Exploring the links between international business and poverty reduction

The Coca-Cola/SABMiller value chain impacts in Zambia and El Salvador
By Oxfam America, The Coca-Cola Company, and SABMiller

SAB MILLER The Coca-Cola Company Oxfam America


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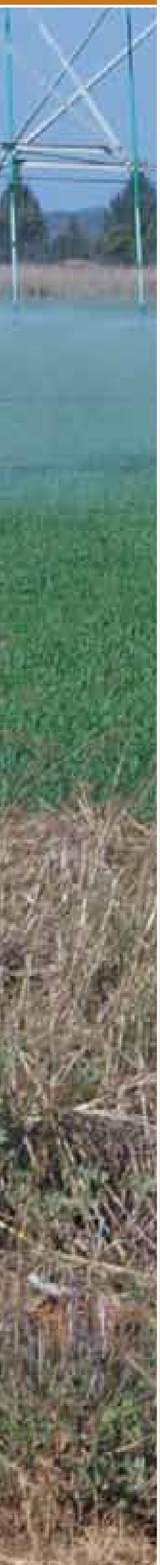

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About the organizations

The Coca-Cola Company is the world's largest nonalcoholic ready-to-drink beverage company, with the world's most recognized brand. Its products are available in more than 200 countries, and nearly 1.7 billion servings of its products are consumed each day.

The Coca-Cola system is defined as the Company and its more than 300 bottling partners worldwide.

The Coca-Cola Company sustainability platform

Three years ago, The Coca-Cola Company launched Live Positively™/Live For A Difference, a systemwide sustainability framework that is embedded in every aspect of the Coca-Cola business. Through Live Positively the Company strives to create a positive difference in the world. Live Positively™ focuses on seven core areas key to business sustainability, with the following measurable goals and metrics for the Company and the Coca-Cola system:

- Beverage Benefits: Strive to offer beverages for every lifestyle and occasion while providing quality that consumers trust.
- Active Healthy Living: Support active healthy lives through product variety, nutrition education, and physical activity programs.
- Community: Foster sustainable communities through economic development, philanthropy, and the creation of economic and social opportunities.
- Energy Efficiency and Climate Protection: Aim to be the beverage industry leader in energy efficiency and climate protection.
- Sustainable Packaging: Aspire to make our packaging a valuable resource for future use.
- Water Stewardship: Work to safely return to nature and communities an amount of water equivalent to what we use in our beverages and their production.
- Workplace: Create diverse, healthy, and safe work environments aligned with internationally respected human rights principles.

Progress on these commitments can be found in the Company's annual Sustainability Review.

The Coca-Cola Company sustainability commitments

The Coca-Cola Company collaborates with its bottling partners and local communities in support of its mission to foster sustainable communities.

According to its *2009/10 Sustainability Review*, The Coca-Cola Company sets global goals and requirements in a number of areas, including water stewardship, sustainable packaging, marketing to children, and workplace rights, and it works with bottlers to implement these standards.

This includes assurance processes in place to ensure that the required standards are being upheld in bottling plants and the bottlers' suppliers' facilities. Many of The Coca-Cola Company's bottling partners also have their own sustainability goals and requirements, which are implemented at the bottling plant level.

SABMiller is an international brewer and one of the world's largest bottlers of Coca-Cola products. For the purposes of this study, the Coca-Cola/SABMiller value chain refers to The Coca-Cola Company and SABMiller's bottling operations in Zambia and El Salvador. This report covers SABMiller's business with The Coca-Cola Company only.

The Coca-Cola Company and SABMiller recognize that responsible behavior has a positive impact on profitability and economic growth. Both companies aim to secure economic benefits for the local communities where they operate, and also for their respective shareholders, who benefit from a sustainable business and a return on their investment.

SABMiller sustainability commitments

SABMiller believes that a robust approach to sustainable development underpins both its ability to grow and its license to operate. To achieve competitive advantage—and ultimately better profitability—sustainable development needs to be part of what a company does every day. It needs to be integrated into decision-making and the way the business is run. SABMiller guides the management of its business in line with four strategic priorities. One of these is "to constantly raise the profitability of local businesses, sustainably."

This strategic focus is underpinned by 10 Sustainable Development Priorities, which define the material issues for the business and have been developed through extensive consultation internally and also with external stakeholders:

- Discouraging irresponsible drinking
- Making more beer but using less water
- Reducing our energy and carbon footprint
- Packaging, reuse, and recycling
- Working toward zero-waste operations
- Encouraging enterprise development in our value chains
- Benefiting communities
- Contributing to the reduction of HIV/AIDS
- Respecting human rights
- Transparency and ethics in reporting our progress

Each SABMiller operating business, including the operations in Zambia and El Salvador, reports their progress against these 10 priorities transparently online through the Sustainability Assessment Matrix (SAM). To see the current scores for each of these businesses, including the challenges they face and their case studies of success, please visit www.sabmiller.com/sam.

Oxfam America is an international relief and development organization that creates lasting solutions to poverty, hunger, and injustice. Together with individuals and local groups in more than 90 countries, Oxfam saves lives, helps people overcome poverty, and fights for social justice. Oxfam America is one of the 14 affiliates in the international confederation, Oxfam International.

Oxfam America is keenly aware that the private sector's real power lies not in its philanthropy, but in its core business practices, which may have positive or negative consequences for communities. Oxfam America engages with companies seeking to leverage their resources, creativity, and influence to pro-poor ends. Oxfam America also aims to raise awareness around corporate impacts, empower communities to engage companies effectively, and strengthen government oversight.

Oxfam believes that companies should:

- Take responsibility for their economic, political, and social impacts on poverty across their value chains and spheres of influence.
- Avoid negative impacts, including the infringement of human rights, with a particular focus on women and vulnerable communities.
- Assess and report on their impacts in a transparent and participatory manner.
- Build participatory and accountable processes with stakeholders throughout their operations and value chains.
- Where appropriate, and transparently, use their full range of influence to promote best practices and pro-poor policies with government and industry.
- Seek opportunities to bring local suppliers into their value chains, empower women, and innovate new products, services and ways of doing business to address development challenges.


As part of an international confederation, Oxfam works in more than 90 countries including Mali, shown here.

This report contains certain forward-looking statements in respect of poverty reduction and sustainability. Such statements involve a number of uncertainties because they relate to events and depend on circumstances that will, or may, occur in the future. As a result, actual results may differ from those anticipated in this report, depending on a number of factors, including, for example, consumer demand, local taxation policies, worldwide as well as local economic conditions, changes in laws and regulations, and the introduction of new technology.

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Letters from our leadership

Muhtar Kent
Chairman and Chief Executive Officer
The Coca-Cola Company

More than ever it is clear that the world's most pressing social problems—from poverty to health to education—cannot be solved by government alone. Government, civil society, and business must stand together and build innovative partnerships to create lasting solutions to these difficult challenges. The Coca-Cola Company is proud to be at the forefront of these kinds of partnerships, building models of public-private collaboration that push the boundaries of development thinking.

As stewards of the world's most recognized and valuable brand, we recognize that the success and sustainability of our business is inextricably linked to the success and sustainability of the communities in which we operate. The strength of our brands is directly related to our social license to operate, which we must earn daily by keeping our promises to our customers, consumers, associates, investors, communities, and partners.

To this end, we have created a number of ground-breaking partnerships around issues of watershed management, access to clean water, recycling, small business development, and disaster relief. These partnerships are developed through our systemwide initiatives to create positive change in the world in four key areas: Water; Packaging and Recycling; Climate; and Community.

This report represents a new kind of partnership; one built on intellectual cooperation. By opening our doors to Oxfam America, one of the world's most respected nongovernmental organizations (NGOs), The Coca-Cola Company and SABMiller have raised the bar for corporate transparency and contributed to building trust between civil society and the private sector.

While this partnership may not have beneficiaries in the traditional sense, the insights gained from this report may ultimately benefit many people in our supply chain around the world. Through this work, Oxfam's development experts have helped identify areas where our business could bring more benefit to more people. We take the content of this report seriously, and we will consider its recommendations with our bottling partner, SABMiller, and our stakeholders, as we strive to create sustainable businesses in El Salvador and Zambia.

For the reader, this report is a unique opportunity to see the inside of our business through the eyes of development practitioners. We hope you find it interesting and thought-provoking.

Muhtar Kent

Raymond C. Offenheiser
President
Oxfam America

Oxfam America has long served as an unwavering advocate for the world's poor. As such, we have often viewed and exposed multinational companies as a threat to poor communities and, historically, our relationships with the private sector have focused more on campaigning than collaboration. Accordingly, we recognize that this partnership with The Coca-Cola Company and SABMiller may raise the eyebrows of loyal supporters. However, we are convinced that today's extraordinary social and environmental challenges will not be solved by civil society and government alone. While companies must be held to account for their negative impacts, we recognize they can also drive innovation, job creation and economic growth in the developing world. Market-based approaches alone can scarcely eradicate poverty, but under the right conditions, they can help achieve the type of lasting and people-centered change that is needed.

Companies are beginning to recognize that their long-term prospects are intrinsically linked to the prosperity and well-being of the poor countries in which they operate. However, exactly how large companies influence development is surprisingly mysterious to companies and stakeholders alike. Whereas private sector environmental impacts have been well documented, private sector social impacts have not. Instead, narrow metrics, such as the number of jobs generated or philanthropic dollars contributed, have become incomplete measures of the potential benefits and opportunities companies bring to the table. Similarly, only some of the negative effects of corporate operations are visible in the absence of rigorous analysis. Oxfam is developing the Poverty Footprint Methodology as a means to understand the full range of impacts multinational corporations have on poor communities and to provide a platform for engagement around those impacts.

The Coca-Cola Company and SABMiller have each made far-reaching public commitments to sustainability. Oxfam's collaboration with these two companies presented an opportunity to explore these commitments and ask vital questions: How do billion-dollar corporate value chains affect individuals living on less than $2 per day? What impact do the decisions made in corporate headquarters have upon on the health, security, and livelihoods of workers in the field and in the factory? How can traditional markets evolve to reduce poverty better? We wanted to frame the report as broadly as possible to contemplate significant poverty impacts—labor, water, nutrition, livelihoods, gender. That breadth comes at the cost of depth. Where the report only manages to scratch the surface around some essential issues, we trust that it will spur further inquiry and discussion.

We do not aspire to provide definitive answers but view this collaboration as one step in a longer process of change. We developed this report to raise awareness and provide information to a broad range of stakeholders about corporate practices and encourage them to use this information to engage around new markets, supply chain and workforce practices, responsible use of resources, and economic development in communities that desperately need it. Oxfam believes that transparency and engagement by civil society, governments, and the private sector represents the greatest long-term hope for sustainable solutions to poverty. While the report is a useful milestone, we will ultimately measure the success of this effort by the extent to which it contributes to new collaborations and progressive reforms along the companies' value chains and in relevant markets.

This effort combined the resources, intellect, and determination of three unique organizations and a wide range of stakeholders and supporters. We thank and recognize all who were involved for their hard work in the preparation of this document and the development of this process to increase business contributions to poverty alleviation.

Raymond C. Offenheiser

Graham Mackay
Chief Executive
SABMiller

We believe that the most effective way for SABMiller to meet its sustainable development objectives is by maximizing the success of the business. We are clear that our business is not something separate from society. It is, at one and the same time, an employer, a customer, a supplier, and a taxpayer. The interests of SABMiller and the wider community are therefore inextricably linked. A well managed and growing business is good for wider economic development, leading to greater employment, more taxes paid, and greater investment in local economies and communities.

Our activities provide high-quality products that society wants and enjoys. As long as markets are free and competitive, our business will succeed if we manage our relationships well, use resources efficiently, and meet the needs of our consumers and the communities in which we operate.

We recognize that by building strong and equitable partnerships we can create more value for our business and make a greater difference in our markets than if we worked in isolation. We encourage our businesses to work directly with NGOs, governments, and communities to develop specific partnership projects that will protect or enhance their ability to operate or create new value for society and for their business. Working with these groups often provides us with additional insight and local knowledge that enable us to be more effective.

This is why I welcome the opportunity to work with both The Coca-Cola Company and Oxfam America on this partnership focused on our soft drinks value chains in Zambia and El Salvador. The very different poverty lens that Oxfam has brought to our value chains has provided some constructive insights into what we are getting right, and some good recommendations for how we can work together in the future.

Graham Mackay

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Executive summary

The World Bank estimates that about 1.4 billion people live below the international poverty line of $1.25 a day, which is roughly equivalent to a quarter of the developing world's population.[1]
It is estimated that the recent global financial crisis has left 64 million[2] more people than anticipated in extreme poverty this year, underscoring the importance of private sector activity and investment at a time when governments' ability to provide aid and foster development has come under pressure.

