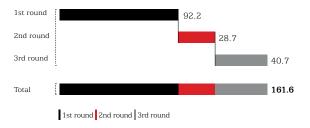
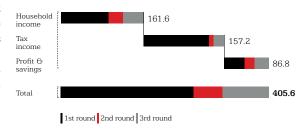


EXHIBIT 9: CH'S IMPACT ON VALUE ADDED (IN USD M)



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In this report an input-output model, as described in a previous section, has been applied to determine the economic impact of CH. This section reports on the major results of this exercise for the case of Cervecería Hondureña. First CH's impact on value added (incomes and taxes) within Honduras is discussed. The employment generated by CH, and the company's impact on income distribution, are discussed subsequently. We leave to a following section the discussion of CH's impact on its community, where we focus on the company's role in promoting human capital formation.

9.1 HOUSEHOLD INCOME, WAGES, AND GOVERNMENT TAXES

As with NB, CH's value added consists of three components: salaries paid to households; taxes paid to the government; and company profits, household savings and dividends. Each of these components is made up of direct, indirect and induced effects, as was described in Section 2. In Exhibit 9 we see that the presence of CH generates nearly USD 406M in value added for the Honduran economy. Of this, the vast majority comes from direct or first-round effects⁶ and a smaller (though still important) percentage from indirect and induced effects. Of the three components of value added, household incomes and taxes are the biggest items.

In terms of household income, CH contributes to the Honduran economy through the wages it pays its workers and through the wages that its suppliers receive. Focusing on CH itself, the company's average wages place it among the top 5 companies in Honduras. In addition to wages paid, CH workers – all of whom are

⁶ As was discussed before, these include the distribution and retail parts of the value chain.

EXHIBIT 10: CH'S IMPACT ON EMPLOYMENT (IN '000 JOBS)

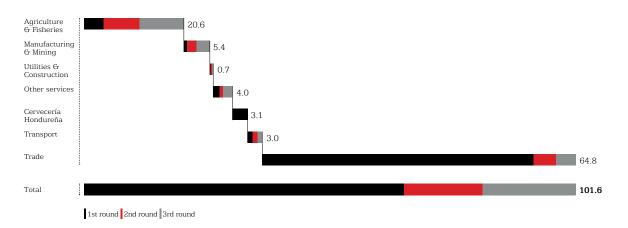
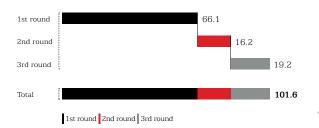


EXHIBIT 11: CH'S IMPACT ON EMPLOYMENT PER SECTOR (IN '000 JOBS)

EXHIBIT 12: BALANCE OF PAYMENTS (IN USD M)



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* Including exports of CH's subsidiaries.

unionized at the shop floor level – receive an array of benefits from the company, including medical and life insurance; scholarships for children of workers so that they can continue their secondary and university education; and a house building scheme. The fact that CH has virtually no turnover (the lowest among all SABMiller companies, according to local management) suggests that its wages, benefits and working conditions are extremely competitive in the Honduran context.

Further, CH provides its workers with extensive training opportunities. Every single employee is entitled to training, which varies from technical specialities to more general managerial topics, and the average amount of training is 49 hours per worker per year. Technical training largely takes place at Polytechnic Institute of Central America while managerial training is either in-house or carried out by business schools, mainly in Latin America. Through its training programmes and its support for IPC, CH contributes significantly to human capital formation within Honduras.

9.2 EMPLOYMENT GENERATION

CH has a substantial impact on employment in the Honduran economy. While the company employs just 3,000 workers *directly*, it is responsible for supporting some 100,000 jobs across Honduras. As with NB, the vast majority of these jobs are found in the trade sector,

and it should be recalled that beer and CSD consumption in Honduras remain relatively modest by international standards; with economic and income growth, one could thus expect the company's impact to increase over time. Further, should CH make more intensive use of local agriculture and other domestic suppliers, the influence of the company on employment would naturally rise. This 'multiplier effect' of CH on Honduran employment points directly to the importance of government policies that maintain the country's competitiveness, especially at this time of economic stress. As already noted, should the government adopt 'populist' measures that erode the ability of local firms to compete, employment will be among the first areas of the economy to be hit. This, in turn, will make it more difficult for the government to promote human capital formation and poverty reduction.

9.3 BALANCE OF PAYMENTS

Although CH sources sugarcane locally for soft drinks bottling it is not 'self-sufficient' in beer production and distribution. It imports raw materials and bottles from overseas, and exports a small share of its output to neighbouring countries. Exhibit 12 (see above) shows that CH's net impact on Honduras's balance of payments is about USD -184M, since it imports USD 194M of inputs and exports about 9.5M of beer and plastic packaging.

SECTION 10: CERVECERÍA HONDUREÑA **6 THE COMMUNITY**



Indigenous nursery run by Cervecería Hondureña to promote community

CH plays a prominent role in Honduras not only due to its commercial presence but also because of its Corporate Social Investments (CSI) and, more broadly, its 'developmental' activities that generate valuable public goods for the country. CH's priorities in this 'space' focus on education, the environment and, more recently, enterprise development. This section deals with each of these contributions.