A recent UN conference refocused the world's attention on the need to scale up efforts to meet the Millennium Development Goals (MDGs) 2015 deadline. The recent financial, fuel, and food crises have slowed the progress made by many developing countries toward the MDGs. Although aid flows reached record highs in 2009, there remains a funding shortfall of approximately $20 billion relative to the aid targets agreed upon by the Group of Eight (G8) five years ago.[3] While public investment is only one part of a much more systemic problem, the impact of this funding gap is particularly concerning for the world's least developed countries.

Over the past 30 years, the private sector has been a primary driver of economic growth and has contributed significantly to poverty reduction. Businesses provide vital jobs and services and pay taxes, which help fund public services. The positive and negative impacts of business in developing countries continue to be debated, but increasingly the development community has recognized the significant contribution the private sector can make when business and social benefits align and when leading global businesses promote high social and environmental standards throughout their value chains.

At the same time, as companies gain a deeper understanding of their impact on poverty reduction, they recognize that their own success is often directly linked to the success of the communities in which they operate. This recognition has driven some companies to take a more strategic approach to development. Many are investigating how to transfer knowledge and skills to low-income people along their value chains in a more inclusive manner. Small enterprises and large multinationals alike are creating innovative new products and services that simultaneously satisfy the needs of people at the base of the pyramid, achieve a development impact,[4] and create new consumer markets.

Furthermore, businesses are increasingly working in partnership with governments and civil society organizations to find multi-stakeholder solutions to common challenges. Economic growth requires an enabling environment, including good governance, robust regulation and enforcement practices, and clear accountability mechanisms. Together these elements provide a framework for governments to lead on poverty reduction in partnership with business and civil society. This study aims to bolster that sort of collective problem solving.

This report is one such instance. This study is the output of a multiyear collaboration among The Coca-Cola Company (all references to The Coca-Cola Company refer also to any direct or indirect subsidiaries that are relevant for purposes of this report), Oxfam America, and SABMiller to apply Oxfam's Poverty Footprint Methodology to the Coca-Cola/SABMiller value chain in Zambia and El Salvador. This methodology, which was originally developed and applied to Unilever's operations in Indonesia, is designed to help companies understand and improve their poverty impacts and provides a platform for dialogue, innovation, and accountability.

Zambia and El Salvador were chosen for this study because of their sociopolitical diversity and their significant sugar industries, which allowed visibility into the entire Coca-Cola/SABMiller value chain, from agricultural producers to bottlers to local consumers. Industrias La Constancia (ILC) in El Salvador and Zambian Breweries in Zambia are the names of the local SABMiller operations in each country.

Both countries have very high levels of poverty. Despite recent economic growth, Zambia is one of the poorest countries in the world, characterized by low life expectancy, high HIV/AIDS infection rates, and a poorly diversified economy. Among the poorest countries in Latin America, El Salvador is still recovering from a decade-long civil war and extreme exposure to natural disasters.[5]

Recommendations are made at the end of each section of this report for The Coca-Cola Company and SABMiller's consideration going forward. These recommendations should be seen as guiding principles and suggestions for action and not as formal commitments made by either The Coca-Cola Company or SABMiller. Both organizations are committed to engaging with key stakeholders in each country to begin to address these important issues.

Key findings

Macroeconomic impacts

An examination of the Coca-Cola/SABMiller value chain's macroeconomic impacts reveals that its gross value added (GVA) in 2008 was approximately $21 million in Zambia and $83 million in El Salvador. In addition, the Coca-Cola/SABMiller value chain supported an estimate of at least 3,741 formal and informal jobs in Zambia and 4,244 formal jobs in El Salvador.

In both countries, the formal jobs linked to the Coca-Cola/SABMiller value chain are in nonfarm supplies, bottling, distribution, and sales. However, as in many developing countries, the majority of jobs in the value chain are in the informal sector, either in sugar harvesting or in retailing Coca-Cola products. The system supports a sizable small-scale retail sector in both countries, with approximately 64,000 outlets in El Salvador and approximately 25,000 in Zambia.

Owing to the relatively small size of the economies and weak supply bases, in some circumstances, supply purchases in both countries are made either regionally or internationally.

Recommendations for follow-up action

- **Convene community stakeholders and business partners in focused discussions on the barriers to local sourcing and options to address these barriers.**
- **Create a process to capture and share best practices among small and medium enterprises (SMEs) in the Coca-Cola system to more broadly foster continual improvement among local businesses and contribute to the development of local industry.**
- **Engage with NGOs and financial groups to discuss providing microcredit to SMEs in the Coca-Cola system, perhaps with a particular focus on women.**
- **Engage with Zambia Sugar, El Angel and Central Izalco to explore providing technical assistance, training and financing to sugar growers.**

Livelihoods

The Coca-Cola/SABMiller value chain supports thousands of jobs in both countries, but the quality of these jobs varies significantly. Formal-sector jobs in the value chain, particularly at the SABMiller bottling plants, are comparatively good in terms of stability, pay, and benefits.

Jobs in the informal sector within the value chain are unregulated and often characterized by seasonal availability, low wages, and no benefits. However, these provide vital livelihood opportunities because formal employment opportunities are scarce.

The Coca-Cola Company hires independent third-party audit firms and NGOs to assess whether its supplier and bottling partner workplaces uphold recognized and legally applicable workplace and environmental standards, as outlined in its *Supplier Guiding Principles*. In 2008, The Coca-Cola Company audited 1,818 of 4,224 total suppliers. Sugar farms are not audited as a part of The Coca-Cola Company's formal audit program.

Sugarcane harvesters and their helpers are among the most vulnerable workers in the Coca-Cola/SABMiller value chain in both countries. Workers in some smallholder sugar cane farms often lack formal contractual arrangements, and employment is seasonal. These workers urgently need the income they receive, but the lack of public oversight means that, in some cases, they fail to earn even the minimum wage. Many also lack access to medical facilities for the treatment of injuries they may sustain when not using protective clothing.

The distribution and retail of Coca-Cola products supports vital self-employment and employment opportunities in both countries. Retail provides opportunities to groups who are traditionally excluded from employment, such as women and the elderly. However, employees in some distribution channels and small-scale retailers are informal, and their incomes are often close to the local minimum wage or less.

The Coca-Cola Company and SABMiller seek to build capacity at certain points in the value chain through the provision of technical assistance and credit programs. For example, Zambian Breweries has launched a program to boost entrepreneurial skills at retail outlets, in which sales representatives mentor retailers to improve business skills. Similarly, in El Salvador employees at the sugar mills and the ILC bottling plant receive technical training, while retailers receive training to run their businesses.

Recommendations for follow-up action

- **Work collaboratively with local communities and workers to identify living wage benchmarks and consider making living wages a component of supplier audits.**
- **Find opportunities to improve productivity that increase wage levels without extending the workweek.**
- **Consider whether commercial factors (such as price negotiations) undermine the ability of business partners to pay a living wage, and work toward integrating living wage principles into buying practices, including rewarding suppliers that pay a living wage.**
- **Encourage rigorous and regular monitoring to ensure existing labor standards are met.**
- **Employ a "wage ladder" to benchmark progress in wage improvements over time.**
- **Investigate the constraints facing small-scale retailer and distributor partners in the Coca-Cola system to identify opportunities to address economic and other barriers to successful growth.**
- **Engage with stakeholders to advocate for improved legal protections, health care, and capacity building and training for those in the informal sectors of the value chain, and opportunities to move informal workers to formal employment.**

Empowerment

Empowerment is a difficult concept to measure but an important dimension of development. Empowered people participate in the processes that affect their lives by voicing their views and influencing decision making. Empowering people living in poverty is an essential way to ensure that people benefit from business-led economic growth.

Individuals working in the informal sector rarely have an opportunity to organize themselves in order to advocate for their interests. Sugarcane workers and independent distributors and retailers in the Coca-Cola/SABMiller value chain are no exception.

Unions in general have been weakening for a number of years in both countries, and the researchers for this study found mixed views among employees at SABMiller's bottling plants on how necessary it is to have a union. Where unionization exists in the Coca-Cola/SABMiller value chain in these countries, employees reported improved working conditions. In some cases, where employees are not unionized, for example, at the Central Izalco sugar mill in El Salvador, workers still reported satisfaction with their workplace conditions.

Oxfam believes that the lack of formal industrial relations between workers and management at various points in the value chain may result in limited scope for dialogue or collective action to alter policies and practices to ensure that labor standards are properly enforced.

Recommendations for follow-up action

- **Ensure the rights of freedom of association and collective bargaining.**
- **Take a deeper look into any cases of failed factory grievance and dispute resolution systems and, if appropriate, address breakdowns with the relevant union of employee representatives.**

Security and stability

Security is essential to ensure the well-being of people living in poverty.

Physical security is often a risk for sugarcane harvesters, whose work requires the use of machetes to cut large stalks of cane. Many sugarcane workers interviewed in El Salvador reported that they faced potential safety hazards, including burns and injuries, on a regular basis. One worker cited a risk that workers could be poisoned by exposure to the agricultural chemicals used.

Endemic crime in El Salvador affects people throughout the value chain. Extortion is common, and organized gangs routinely intimidate people.

In Zambia, road accidents are a common cause of death, largely due to poor road quality.[6] Independent truck drivers face potential risks of death or injury due to working extended hours on hazardous roads. The study has not attempted to connect how crime and accidents represent specific risks to the Coca-Cola/SABMiller value chain or system employees in particular but has taken a broader, contextual approach.

Recommendations for follow-up action

- **Engage sugar farmers and producers to improve safety and health of sugarcane harvesters.**
- **Investigate why independent truck drivers in Zambia work more than eight hours per day and discuss with drivers potential mechanisms to ensure safe driving.**

Diversity and women's participation

Women represent a large proportion of the world's poor and face unique barriers when seeking education, employment, and health care. Women are more likely than men to be denied basic rights; they often have a limited role in decision making and are more vulnerable to violence. Investing in gender equality can help drive economic growth. Studies have shown that when women's incomes increase, family health, education, and well-being improve.[7]

Women involved in sugar growing and harvesting face traditional gender biases, hindering their ability to earn an income, own land, access credit, and build skills. Women are often dependent on men and have limited economic opportunities in both countries, although in El Salvador the circumstances are slightly more positive.

Despite formal antidiscrimination policies at the SABMiller bottling plants in both countries, women remain underrepresented, a challenge consistent with manufacturing employment statistics the world over.

Recommendations for follow-up action

- **Establish focused business training and support for women in the Coca-Cola/ SABMiller value chain to work toward more equal employment opportunities.**
- **Make further efforts to recruit women for nontraditional and senior management jobs.**
- **Consider ways to increase women business partners' access to credit, taking into account the unique circumstances women face when running businesses in these communities.**
- **Research how operations and practices in the value chain empower or undermine small women farmers.**

Formal jobs in the value chain are dominated by men, and there is gender segmentation by occupation, type of activity, and level of seniority. Several factors have led to this imbalance, including the perception that jobs in the beverage industry are more suited to men due to the requirement of physical strength and the lack of security for workers who travel long distances to work.

Women do play a significant role in the Coca-Cola/ SABMiller value chain at the retail level. Of the approximately 64,000 retail outlets in El Salvador, an estimated 76 percent[8] are owned by women. In Zambia, an estimated one third of the approximately 25,000 retail outlets are owned by women. Both bottling plants offer training workshops for small retailers; however, limited access to credit often limits business expansion.

Local environmental impacts: Water and recycling

Climate change threatens water access in many countries, and it is vital that water is responsibly and strategically managed. The greatest use of water in the Coca-Cola/SABMiller value chain occurs in sugar production. This is consistent with the fact that agriculture in general uses approximately 70 percent of freshwater globally, compared with the 20 percent* used by industry. Sugar fields are often irrigated via flood irrigation, and sugarcane processing requires water for cleaning.

In both Zambia and El Salvador, significant parts of the value chain are located near water sources that serve multiple purposes—domestic, agricultural, and industrial. The main issues characterizing the water debate are access in Zambia and scarcity in El Salvador. In Zambia, water usage associated with increasing sugarcane production is leading to conflict. In both countries, this study revealed the paramount importance of open and transparent dialogue with communities about water. Both ILC and Zambian Breweries engage in regular dialogue on this topic with communities surrounding SABMiller's bottling plants.

Efforts are under way through The Coca-Cola Company's participation in Bonsucro, formerly called the Better Sugarcane Initiative, to develop a production standard and certification scheme for sustainable sugar and ethanol from sugarcane. In addition, The Coca-Cola Company has teamed up with sugarcane producers to launch pilot projects aimed at benefitting both the producer and the environment, including in El Salvador.

SABMiller's bottling plants in both countries are engaged with communities on water issues. The full treatment of wastewater by both bottling plants has been well received by their communities, particularly in El Salvador, where municipal water treatment plants are lacking. The discussion on

*http://www.unesco.org/water/iyfw2/water_use.shtml wastewater treatment with the community includes not only water but also other local issues, such as reforestation, community funding needs, and local hiring at the bottling plant. In Zambia, the bottling plant has provided standpipes with free clean water to community members.

While the bottling plants and many suppliers in the value chain have recycling programs in place, their reach is limited. SABMiller's bottling plants are proactively seeking to spur local recycling industries; for example, Zambian Breweries has proposed to the Environmental Council of Zambia that it establish an organization to begin recycling on a more systematic basis.

Recommendations for follow-up action

- **Publish independent analyses indicating the safety of water discharged from the bottling plants on a regular basis.**
- **Encourage water-intensive suppliers to implement best practice policies and practices on water through its sustainable agriculture program.**
- **Carry out a comprehensive analysis of water impacts along the value chain in both countries along the lines of water footprint work that has been carried out in other parts of the world.**
- **Conduct analysis to ensure that water use does not negatively impact local water availability, and evaluate whether improved pricing for water may address demand issues.**
- **Advise other companies, the government and the local community to collectively tackle water pollution by reducing dumping and improving cleanup of the San Antonio River in Nejapa.**
- **Use marketing to promote increased consumer recycling, and work with suppliers and retailers to encourage better recycling in the marketplace and implement global sustainable packaging best practices.**

Products and marketing

The Coca-Cola Company has over 500 beverage brands and more than 3,300 products globally, but its product portfolio in Zambia and El Salvador is limited. The Coca-Cola Company's data show that the vast majority of consumers in both countries purchase sparkling beverages rather than alternatives offered, but consumers in El Salvador have a growing preference for juices.

In general, consumers in both countries tend to associate the brand with a successful lifestyle. Retailers interviewed in Zambia pointed out that Fanta is popular with children. The Coca-Cola Company has a Global Responsible Marketing policy in place to ensure the product is marketed responsibly and not to children under the age of 12.

Plans are in place to include all nutritional information on the majority of Coca-Cola product packages worldwide by 2011, but products sold in returnable glass bottles (70 percent of hectoliters sold in Zambia and 35 percent in El Salvador) do not currently feature this information. Interviews with consumers in both markets indicated that many do not understand the caloric or nutritional content of Coca-Cola beverages.*

Recommendations for follow-up action

- **Explore the feasibility of introducing micronutrient supplementation programs in these markets, working with government, health, and civil society experts. Consider how a micronutrient-enhanced product's promotion, pricing, distribution, and service practices could increase community purchasing and health.**
- **Ensure that The Coca-Cola Company's global Advertising and Marketing to Children Policies are being effectively and consistently implemented at a regional level.**
- **Leverage marketing messages to educate consumers on the value of proper nutrition, a balanced diet, and regular physical activity.**
- **Investigate how to provide nutritional information to consumers at point of sale and through other methods, given the wide use of glass bottles without labels and low levels of literacy in some areas.**
- **Collaborate with independent health experts, civil society, and governments to explore whether additional guidance or action is needed to educate consumers on nutrition and health.**

*The content of the interviews did not make clear whether this was a result of consumers' inability to understand the nutritional information or inability to locate it.

Enabling policies and institutions

The Coca-Cola Company engages with governments around the world on a broad range of issues. Alongside environmental and health-related initiatives, excise taxes and sugar tariffs are two key areas of policy engagement in Zambia and El Salvador. SABMiller's bottling subsidiaries in both countries (ILC in El Salvador and Zambian Breweries in Zambia) take the lead on engaging in public policy dialogue with governments. Both The Coca-Cola Company's and SABMiller's bottlers also make regular social investments in both countries.

Recommendations for follow-up action

- **Ensure that public policy engagement is in alignment with sustainability objectives.**
- **Engage with local stakeholders to ensure transparent communication of policy initiatives.**
- **Collaborate with civil society and government on public policies that align with sustainability goals and local priorities.**
- **Engage with trade bodies, partners and government agencies around relevant issues, including regulatory and enforcement gaps around water and labor.**

Conclusion

Recommendations have been made above and at the end of each section of this report for The Coca-Cola Company's and SABMiller's consideration going forward. The report reflects the three organizations' ambitious attempt to provide insights into the impacts of the Coca-Cola/SABMiller value chain on local communities. It was driven by a determination to collaborate more strategically and create greater transparency around business impacts on poverty. The project aimed to shine a light on issues that both business and development audiences want to understand better and, by doing so, to inspire both local action and other companies to embark on a similar journey. The initiative sought to put people at the center of this process and forge a new partnership between the private sector and civil society to share expertise and build a common agenda on these issues.

4 Introduction

The development challenge: Focus on the Millennium Development Goals

With only four years left until the 2015 deadline to achieve the Millennium Development Goals (MDGs), it is critical to renew efforts to address the needs of the world's poorest people. The MDGs are broad in scope and range from halving extreme poverty to halting the spread of HIV/AIDS to providing universal primary education. The MDGs deserve serious and unwavering attention from all development stakeholders, including government, business, and civil society, as part of an ongoing commitment to rid the world of poverty.

Although many countries have made progress against the MDGs in the last 10 years, the development challenge continues to loom large, not least due to the setbacks suffered as a result of the financial crisis—a downturn of such proportions that it is estimated to have left 64 million more people in poverty in 2010 than previously anticipated.[9] At a United Nations summit held in September 2010, the attention of world leaders was once again focused on the MDGs and, particularly, the need to accelerate progress in the least developed countries, where more than 400 million people live below the poverty line.

> "Government leadership will be crucial. But more than ever before, we depend on the resources and capacities of the private sector to make things happen. Business is a primary driver of innovation, investment and job creation. There is no longer any doubt that business plays an integral role in delivering economic and social progress."
>
> *United Nations Secretary-General Ban Ki-Moon, Private Sector Forum on the Millennium Development Goals, New York, September 2010*

The role of business in development

The private sector has been a primary driver of economic growth and contributed significantly to poverty reduction.[10] Private enterprises provide 90 percent of jobs, goods, and services and are the main source of the tax revenues which fund vital public services, such as health and education. In the 1990s, economic growth rates in the developing world outpaced those in the developed world for the first time.[11]

However, while overall poverty rates in many developing countries have decreased. Inequality for certain groups, such as women, has increased. Even in economically dynamic countries where great strides have been made, many people continue to live in poverty.

For overall growth to contribute toward poverty alleviation, it must be converted into income for the poor, where individuals have access to good jobs with acceptable rates of pay.[12] This underscores the importance of driving inclusive economic growth to ensure that its benefits reach all social groups, particularly the poorest members of society. Growth must be underpinned by improvements in education and health, gender equality, and environmental protection in order for it to really make a difference in the lives of the poor.[13]

While the private sector makes a vital contribution to poverty reduction, it must do so in cooperation with other stakeholders. Economic growth requires an enabling environment, in part created by good governance, robust regulation and enforcement practices, and clear accountability mechanisms. Together these elements provide a framework for governments to lead on poverty reduction in partnership with business and civil society. However, the framework for consistent, stable growth is not robust in many developing countries, and poverty is often widespread.

The World Bank estimates that about 1.4 billion people live below the international poverty line of $1.25 a day. This figure represents roughly a quarter of the developing world's population. With increased pressure placed on international aid budgets during the economic decline, private sector investment and activity in the developing world has become even more important. The scale of the development challenge requires all actors, including business, to collaborate on an unprecendented scale.

The Coca-Cola Company's Human Rights Policy

The reputation of The Coca-Cola Company is built on trust and respect. Our employees and those who do business with us around the world know we are committed to earning their trust with a set of values that represent the highest standards of quality, integrity, excellence, compliance with the law and respect for the unique customs and cultures in communities where we operate.

Our Company has always endeavored to conduct business responsibly and ethically. We respect international human rights principles aimed at promoting and protecting human rights, including the United Nations Declaration of Human Rights and the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, and we actively participate in the United Nations Global Compact.

Our acknowledgment of these international principles is consistent with our dedication to enriching the workplace, preserving the environment, strengthening the communities where we operate and engaging with stakeholders to pursue progress toward these goals.

In our workplaces and the communities in which we operate, we believe that a serious commitment to human rights is fundamental to the way we conduct our business. We treat our employees with dignity, fairness and respect, and we are guided by our shared values of integrity, collaboration and accountability.

Our commitment is formalized and manifested through various policies including our *Workplace Rights Policy*, our *Code of Business Conduct* and our environmental governance and management systems. While these policies apply to The Coca-Cola Company and all of the entities that it owns or in which it holds a majority interest, the Company is committed to working with and encouraging our independent bottling partners to uphold the values and practices that these policies drive.

The Coca-Cola Company and its bottling partners jointly understand that the true measure of a well-managed business is not just whether it is financially successful, but how it achieves that success. As our system does business around the world touching so many different and distinct local cultures, we know that it's not enough to be profitable, we must also be responsible. This is best achieved in The Coca-Cola Company's unique business system when the Company and bottlers work together toward our shared goals.

We have expressed these shared goals in a global framework for good corporate citizenship and local accountability called Citizenship @ Coca-Cola. The framework consists of a commitment to embrace a shared set of principles across our global system and is designed to measure and drive improvement in four areas of operation: workplace, marketplace, community and environment. We expect the individual companies that belong to our system to accept the accountability to live up to this commitment and apply these principles to every facet of their local operations.

Through our Supplier Guiding Principles Program (see page 45), we work with our direct suppliers to ensure that they uphold laws and regulations in the workplace and conduct their business ethically and responsibly.

The global population is predicted to reach 9 billion by 2050,[14] with the vast majority of population growth occurring in the developing world. This will cause a much greater concentration of people living in cities in the world's poorest countries, increased immigration, and a widening gap in incomes. The development challenge is set to reach new heights at a time when the old models of economic development are no longer sustainable.[15] The world's natural resources are being depleted, vital ecosystems have been disrupted, and climate change threatens to reduce agricultural yields in many African countries over the next decade.[16]

By simultaneously delivering economic, social, and environmental benefits—the so-called triple bottom line—businesses make an important sustainable contribution to development. Companies that take a more strategic approach to providing "sustainable value,"[17] both in terms of shareholder returns and a broader societal and environmental legacy, are forging a new path for the private sector. This reflects a trend

SABMiller's commitments to respect human rights

With operations in over 60 countries in five continents, SABMiller is aware of the many diverse national cultures and differences in laws, norms and traditions which must be acknowledged and respected in the course of conducting business. As a multinational company, we have a duty to respect and promote the values of the international community, notably the United Nations Universal Declaration of Human Rights (UDHR) and other internationally recognized human rights instruments. SABMiller's human rights principles apply to all employees, contractors and temporary workers at our operations and cover:

- Freedom of Association and Recognition of the Right of Collective Bargaining
- Prohibition of Forced and Compulsory Labor
- Abolition of Child Labor
- Intolerance of Discrimination
- Establishing Fair and Competitive Wages and Benefits
- Providing Safe and Healthy Work Environments
- Employee Security
- Community Commitment
- Supplier Guiding Principles

Further detail on each of these principles and case studies of our programs around the world can be found at www.sabmiller.com/humanrights.

It is projects such as this that could lead to a paradigm shift in the way businesses and NGOs work together. Huge gains can be made [for development] by these parties working together. ”

Director General of the Citizen Economic Empowerment Commission, Zambia

in which a growing number of companies recognize that they are an integral part of the communities in which they operate and that their long-term business success is directly connected to the success of the country as a whole.[18]

Many companies are now closely monitoring their value chains to ensure responsible practices and to transfer knowledge and skills in a more inclusive approach to their overall business. Through microfinance opportunities and training, for example, local entrepreneurs are given a greater opportunity to develop successful businesses that can boost their household income. This is particularly relevant for women, who in many developing countries form the majority of small-scale entrepreneurs in rural areas[19] and set up their own enterprises as the only means by which they can make a living.

There is also an appetite among many companies to create innovative business models, products, and services that recognize the needs of those at the base of the pyramid and that have a measurable development impact.[20] Providing diverse products and services at affordable prices can both unlock new consumer markets for the private sector and empower poor people.[21]

Increasingly, companies set high standards on corporate sustainability and transparency, partly in response to calls from civil society organizations to communicate their practices clearly and with greater regularity. Furthermore, there is a growing commitment to partnerships, which has led the private sector to work directly with civil society and governments to tackle communities' most pressing challenges. Companies that have an improved understanding of their impacts on communities are better positioned to support their "license to operate" and to accelerate both economic growth and poverty alleviation where it is most needed.