Hondurans are justly proud of their country's natural beauty, which they also recognize as an important source of tourist D 90,0 revenues. Sandwiched between the Caribbean Sea and Pacific AMOUNT INVESTED INTO Ocean, with undulating hills and CERVECERÍA HONDUREÑA'S mountains in between, there is ENVIRONMENTAL COMMUNITY little doubt that Honduras could **PROGRAMMES** emerge as a compelling destination for a growing number of international travellers (including from other parts of Central and South America). In order to play this role, however, and to attract foreign investors into this and indeed any other sector of economic activity, Honduras will need to make a firm commitment to environmental protection.

For a company like CH, whose very lifeblood is clean water, environmental protection is a natural extension of its business activities. For this reason the company joined forces with the World Wildlife Fund (WWF) in March 2009 to develop a series of joint projects aimed at reducing its water and energy consumption. These efforts build on CH's long-standing commitment to reduce its environmental footprint, including a number of projects that are novel within the SABMiller family.

CH's single largest CSI investment, equal to about USD 90,000, goes to environmental programmes which have several objectives: first, to promote environmental awareness among the country's youth; second, to provide trees for reforestation and to create a new 'forest for the future'; and third, to create reservoirs to feed local aquifers. In a related vein, the company has taken major steps toward increasing the efficiency with which water is used in its brewery and soft drinks operations. Whereas CH used 7 litres of water for every litre of beer produced in 2006, it has reduced that to around 4 litres and is looking to reduce that further still, to 3.6 litres.

The company is also taking leading-edge steps to reduce its carbon footprint. In particular, it is capturing methane from its waste products and using that gas to run its machines. As a consequence, CH hopes to be one of the first companies in the SABMiller family to garner carbon credits from its operations. Further, the company gets much of its fuel from biomass, a residual of its sugarcane production.

CH's other major CSI investments are found in the education arena. In particular, the company has backed two school projects that are again related to its ongoing operations, but in quite different ways. Still, both projects reflect the company's targeted commitment to human capital formation in Honduras.

The first school, 'Azunosa,' was designed with a very specific objective in mind: to eliminate the use of child labour in the independent and

> company owned sugarcane fields where the company buys this product. Traditionally, children have been extensively used in the agricultural sector, and sugarcane harvesting in Honduras has been no exception to this rule. Hondurans have

long been sensitive to the waste of human capital that occurs when children work full-time, and domestic and international pressure groups have targeted child labour practices in agricultural communities. CH

decided that children would be better off in

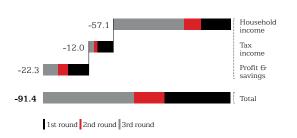
school and it decided to build one for the families of sugarcane farmers and the hands that they use to harvest the product. The school currently has 80 students and provides them with an education until the school-leaving age of 16; of course, students are then encouraged to continue their studies in high school and beyond. The Azunosa project has demonstrated clearly – as if such demonstrations were truly necessary - that when poor families have the opportunity, they would much prefer to send their children to school than put them to work.

The second school that CH supports, both through donations of about USD 70,000 per year and by using its training courses, is the Polytechnic Institute of Central America, which provides vocational training to about 350 older students. Initially created to support the 'maquila' sector by offering training in various aspects of textiles technology, CH quickly recognized that the original scope for IPC could be broadened to incorporate the kinds of technical skills that it requires in its brewery and soft drinks operations. At the time it was created in 2005, CH and other local companies were bemoaning the

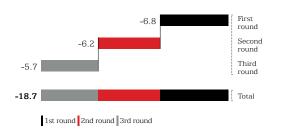
SECTION 11: CERVECERÍA HONDUREÑA'S SCENARIO ANALYSES

EXHIBIT 13: OUTCOME FOR IMPORT SCENARIO IN EMPLOYMENT AND VALUE ADDED

VALUE ADDED (IN USD M)



EMPLOYMENT (IN '000 JOBS)



One of the objectives of the economic footprint model is to enable management to analyse the broader socio-economic impacts of its decisions on the basis of scenario planning. This section describes one *hypothetical* scenario that has been analysed using the model. After that, some examples of other scenarios are presented that may lend themselves to further research at CH's request.

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11.1 COMPARISON WITH IMPORT-ONLY BEER AND SOFT DRINKS

The bulk of CH's revenues come from products that are manufactured locally. As has already been shown in previous Sections of this Report, local production has a widespread and broadly positive economic impact. As the Honduran economy further develops, it is to be expected that competitors based outside Honduras will export more of their products to the country. In order to compare the impact of locally-produced vs. imported products, a hypothetical scenario has been constructed that assumes all CH products to be imported from abroad rather than produced locally. This demonstrates in sharp relief the 'value added' of local production.