UN Framework on Business and Human Rights

In 2008, the United Nations Human Rights Council unanimously adopted a framework for business and human rights that recognizes that all corporations have the "responsibility to respect" human rights. This responsibility requires that companies do not infringe upon human rights through either their activities or relationships with other actors (business partners, suppliers, government bodies). To meet that obligation, companies must adopt human rights policies, undertake regular evaluations of human rights concerns in their operations and along their value chain, engage with relevant stakeholders, and put in place systems to avoid negative human rights impacts and to address grievances from victims. The UN Framework serves as an umbrella for a range of other normative standards and voluntary commitments made by companies covering issues like labor, livelihoods, water, health, and sustainability.

The Oxfam America, The Coca-Cola Company, and SABMiller partnership

As businesses gain a deeper insight into the impact of their operations on poverty and local communities, they are increasingly collaborating with governments and civil society to find multistakeholder solutions to common challenges. All stakeholders are affected by issues such as nutrition, education, lack of regulation, and taxation and must therefore act together to address them.

In 2008, The Coca-Cola Company, Oxfam America, and SABMiller—one of The Coca-Cola Company's major bottling partners and an integral part of the value chain—agreed to study The Coca-Cola/SABMiller value chain impacts on communities in two developing country markets: Zambia and El Salvador. The partnership was aimed at understanding how communities are impacted by the Coca-Cola/SABMiller value chain and to identify the opportunities for enhancing positive impacts and mitigating negative impacts.

Oxfam developed the Poverty Footprint Methodology to help companies understand their impacts, make greater contributions to poverty reduction, and provide a platform for dialogue, innovation, and accountability. Because Coca-Cola® is the world's most valuable

The Poverty Footprint Methodology*

The framework analyzes poverty in five company impact areas:

Macroeconomy: How a company's economic contributions, including distribution of profits, shareholder dividends, investments, taxes, and employment, support the countries where they operate.

Value chains: How a company's procurement, manufacturing, and distribution practices influence how easily poor people can find good-quality employment, earn a living wage, sustain a business, or participate in the market.

Local environmental practices: How a company's environmental practices affect the livelihoods and health of poor people in communities where they operate. This includes the communities' own access to natural resources and the risks they face from natural disasters.

Product development and marketing: How a company's products and services affect the health and well-being of consumers and communities and their overall ability to overcome poverty.

Policies and institutions: How a company's lobbying and relationships with other institutions (such as trade associations) affects government policies and oversight relevant to poverty issues—trade, finance, labor, essential services, etc.

Through five dimensions of poverty:

Livelihoods: Good-quality jobs, training, research and development, access to credit, markets that support adequate livelihoods, and a predictable and stable income.

Health and well-being: Health care, education, and social services are essential to general well-being.

Diversity and gender equality: Equal access to jobs, training, advancement, benefits, and other rights for women and minorities, as well as opportunities to maintain cultural identity.

Empowerment: Having a voice in decisions, policies, and practices affecting poverty.

Security and stability: Access to resources that help people endure shocks to their livelihoods, personal disasters (such as job loss or illness), weather-related disasters, war crimes, and violence.

* Poverty Footprints look comprehensively across a company's value chain at all significant poverty impacts. However, given resource and other constraints, not all issues will be covered in depth.

brand and The Coca-Cola Company is a business partner of millions of small distributors and retailers, a collaboration with the Company and SABMiller promised great potential insights around opportunities and challenges in poverty reduction.

The Coca-Cola Company is a franchise leader, and its system represents a significant global supply chain with, for example, purchases of aluminum, polyethylene terephthalate (PET), crates, sugar, and bottles. SABMiller is an independently owned and managed company responsible for the procurement of sugar and all in-country manufacturing and distribution activities. As such, SABMiller shares The Coca-Cola Company's strong interest in better understanding its community impacts along the value chain. The Coca-Cola Company and SABMiller are particularly interested in exploring how businesses can make decisions differently in order to increase their development impact.

In preparation for the Poverty Footprint research, Oxfam America, The Coca-Cola Company, and SABMiller agreed on four objectives to guide their joint work:

- To build transparency around and public awareness of the Coca-Cola/SABMiller value chain community-level effects.
- To provide a platform for engaging business, civil society and government in dialogue about the role of the system in fostering sustainable communities.
- To recommend opportunities for enhancing positive effects and mitigating negative impacts of the Coca-Cola/SABMiller system in the two focus countries.
- To develop joint organizational learning through the collaboration.

This study builds on extensive work already undertaken by The Coca-Cola Company and SABMiller to integrate sustainable development objectives into their core business strategies and day-to-day activities by identifying further steps that might be taken in local operations.

What is a Poverty Footprint analysis?

Since the publication of its Poverty Footprint report with Unilever, Oxfam has been refining and testing its methodology for these types of studies. Today's Oxfam Poverty Footprint Methodology (OPFM) is a tool that Oxfam uses with companies to assess and understand their relationships within society and the impact that company policies and practices have on the lives of people living in poverty.

Our approach

Oxfam, The Coca-Cola Company, and SABMiller agreed to apply Oxfam's Poverty Footprint Methodology in Zambia and El Salvador. These countries were selected because they are socially, geographically, and demographically diverse, and because the Coca-Cola/SABMiller value chain purchases of sugar in these countries presented the opportunity for studying the value chain from sugar production to the consumption of Coca-Cola products. A multidisciplinary team drawn from each organization worked closely together to apply the OPFM. The team conducted three months of field research in each country to derive a picture of the system's impacts during a defined period of time.

Throughout the research, the team took a number of measures to maintain stakeholder involvement by sharing project goals, research findings, and the outline of the report; undertaking regular feedback from a network of expert advisers from various sectors and regions; carrying out scoping exercises at a community level in both countries; and gaining feedback from a range of nonbusiness stakeholders through focus group sessions, surveys and individual interviews.

Oxfam managed the research teams in El Salvador and Zambia, in close collaboration with The Coca-Cola Company and SABMiller. They included Oxfam staff and contractors as well as members of the PricewaterhouseCoopers Sustainability and Climate Change team seconded to Oxfam for the duration of the three-month field work period. Information was obtained through document review, data requests, one-on-one or group interviews, written surveys, and site visits.

The Coca-Cola Company and SABMiller made efforts to open doors to Oxfam researchers throughout the value chain in both countries, particularly through the help of local and regional Coca-Cola offices and SABMiller operations in each country, Industrias La Constacia in El Salvador, and Zambian Breweries in Zambia. It was not possible to obtain data at every point in the chain. In some cases, relevant information was either unavailable or, particularly at the tail ends of the value chain, not provided by independent businesses.[22] Local suppliers were assessed on a basic level in terms of their role in the Coca-Cola/SABMiller value chain overall economic footprint, but workplace and environmental data were not gathered from these actors.

The researchers carried out more than 40 interviews in each country, with all relevant managers in The Coca-Cola Company, SABMiller bottling plants, sugar mills, and large local suppliers to the extent possible.

The following figure summarizes the additional primary research that took place with community actors across the value chain. In addition, more-detailed primary research took place in Nejapa in El Salvador, where the main bottling plant for most Coca-Cola products is based and where the production of sugar associated to El Angel Sugar Mill takes place. Ten community leaders, 141 households from seven representative communities, five municipal authorities, and four NGOs were interviewed or surveyed. Two municipal authorities in Izalco, where the other relevant sugar mill is based, were also interviewed. In Zambia, 46 key additional interviews were also conducted.

Figure 1: Primary research with community actors at each step of the value chain

	Sugar workers	Sugar mills	Other suppliers	SABMiller bottlers	The Coca-Cola Company	Distributors	Truck Drivers	Retailers	Consumers
Zambia	Interviews with 27 owners / workers of smallholder schemes	N/A	N/A	Four focus group discussions conducted in Lusaka and Ndola with 34 Zambian Breweries workers		N/A	Interviews with 6 truck drivers	Interviews with 64 retailers and 27 street vendors/traders	34 community members took part in 7 focus groups conducted in Mazabuka, Ndola, and Mongu
El Salvador	Interviews with 20 workers, 5 cooperative leaders, and 4 private growers	Focus groups with 13 workers from El Angel Mill and 12 from Central Izalco	N/A	Focus group with 12 administrative, sales, and line workers		Interviews with 5 owners or managers and 3 employees	Interviews with 8 drivers	Survey of 96 *tiendas*: 36 in Nejapa and 60 in San Salvador	36 community members took part in 1 focus group in Nejapa and 2 in San Salvador

5 Setting the scene

Overview

Zambia

Zambia is one of the poorest countries in the world, ranked 164 out of 182 countries on the United Nation's (UN) 2009 Human Development Index.[23] When Zambia became independent in 1964, it was a middle-income country poised to become prosperous. This prosperity was short-lived, however, with the country enduring an economic decline that persisted until the 1990s. Economic growth in the 1990s was the lowest in southern Africa,[24] and unemployment and inflation soared, resulting in per capita incomes that were 50 percent less in 1999 than they had been 25 years earlier.

From 2003 to 2008, the economy grew at an average of 5 percent annually, stimulated by policies conducive to foreign investment, strong macroeconomic management, lower inflation, political stability and a copper-mining boom.[25] The majority of Zambia's foreign debt was cleared in 2005 when the country received a debt-relief package of $4 billion. The economy suffered a setback in 2008 with a crash in copper prices [26] due to the global financial crisis, but recovery since has been strong, with a 6.3 percent growth rate recorded in 2009. The total percentage of people living in poverty dropped from a high of 74 percent in 1993 to 64 percent in 2006.[27]

Despite the fact that the macroeconomic outlook is currently moving in the right direction, barriers to development remain. Zambia's population struggles with low life expectancy at birth (47.5 years[28]), high maternal[29] and child mortality[30] rates, and high rates of chronic malnutrition and stunted growth in children. HIV/AIDS is prevalent, with nearly 15 percent[31] of the population between the ages of 15 to 49 years living with the virus. Eighty-five percent of the working population is engaged in agriculture, and Zambia's rapidly growing population may hinder per capita income growth.

El Salvador

El Salvador is among the 10 poorest countries in Latin America and is ranked 106 out of 182 countries in the 2009 UN Human Development Index. The country is still recovering from a decade-long civil war, a crash in coffee prices that devastated the economy, and a series of natural disasters that occurred between 1998 and 2009. El Salvador is now rated the country most vulnerable to humanitarian disasters on the planet. The country experienced steady economic growth between 1996 and 2006, driven in part by a decision to dollarize the economy in 2001.

Six percent of the population lives on less than $1.25 a day,[32] and more than 25 percent reportedly felt they must emigrate in search of work.[33] According to the UN Development Program, only 19.9 percent of economically active workers in El Salvador meet the decent employment threshold, which is defined as an income that is equal to or greater than the cost of basic food and services, along with some allowance for social protection.

Dollarization has raised the cost of living, provided easier access to capital markets, and lowered interest rates, but it has not contributed to an overall decline in poverty levels. Emigration has led to a boost in household incomes among those who receive remittances from family members who have left to live and work abroad.

El Salvador has one of the highest rates of migration to the United States from Central America, which has contributed to a significant labor shortage in the country.[34] The incidence of poverty among women and farm workers is disproportionately high compared to the overall population—these groups comprise one third of all poor and one half of the extreme poor.[35] Problems of crime and violence have also plagued El Salvador since the end of its civil war. Pervasive poverty and inequality, unemployment and underemployment, corruption and illicit firearms have all contributed to the current situation, seriously hindering development efforts.

Table 1: Key poverty indicators for Zambia and El Salvador

Poverty Indicator	Year	Zambia	El Salvador
Population[I] (million)[36]	**2009**	12.9	6.2
Life expectancy at birth (years)[II]	**2010**	47.3	72
Adult literacy rate (%)[III]	**2008**	71	84
Probability of not surviving to age 40 (%)[IV]	**2010**	43	11
People not using an improved water source (%)[V]	**2008**	40	13
Children underweight for age (under 5 years)[37] (%)[VI]	**2006**	10	10
Population below income poverty line (PPP $1.25)[VII] (%)	**2000-2008**	64.3	6.4
Population below income poverty line (national poverty line)[VIII] (%)	**2000-2008**	68.0	30.7

PPP = purchasing power parity

Table 2: Key economic indicators for Zambia and El Salvador for 2009[IX, 38]

Economic Indicator	Zambia	El Salvador
GDP per capita ($)	1,400	7,100
Annual GDP growth rate (%)	6.3	-3.5
GDP ($ billion)	12.8	21.1
Annual inflation rate (%)	13.4	0.6

GDP = gross domestic product

I World Bank, World Development Indicators, http://data.worldbank.org/data-catalog/world-development-indicators?cid=GPD_WDI

II UNDP Human Development Report (2010)

III UNDP Human Development Report (2010)

IV UNDP Human Development Report (2009)

V UNDP Human Development Report (2010)

VI UNDP Human Development Report (2009).

VII UNDP Human Development Report (2010).

VIII UNDP Human Development Report (2010).

IX Statistics from CIA World Factbook.

6

The Coca-Cola/ SABMiller Value Chain

Introducing the Coca-Cola/SABMiller value chain

The Coca-Cola Company is a global company that operates locally in every community where it does business. Coca-Cola is bottled by local companies, usually owned and managed by local people. Established in 1892, The Coca-Cola Company is the world's largest beverage company, serving consumers with more than 500 sparkling and still brands. Led by Coca-Cola®, the world's most valuable brand, the Company's portfolio features 14 billion-dollar brands including Diet Coke®, Fanta®, Sprite®, Coca-Cola Zero®, vitaminwater®, Powerade®, Minute Maid®, Simply®, and Georgia®. Globally, the Coca-Cola system is the number one provider of sparkling beverages, juices and juice drinks, and ready-to-drink teas and coffees. Through the world's largest beverage distribution system, consumers in more than 200 countries consume the Company's beverages at a rate of 1.7 billion servings a day.

The Coca-Cola system comprises the Company and more than 300 bottling partners worldwide. The Coca-Cola Company manufactures and sells concentrates, beverage bases, and syrups to its bottling partners. It also owns the brands and markets these brands in its capacity as trademark owner. The Coca-Cola Company's bottling partners manufacture, package, merchandise, and distribute the finished branded beverages to customers, who then sell the products to consumers.

The bottlers engage with their own local business partners to procure ingredients, such as sugar, and supplies, such as glass bottles.

For the purposes of this study, the Coca-Cola/SABMiller value chain refers to The Coca-Cola Company and its relevant subsidiaries, as well as SABMiller's bottling plants and its suppliers, distributors, and retailers in Zambia and El Salvador. SABMiller's local operations are ILC in El Salvador and Zambian Breweries in Zambia.

SABMiller's role as bottler

In Zambia and El Salvador, SABMiller owns and operates the bottling operations. As such, SABMiller's local bottlers are responsible for purchasing the inputs into the production process, including sugar, and executing the sourcing, manufacturing, and distribution strategy in these countries. The Coca-Cola Company has a limited number of employees in both countries and primarily provides marketing and technical services through its staff, based in local and regional offices.

ILC is the major bottling plant in El Salvador, formed out of the merger of La Constancia, Embosalva, and Industrias Cristal in 2003. Since 2005, it has been wholly owned by SABMiller. It has a contract with The Coca-Cola Company to be the sole bottler of Coca-Cola products in El Salvador, and it held 51 percent of the sparkling category in 2009, with revenues of $108.4 million. Zambian Breweries, the main bottler for The Coca-Cola Company in Zambia, is owned by SABMiller. In 2009 it held 64 percent of the sparkling beverages category in Zambia and generated revenues of $39.9 million.

The Coca-Cola/SABMiller value chain in these geographic markets

El Salvador is a relatively small but important geographic market for The Coca-Cola Company in Latin America, ranking 13 among Latin American countries by volume sales. Zambia is one of The Coca-Cola Company's midsize geographic markets in Africa, ranking 19 out of 56 countries by volume sales in 2009. In spite of increasing competition in both markets, the Company has developed action plans to accelerate growth in both countries over the next few years.

In both El Salvador and Zambia, sparkling beverages are the nonalcoholic beverage of choice. Coca-Cola products lead in market share in this category in both markets, with Coca-Cola products comprising 73 percent of the total sparkling beverage category in Zambia and 51 percent in El Salvador. In Zambia, Coca-Cola products have the largest share of the sparkling beverage category. Other sparkling-beverage-focused companies, such as Apple Max (manufactured by California Beverages) and Tangy drink, are the main in-country competitors.

Profits were reduced in the Coca-Cola products category in 2009 in Zambia as a result of a significant investment in glass bottles at relatively high cost due to tight supply conditions. In El Salvador, revenues have been increasing consistently over the past four years, as higher volumes have more than offset the effect on revenue of reduced prices in a very competitive marketplace.

According to The Coca-Cola Company, isotonics and flavored water are seen as a growth opportunity as a replacement for juices in the El Salvador geographic market.

Table 3: The Coca-Cola Company product portfolio in Zambia and El Salvador[39]

Category	Zambia	El Salvador
Sparkling beverages	Coca-Cola, Coca-Cola light, Fanta, Sprite, Schweppes, Sparletta, Limca, Citra, Mazoe, Jolly Juice	Coca-Cola, Coca-Cola light, Coca-Cola Zero, Fanta, Sprite, Sprite Zero, Fresca, Tropical
Juice drinks	-	Hi-C
Energy drinks	Burn	-
Sports drinks	-	Powerade, Powerade Option
Water	Kinley	Kinley, Dasani
Tea/coffee	-	Hi-C Tea

Figure 2: The Coca-Cola Company share of the sparkling beverage market in Zambia*

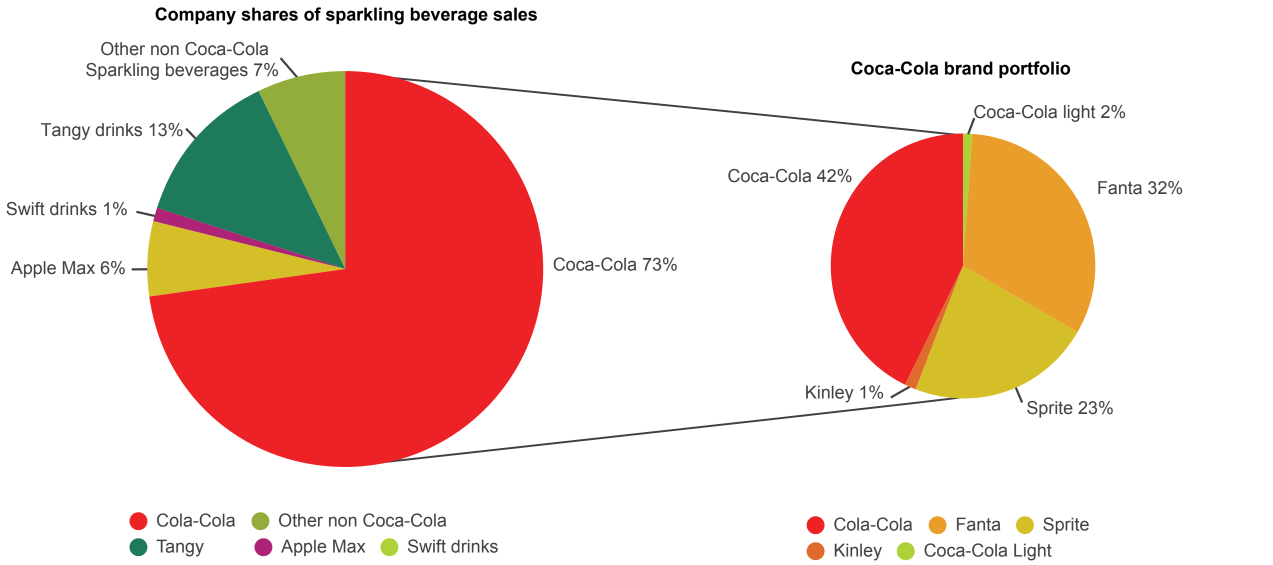
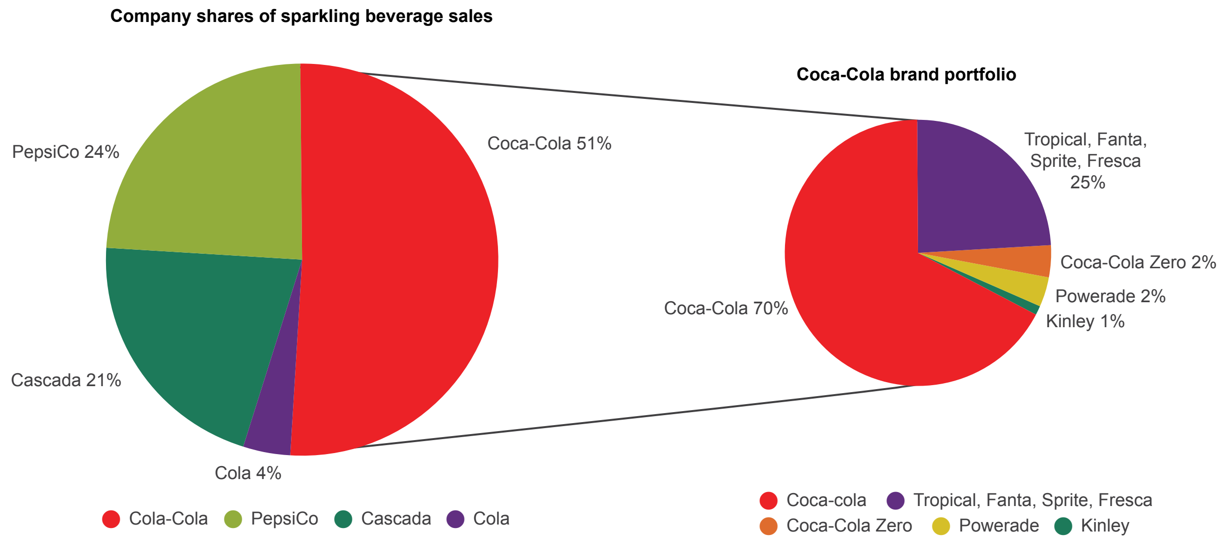


Figure 3: The Coca-Cola Company share of the sparkling beverage market in El Salvador[37] *



* Numbers rounded, hence small discrepency

Figure 4: The Coca-Cola/SABMiller bottlers value chain and its key players in these markets