The characteristics of this purely hypothetical scenario are the same as in Section 7.1:

- **A.** Local CH production is replaced by importation of all final products;
- B. CH becomes a trade company of imported beer and soft drinks.

absence of adequate vocational education programmes in Honduras; the government schools were deemed simply inadequate, with poor infrastructure and a teaching staff that lacked the pedagogical skills and equipment to do the job. IPC was built from scratch with a cutting-edge facility, with pedagogical input from overseas, and indeed with visiting teachers from such countries as Canada and Germany. As a testimony to the education it provides, nearly every graduate finds employment after completing their one-year course of study. It should be noted that, thanks to the support that CH and other donors provide, the costs of the school are kept low and thus IPC is able to attract students from low-income families.

As further testimony to IPC's excellence, CH now sends its own technical workers there for advanced training programmes or short courses. On average, 15 CH workers are taking 2-3 month courses at IPC at any one time. CH managers believe that the level of training provided is far higher than could be achieved internally.

The third 'leg' of CH's commitment to Honduras is found in the area of enterprise development. While CH has supported the growth of several companies in Honduras over the years, especially in such fields as plastic or shrink wrap and labelling, it is now more consciously thinking about how to develop the local suppliers that it uses, ensuring their competitiveness in the face of economic pressures to engage in global sourcing. This strategy includes providing suppliers with technical support; with financing in terms of early payment of invoices; and by considering the use of local agricultural inputs - like corn, rice, and yucca - as possible substitutes for imported maltose (CH's precursor firms once used local inputs to a large extent but over time the company switched to maltose owing to quality and processing issues). CH firmly believes that it needs to be perceived by Hondurans as a local company, even while operating within the context of a multinational enterprise, and that requires a firm commitment to local enterprise development.

The main outcomes of this scenario are:

- A loss of almost 19,000 jobs, of which 36% are directly lost;
- ii. A decrease of value added for the Honduran economy of USD 91.4M. Households lose about USD 57.2M and profits and savings will be USD 22.3M lower. Tax revenues will decrease by USD 12.0M.

Exhibit 13 summarizes the outcome of the scenario.

11.2 OTHER POSSIBLE SCENARIOS

An extremely important scenario for CH to consider is related to the use of more local agricultural inputs, such as rice, yucca, and corn meal, in the making of its beers. Further research, conducted in collaboration with CH, could identify the costs and benefits of this strategy, especially when coupled to possible changes in excise taxes should more local content be used.

SECTION 12: CONCLUSIONS & RECOMMENDATIONS

Cervecería Hondureña and Nile Breweries have operated in their respective countries for many decades, producing in each case some of the most widely enjoyed beverages in their particular markets. Since 2001, each has been a member of the SABMiller family of companies, bringing global standards to their operations. That marriage seems to have produced something like the best of both worlds for NB and CH, in that these acquisitions permitted strongly rooted local firms to gain access to leading-edge management, marketing, and technology, enabling them to perform even better in their home markets.

As this report has demonstrated, CH and NB have a significant impact on the economies in which they operate. With the launch of the Eagle Lager project, based on indigenous sorghum production, NB in particular greatly increased its local impact in Uganda; looking ahead, the promise of more barley production in that country suggests that its impact will only increase. Indeed, NB provides, in important respects, a model of how the subsidiary of a multinational firm can operate in such a way as to promote the development prospects of the economy in which it is embedded.

Similarly, CH has influenced Honduran development not just through its direct brewery and CSD operations, but also through its commitment to the nation's human capital formation and environmental preservation. Further, CH is now contemplating the possibility of making greater use of local agricultural inputs, which would of course only increase the size of its local footprint.

To be sure, both CH's and NB's continuing investments also depend upon the political environment in Honduras and Uganda, and whether incentives exist for large-scale capital outlays. In the case of Uganda, since 1986 the country has enjoyed a relative degree of political calm

following a long and calamitous period of misrule and civil strife. Clearly, the government must continue to provide a secure environment for foreign and domestic investors alike. For its part, Honduras has also made some strides in the direction of economic reform, but populist measures in the face of the Great Recession could set back its efforts at greater competitiveness. The country's crime problem must also be addressed if foreign investors are to continue finding the country an appealing destination for their capital.

In each case, the government must recognize the impact of its policies on the private sector, which is the ultimate generator of jobs and long-run economic growth. When monetary and fiscal policies undermine investment, and when the rule of law is in question, investment is likely to be constrained. Thus, creating a policy framework that encourages the private sector must become a government priority.

As NB contemplates its economic role in Uganda, and as CH does the same in Honduras, there are some further steps that management may wish to consider as it builds on past successes. Specifically, NB and CH should consider the following:

First, work closely with the agricultural community to ensure that it has the technical capacity, financial resources, and market access needed for increased farmer incomes;

Second, and related, work with private sector associations and with the Government to ensure that environmental policy becomes a priority for the nation, with the objective of making the country's natural resource endowments sustainable over the long run;

Third, continue to invest in training which gives high returns in terms of increased productivity;

Fourth, work with suppliers to ensure that Ugandan and Honduran companies remain competitive;

Fifth, as a major taxpayer, assist government in setting optimal taxes by providing fact-based reports that go beyond fiscal receipts and that indicate the impact of different tax regimes on such variables as incomes and employment.