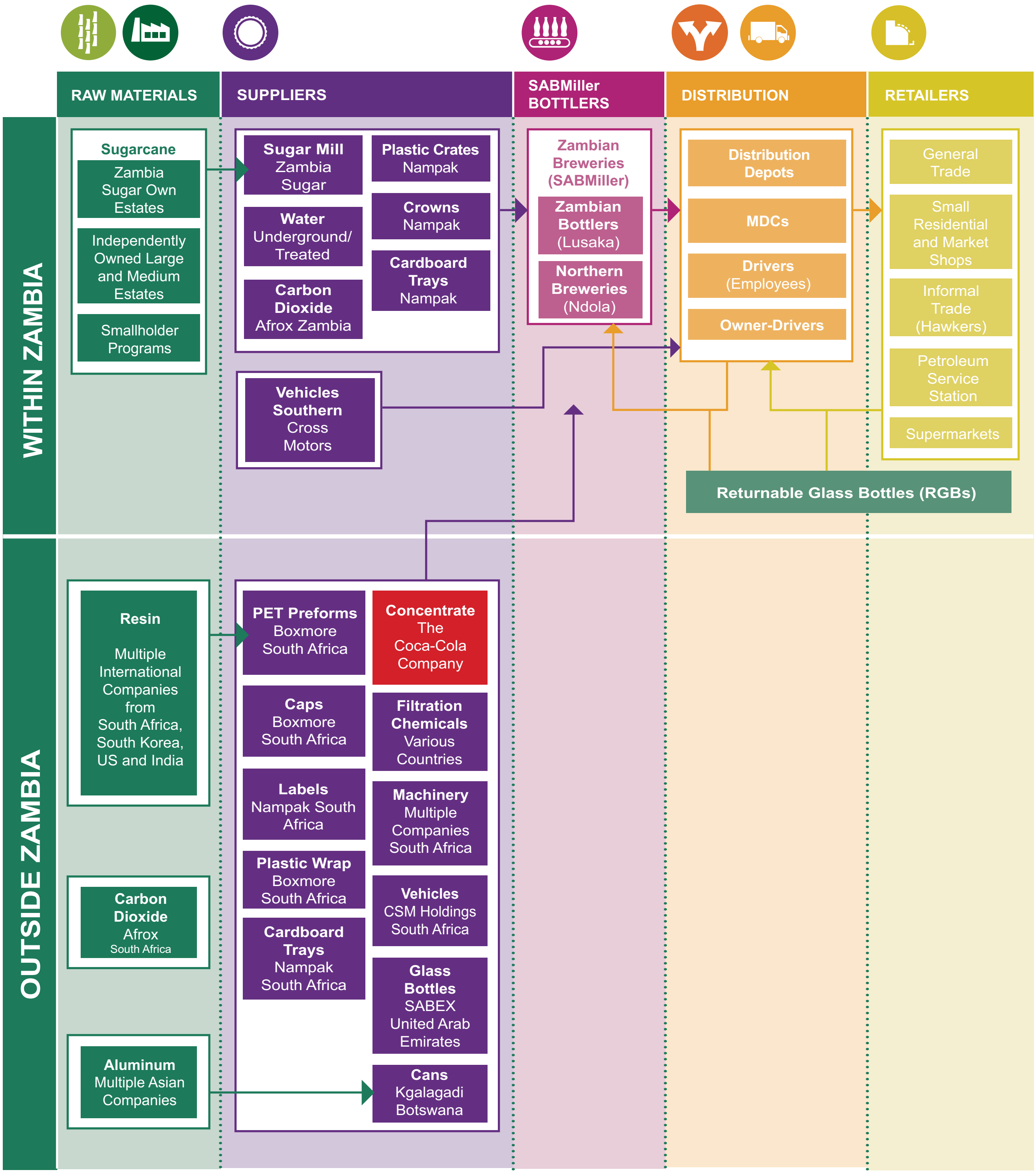
	Sugar workers	Sugar mills	Other suppliers	SABMiller bottlers	The Coca-Cola Company	Distributors	Truck Drivers	Retailers
Zambia	Zambia Sugar-owned estates, independently owned large and medium estates, and smallholder programs.	Zambia Sugar is the sole supplier of sugar to Zambian Breweries for sparkling beverages.	Nampak Zambia is the sole supplier of high-density polyethylene crates and crowns used with returnable glass bottles. Afrox Zambia is the supplier of carbon dioxide used in bottling. Other supplies are imported.	Zambian Breweries (ZB), of which SABMiller has an 85 percent ownership stake, is the largest bottler of Coca-Cola products in Zambia and operates two facilities: Zambia Bottlers in Lusaka and Copperbelt Bottlers in Ndola.	The Coca-Cola Company manufactures the concentrate that goes into all its products.	Zambian Breweries runs its own distribution centers. Sparkling beverages are also distributed through a variety of independent channels: distributors (agents), wholesalers (strategic sales depots), and micro distribution centers.	Both independant and ZB truck drivers are involved in distributing beverages.	Coca-Cola products are sold through 25,000 retail outlets, including informal outlets, supermarkets, hotel bars, restaurants, fast food restaurants, kiosks *(ntembas)*, markets, and petroleum stations.
El Salvador	Sugar is procured by sugar mills from three sources: formal public corporations, cooperatives, and independent smallholders. Producers hire farm workers independently, mostly on an informal basis.	El Angel and Central Izalco are the sole suppliers of sugar to ILC for sparkling beverages.	Cajas y Bolsas is the sole provider of cardboard packaging materials. LABELS is the sole provider of beverage product labels. Other supplies are imported.	Industrias La Constancia (ILC) is the sole bottler of Coca-Cola products in El Salvador and operates two facilities: the ILC sparkling beverage bottling plant in Nejapa (a municipality of San Salvador) and the ILC water and juice plant in San Salvador. The latter is outside the scope of this study because its production of Coca-Cola is minimal.	The Coca-Cola Company manufactures the concentrate that goes into all its products.	ILC operates its own distribution centers and cross-docks. Independent distributors use three routes to market: wholesalers, smaller distributors, and small warehouses.	ILC employs drivers and independent owner-drivers.	Coca-Cola products are sold through 64,000 retail outlets. The vast majority of retail outlets are small shops located in private residences. Other channels include bars, food chains, restaurants, service centers, supermarkets, and gyms.

Key terms in sugarcane production	
Sugar harvester	Laborer paid to harvest the crop
Sugar worker	Laborer in sugar farms, includes harvesters and other types of workers
Sugar farmer	Mainly used for smallholders who may also work their own land
Sugarcane grower or producer	Term used for all types of sugar farm/estate owners

The Coca-Cola/SABMiller value chain in Zambia

Zambian Breweries procures sugar from Zambia Sugar, a company based in southern Zambia with the second-largest sugar mill in Africa and one of only two mills in Zambia. Zambia Sugar purchases the sugar it mills from its own farms as well as outgrower farms. Zambian Breweries purchases approximately 7 percent of Zambia Sugar's production—and approximately 70 percent of this is used in Coca-Cola products. Zambian Breweries also purchases the other inputs into the process, such as bottlecaps, plastic crates, and labels. Coca-Cola products are produced in two bottling plants, in Lusaka and Ndola, and distributed across the country through a network of independent distributors, depots, truckers, and micro distribution centers (MDCs). The Coca-Cola system's retail channels are varied and include supermarkets, hotels, bars, restaurants, petrol stations, small kiosks on street corners (known locally as *ntembas*), and markets. In Zambia, Coca-Cola products are sold to consumers from more than 25,000 outlets.

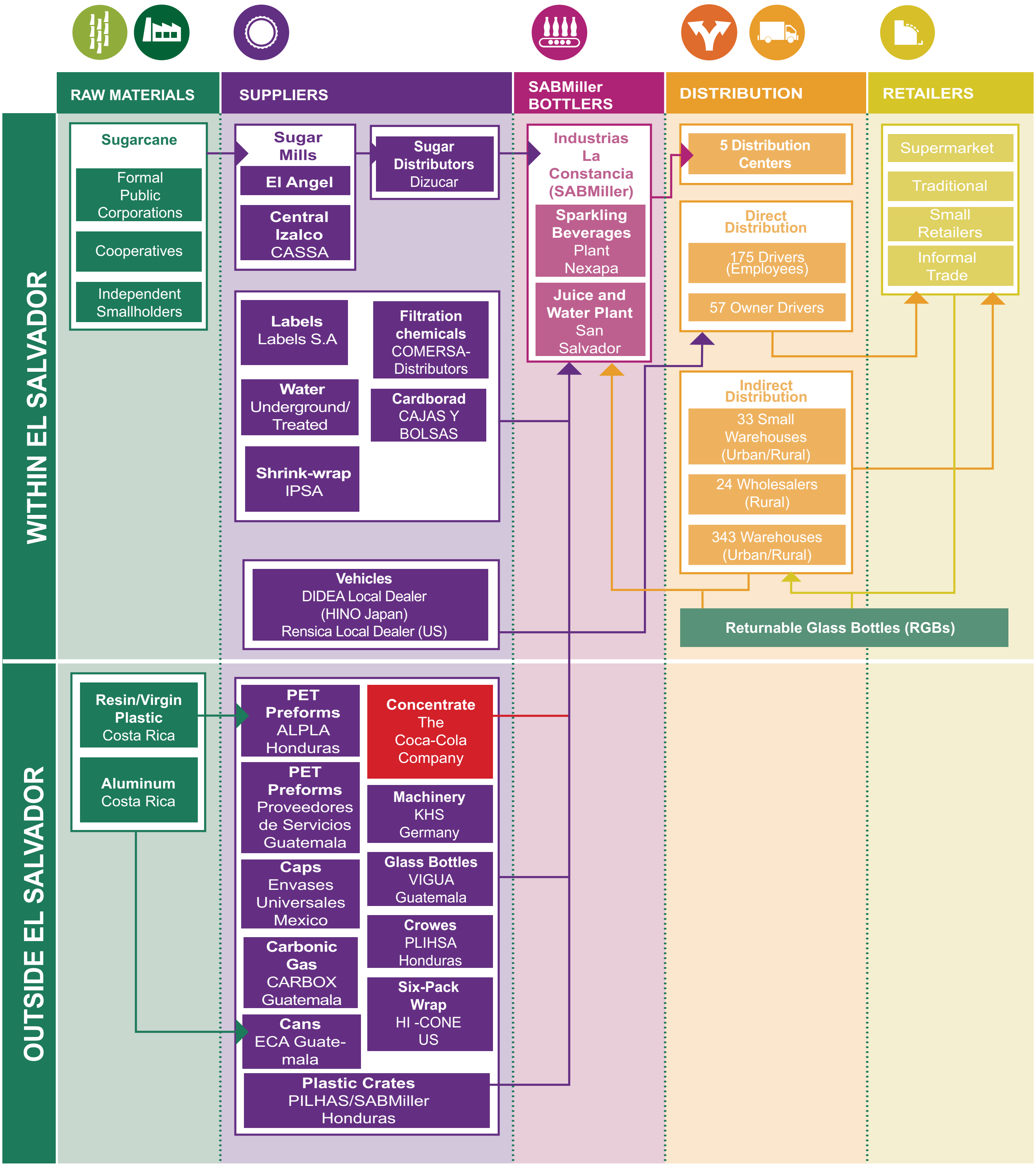
Figure 5: Map of the Coca-Cola/SABMiller value chain in Zambia



The Coca-Cola/SABMiller value chain in El Salvador

The value chain in El Salvador follows a very similar structure. Sugar for the production of The Coca-Cola Company beverages in El Salvador is purchased by SABMiller's bottlers bottling plant, ILC, primarily from two sugar mills: Central Izalco and El Angel, while other diverse inputs come from other suppliers. ILC's bottling plant in the country is located just outside San Salvador in Nejapa. Coca-Cola products are then distributed through ILC's own distribution depots by its own trucks and independent owner- drivers and by third-party distributors to an estimated more than 64,000 customers, including small retail shops and large supermarkets.

Figure 6: Map of the Coca-Cola/SABMiller value chain in El Salvador



7

Value chain: Macroeconomic impacts*

Headlines

- The total GVA[40] of the Coca-Cola/SABMiller value chain in Zambia is estimated to be $21 million, in El Salvador $83 million. SABMiller bottling plants, distributors, and retailers contribute a significant portion of those impacts. In El Salvador, ILC makes up almost 20 percent in of the total generated GVA impacts while distribution and retail accounts for almost 50 percent.
- The Coca-Cola/SABMiller value chain supports an estimated 3,741 jobs in Zambia, including the informal sector, and approximately 4,200 jobs in El Salvador's formal sector. The Coca-Cola/SABMiller value chain supports a sizable retail sector in both countries, with approximately 64,000 retail outlets in El Salvador and approximately 25,000 in Zambia, most of which are small-scale shops, often run by women.
- In Zambia, Zambian Breweries paid $53.5 million in taxes between financial years 2006 to 2010. In El Salvador, ILC paid $51 million in taxes between 2005 and 2009.
- To purchase supplies for Coca-Cola products in 2009, Zambian Breweries spent approximately $26 million and ILC spent approximately $73 million. Many of these products were sourced via regional or international companies since they were not available locally.

Companies play an important role in the economic development of a country through the value of goods they generate, the financial flows that affect the country's balance of payments, and the overall jobs they create. Changes in sourcing strategies, continued payment of taxes in line with national legislation, and capacity building for employees and local businesses can all have a positive impact on the economic development of a country.

Calculation of impacts on GVA and employment

The total gross value added (GVA) and employment contributions of a company include direct, indirect, and induced impacts. In order to estimate the GVA contributions attributable to the Coca-Cola/SABMiller value chain in El Salvador, direct impacts were multiplied by the production, distribution and sales,[41] and sector-specific indirect and induced multipliers.[42] Wages paid to employees in the Coca-Cola/SABMiller value chain were used as a proxy for its value added. As a result, the GVA represents a conservative estimate of the direct impact of the Coca-Cola/SABMiller system, given that the calculation of the direct impact does not capture profits accruing to shareholders.

*The tax figures in this report are based on data provided from both companies. This study did not conduct an analysis of the financial reporting or tax planning of either company.

In the absence of applicable multipliers for Zambia, the research team adjusted an output multiplier for a comparable activity in South Africa.[43] The total GVA of the Coca-Cola/SABMiller value chain, which is largely formed by SABMiller's bottling plants, is approximately $21 million in Zambia and $83 million in El Salvador.

Direct employment figures in Zambia and El Salvador were generated from the review of annual reports and interviews with human resource managers in SABMiller's bottlers: Zambian Breweries and ILC. In Zambia, it was not possible to differentiate jobs in production, distribution, and sales, so aggregate results are presented below.

Figure 7: Numbers of employees associated to the Coca-Cola/SABMiller system

	Sugar workers	Sugar mills	Other suppliers	SABMiller bottlers	The Coca-Cola Company	Distributors	Truck drivers	Retailers
	Largely informal	Formal	Formal			Formal, informal, largely formal, or largely informal		Largely informal
Zambia		130 at Zambia Sugar	19	354	2	• 350 at distributors • 23 route drivers • 13 independent contractors		Product sold in 25,000 locations
El Salvador	350 producers/ workers	• 211 at sugar mills • 14 at Dizucar	8	565	10	632 (Distribution and sales plus 1,279 jobs through owner-drivers and distribution channels that are supported partly by the Coca-Cola system)		Product sold in 64,000 locations

Breakdown of employment figures

Table 4: El Salvador supply chain

Suppliers	
Producers/workers	350
Sugar mills	211
Dizucar	14
Other suppliers	8
The Coca-Cola Company	10[44]
Total	593

Table 5: Industrias La Constancia

Function	
Manufacturing	398
Distribution	359
Sales	273
Other areas	167
Total	**1,197**

Table 6: Zambia supply chain

Suppliers	Total employees	Direct Coca-Cola Company-related jobs
Zambia Sugar	4,351	130
Afrox Zambia	117	7
Nampak Zambia	70	12
Total	-	**149**

Table 7: Zambian Breweries

Function	Total employees	Direct Coca-Cola Company-related jobs
Copperbelt Bottling	131	131
Zambian Bottlers	62	62
Temps and casuals	35	35
Zambian Breweries	468	126
Zambrew[45]	-	2
Total	-	**356**

Job creation

While the number of direct Company and SABMiller employees working in both countries is relatively small, the Coca-Cola/SABMiller value chain has a significant impact on job creation.

In Zambia, an estimated 3,741 jobs are created directly and indirectly[46] by the Coca-Cola/SABMiller value chain. This implies that for every job directly created by the Coca-Cola/SABMiller system in Zambia, an estimated additional 9.5 jobs are created in the economy. This multiplier also aims to estimate not only formal sector employment but also informal sector employment.

In El Salvador, the Coca-Cola/SABMiller value chain has created an estimated 4,200 jobs in the formal economy only, which represents approximately 1 percent of the total formal employment in the country. Job multipliers imply that for every direct job created by the Coca-Cola/SABMiller system in El Salvador, an estimated additional 2.52 jobs are created in the economy. This multiplier relates to direct and indirect jobs[47] in the formal economy only, and excludes informal jobs.

Table 8: Aggregate employment impacts of the Coca-Cola system in Zambia and El Salvador

	Zambia	El Salvador
Direct jobs created	356[48]	1,207
Employment multiplier (formal)	-	2.52
Employment multiplier (formal and informal sectors)	9.51	-
Indirect and induced jobs created	3,385	3,037
Total jobs created	**3,741**	**4,244**

In both countries, the majority of formal jobs linked to the Coca-Cola/SABMiller value chain are in nonfarm supplies, bottling, distribution, and sales. The informal jobs are largely found in sugar harvesting and in the retailing of Coca-Cola products. The system supports an extensive retail sector, with products sold in approximately 25,000 locations in Zambia and approximately 64,000 locations in El Salvador. In El Salvador, 62 percent of these outlets are “popular shops,” small-scale independent businesses located in low-income residential neighborhoods, usually adjacent or attached to peoples’ homes.

Overview of informal economy

The informal economy is seen as comprising all forms of informal employment—that is, employment without formal contracts (i.e., covered by labor legislation), worker benefits, or social protection—both inside and outside informal enterprises, including:

Self-employment in informal enterprises: Workers in small unregistered or unincorporated enterprises, such as:

- Employers
- Own account operators
- Unpaid family workers

Wage employment in informal jobs: Workers without formal contracts, worker benefits, or social protection for formal or informal firms, for households, or with no fixed employer, such as:

- Employees of informal enterprises
- Other informal wage workers, for example, casual or day laborers, domestic workers, unregistered or undeclared workers, and temporary or part-time workers
- Industrial outworkers (also called home workers)

The largest occupational categories within the informal economy in most developing countries include casual day laborers in agriculture and construction, small farmers, forest gatherers, street vendors, domestic workers, workers in export processing zone factories or small unregistered workshops, and industrial outworkers who work from their homes (also called home workers).

M. Chen, J. Vanek and M. Carr, *Mainstreaming Informal Employment and Gender in Poverty Reduction: A Handbook for Policy-Makers and Other Stakeholders* (London: Commonwealth Secretariat, IDRC and WIEGO, 2004).

Revenue distribution

A cost model for a crate of 24 12-ounce bottles of Coca-Cola for each country helps to understand how the revenue per crate is used to cover supply, production, distribution, and sales costs, including margins kept by the external distribution channels, retailers, and the bottler. This cost model provides, at a micro level, a perspective of the relative weight of each value chain player in making up the value that consumers pay for a crate of Coca-Cola and is a proxy for how the overall revenues are distributed. The information below is represented from the point of view of SABMiller's bottling plants, Zambian Breweries and ILC. Note that since this research was completed in 2009, the operating models in El Salvador and Zambia have changed.

The revenues earned from each crate of 24 12-ounce bottles of Coca-Cola are shared among supply, production, distribution, and sales partners. The proportion of revenue allocated to each partner reflects the cost structure and profit margins of that line of business.

In El Salvador, the recommended retail price (RRP) for a case of Coca-Cola is $4.25. In 2009, the cost to produce the case, including supplies, operating costs, packaging materials, marketing, and distribution, accounted for 62 percent of the revenue. Distributors external to ILC collected 8 percent of revenues, and sugar costs made up just 1 percent of the RRP. Beyond that, retailers represented 13 percent of revenue, SABMiller collected a 6 percent margin, and 10 percent of revenues went to the government through excise taxes.

In Zambia, the RRP for a case of Coca-Cola is $5.04. The cost to produce the case accounted for 76 percent of revenue per case. The portion of revenue per case allocated to retailers was approximately half (6 percent) of the allocation in El Salvador. SABMiller collected 5 percent of revenues, and the government allocated another 5 percent through excise taxes.* Distributors external to Zambian Breweries collected 7 percent, and sugar costs made up just 1 percent of the RRP.

The profits received by each player in the value chain from the sale of Coca-Cola products depend on the volume of sales and the cost structure of that business in each country.

Interviews conducted during the research revealed that the overall net profit margins for distributors in El Salvador was 56 percent, for retailers 35.5 percent, and for sugar producers 22 percent.[49] These percentages relate to total operations and include many lines of business, beyond just Coca-Cola products. Furthermore, these percentages are not always comparable due to the different business types and cost structures.

* Zambia law provides that excise duties on soft drinks are levied at 10 percent of ex-factory price which in this case has translated into 5 percent of the retail price.


1.25 LITROS

Oxfam believes that local sourcing can bring value to both companies and poor communities. When possible, corporations should foster opportunities for local businesses to supply necessary goods and services that benefit the community and the business. As a first step in considering sourcing options (local and regional), companies should evaluate how those decisions will impact poor communities and implement a policy for preferring sources that will bring the greatest benefits to poor communities. Barriers to local sourcing include limited technical skills and expertise, high production costs, lack of production capacity to meet demands, and a lack of coordination with governments to create an enabling regulatory environment (e.g., bureaucratic obstacles to operating a business, access to infrastructure, and ease of distribution).

Before turning to outside options, companies should first consider addressing these barriers and supporting local producers and suppliers to bring them into the supply chain. When changing suppliers, it is important that relevant stakeholders, such as workers or local communities likely to be affected, be included in such decisions as transparently and sensitively as possible.

Tax contributions of the Coca-Cola system

The amount of taxes paid locally depends on the countries' tax laws which include the types of taxes applicable. Over the past five years, in El Salvador, SABMiller has made total tax payments of approximately $51 million.

Zambian Breweries is paying steadily increasing taxes, although the standard rate of value-added tax (VAT) was reduced from 17.5 percent to 16 percent April 1, 2008. Over the past five years the SABMiller in Zambia has made total tax payments (taxes borne and paid) of approximately $53.5 million.

Sourcing supplies

The Coca-Cola/SABMiller value chain extends outside of both countries. In 2009, of the $26 million spent on procurement in Zambia, approximately 25 percent was spent locally, and of the approximately $73 million spent in El Salvador, 36 percent was spent locally. The remaining inputs were purchased from companies based regionally or internationally because these inputs were not available locally.

Most of the nonlocal suppliers to ILC are based in Central America, those to Zambian Breweries are based in South Africa. Both The Coca-Cola Company and SABMiller promote local sourcing where possible to encourage local economic growth.

In many developing country markets there is insufficient local industry to provide all inputs into the business. Price, availability and quality are the primary considerations when sourcing supplies, and local suppliers do not always have the technical capacity to operate effectively or the means to meet demand for their products. They may find it difficult to satisfy the company's expectations of labor and environmental standards, which The Coca-Cola Company and SABMiller examine before establishing purchasing relationships. High production costs and inefficient domestic business regulation can act as further barriers to developing a local supply base.

Table 9: Taxes borne from and collected by the Coca-Cola/SABMiller system in Zambia and El Salvador ($ Million)[50]

Year	El Salvador			Zambia		
	Other Direct and Indirect taxes	Excise Tax	Total	Other Direct and Indirect taxes*	Excise Tax	Total
2007	6.08	12.06	18.14	NA	NA	-
2008	6.22	12.03	18.25	6.68	2.66	**9.34**
2009	5.56	12.31	17.87	4.95	2.99	**7.94**

*This number is not inclusive of all amounts collected through withholding taxes.

In all markets, with few exceptions, Coca-Cola products are produced by a local company, and efforts are made on an ongoing basis to seek out local suppliers, even for goods currently being imported from abroad. For example, Zambian Breweries has partnered with its local glass bottle supplier to build capacity, thereby reducing the costs of importing bottles from the United Arab Emirates, as it did previously.

While increased local sourcing can bring benefits to local communities and should, in Oxfam's view, be prioritized, there is also a strong case for continuing regional sourcing to spread development benefits across countries that have similar rates of poverty.

A supplier site external to both
The Coca-Cola Company and SABMiller.

Recommendations for follow-up action

- **Convene community stakeholders and business partners in focused discussions on the barriers to local sourcing and options to address these barriers.**
- **Create a process to capture and share best practices among small and medium enterprises (SMEs) in the Coca-Cola system to more broadly foster continual improvement among local businesses and contribute to the development of local industry.**
- **Engage with NGOs and financial groups to discuss providing microcredit to SMEs in the Coca- Cola system, perhaps with a particular focus on women.**
- **Engage with Zambia Sugar, El Angel, and Central Izalco to explore providing technical assistance, training and financing to sugar growers.**

8

Value chain: Livelihoods

Headlines

- The Coca-Cola/SABMiller value chain supports thousands of jobs in both Zambia and El Salvador, but the quality of these jobs varies according to their place in the formal or informal economy.
- Workers across most of the value chain earn above minimum wage, but at the edges of the value chain wages are sometimes insufficient to meet daily needs.
- Sugarcane workers, at the far end of the value chain, are among the most vulnerable actors due to the lack of formal contractual arrangements to protect their rights and the low-paid, seasonal nature of their work.
- Wages, benefits, job security, labor standards, and additional support services are good within SABMiller's bottling plants, but there is an opportunity to improve communication between management and workers on some of these issues.
- There are significant livelihood opportunities in the distribution and retail portions of the value chain, particularly for people traditionally excluded from employment, and especially women.
- The Coca-Cola Company and SABMiller's investments in human development, training, and access to credit in the value chain reap significant benefits for individual stakeholders.

Ensuring an adequate living, a sustained livelihood, and a stable and predictable income is an essential contributor to poverty alleviation in developing countries. Employment, along with access to training, research, and development, and credit markets, contributes to livelihoods. Employment can most effectively reduce poverty if it offers decent, productive work in conditions of equity, security, and human dignity.

Labor standards in the value chain

The Coca-Cola Company conducts an audit program to assess whether supplier and bottler workplaces uphold internationally recognized labor and environmental standards as outlined in its *Supplier Guiding Principles*. The Coca-Cola Company's audits cover its bottlers, which many companies would consider first-tier suppliers, as well as authorized suppliers to bottlers, which could be considered second-tier suppliers. By the end of 2008, The Coca- Cola Company audited 1,818 bottlers and suppliers globally, out of as many as 4,224 suppliers worldwide. Additionally, labor audits of first-tier suppliers were introduced in Zambia in 2010.

Figure 8: Auditing in The Coca-Cola System*

* Some of the value chain partners are covered by SABMiller's audit processes.

The Coca-Cola Company supplier guiding principles

Freedom of Association and Collective Bargaining Respect employees' right to join, form or not to join a labor union without fear of reprisal, intimidation or harassment. Where employees are represented by a legally recognized union, establish a constructive dialogue with their freely chosen representatives and bargain in good faith with such representatives.

Prohibit Child Labor Adhere to minimum age provisions of applicable laws and regulations.

Prohibit Forced Labor and Abuse of Labor Prohibit the use of all forms of forced labor, including prison labor, indentured labor, bonded labor, military labor or slave labor.

Eliminate Discrimination Maintain workplaces that are free from discrimination or physical or verbal harassment. The basis for recruitment, placement, training, compensation and advancement should be qualifications, performance, skills and experience.

Work Hours and Wages Compensate employees relative to the industry and local labor market. Operate in full compliance with applicable wage, work hours, overtime and benefits laws and offer employees opportunities to develop their skills and capabilities, and provide advancement opportunities where possible.

Provide a Safe and Healthy Workplace Provide a secure, safe and healthy workplace. Maintain a productive workplace by minimizing the risk of accidents, injury and exposure to health risks.

Protect the Environment Conduct business in ways which protect and preserve the environment. Meet applicable environmental laws, rules and regulations.

SABMiller's approach to enterprise development

SABMiller has a series of Responsible Sourcing Principles which guide all of our suppliers and include business conduct, working conditions, forced or compulsory labor, child labor, wages and hours, diversity, freedom of association and protecting the environment. These can be found in detail at www.sabmiller.com/enterprisedevelopment. Over and above these principles we emphasise five areas for business focus to improve the economic and social value we add to society:

1. Proactively engaging smallholder farmers through supply chain partnerships, and encouraging local commercial agricultural sourcing where possible
2. Developing the capabilities of local packaging materials suppliers
3. Supporting small-scale entrepreneurs as distributors and retailers of our products
4. Measuring and optimizing our local economic impact through independent economic impact multiplier studies
5. Encouraging all of our suppliers to be aware of and engage with critical sustainable development priorities such as water management, human rights and HIV/AIDS where appropriate

Sugar farms are not audited as a part of The Coca-Cola Company's formal audit program as they are indirect suppliers to the system.

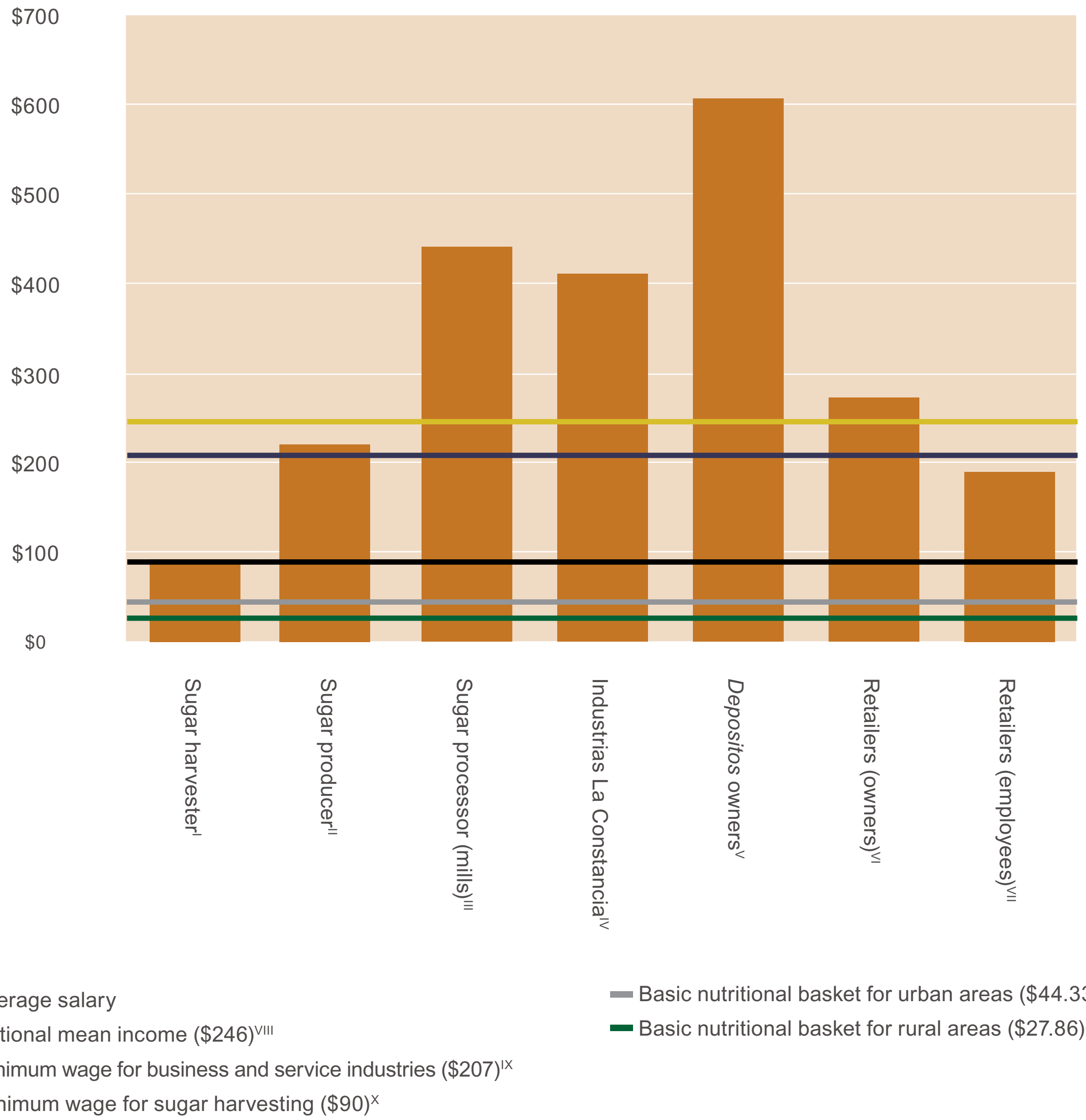
The Coca-Cola Company's policy requires that audits include confidential worker interviews, documentation review, and site visits. If any instances of nonconformance are identified, a corrective action plan is created with the supplier or bottler management. Where nonconformance is significant, Company policy requires that the person responsible consider terminating that supplier. Given the vulnerability of sugarcane workers, the Company encourages its sugar mill suppliers to assess and address the conditions of these workers.

Livelihoods in the formal and informal sectors

Thousands of jobs are generated or supported by the Coca-Cola/SABMiller value chain across El Salvador and Zambia. Common to most developing country value chains, the Coca-Cola/SABMiller value chain in these countries bridges a small formal sector and sprawling informal sector.

The informal sector is estimated to be at least 60 percent of the economy in El Salvador[51] and almost 90 percent in Zambia.[52] The informal sector provides vital livelihood opportunities because formal employment opportunities are scarce. Examples of informal

Figure 9: Monthly wages across the Coca-Cola value chain in El Salvador



All figures are per capita.

Note: See page 47 for Figure 9 sources.

employment include some workers in the sugar fields, some workers in distribution (e.g., *minibodegas*) and retail channels (e.g., workers in street kiosks) and workers in some of the smallholders sugarcane farms. These jobs are unregulated but represent essential lifelines for vulnerable people.

A worker's livelihood and job security depend on whether a job is located in the formal or informal sector. Workers in the formal sector can claim entitlements from their employer and social welfare benefits from the government. They can also more easily engage in collective negotiations and enjoy a measure of security against arbitrary dismissal.

Workers in the informal sector, by contrast, typically enjoy fewer rights, may endure substandard working conditions, receive limited or no social security, and are particularly vulnerable to fluctuations in the market. Nevertheless, for those at the edge of survival, informal work is often preferable to no work at all.

Oxfam, among others, has proposed the concept of a "living wage" as a useful platform for needed wage improvements. Oxfam defines a living wage as a net wage earned for a full-time working week (without overtime) which allows a family to meet its basic needs and allows a small amount for discretionary spending. These needs include nutrition, clothing, health care, education, drinking water, child care, transportation, housing, vacation, and energy, in addition to a small amount for discretionary spending, savings, and investments.

Minimum wages, living wages and benefits

Minimum wages should act as a critical safety net, ensuring that wages are sufficient to meet people's basic needs. While it is difficult to obtain credible estimates of what it would cost to cover the basic needs of an average family, it is clear that most current minimum wage standards are insufficient. For example, in Zambia the minimum wage was established in 1994 and has not been adjusted, although Zambia has experienced annual inflation rates of up to 21 percent since this time.[53]

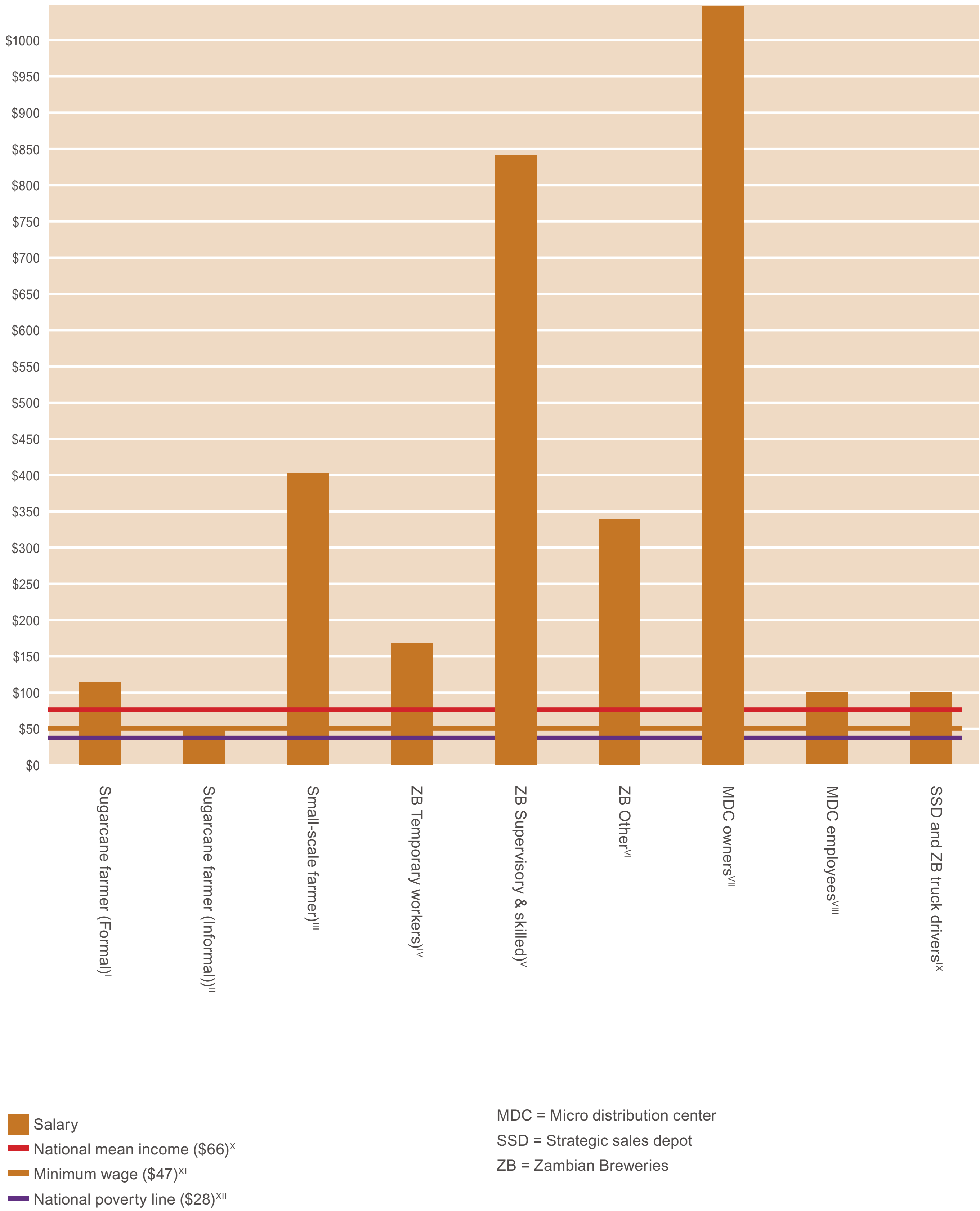
At present, a credible study of what would constitute a living wage in either Zambia or El Salvador is not available. There are few indicators that could approximate a living wage in both countries since most indicators that measure basic needs of an average family in developing countries tend to focus on poverty levels. However, a closer look at a range of standard income measures, such as poverty lines and mean incomes, can provide an insight into the level of pay across the Coca-Cola/SABMiller system's value chain. For example, the Salvadorian government estimates that the "basic nutritional basket" ("Canasta Básica Alimentaria") would cost an individual living in the city $44 a month. In Zambia, similar income guides exist: The World Bank estimates the national poverty line to be $28 a month per person. This study finds that 8 out of 14 workers interviewed in the formal parts of the CocaCola/SABMiller value chain system were fairly satisfied with their wages and benefits.

However, at the edges of the value chain, among sugar harvesters and informal retailers, daily earnings are often insufficient to meet daily needs. Without additional employment or other working members in the household, the wages of a typical sugar harvester are inadequate to support a household. Unfortunately, these problems are typical for unskilled, day laborers in developing countries.

Figure 9: Sources

I	Source: 20 workers surveyed.
II	Source: 9 producers surveyed.
III	Source: 6 workers from Izalco, 3 from El Angel, surveyed.
IV	Source: 8 ILC employees out of 14 surveyed.
V	Source: 6 owners surveyed. Income from all sources, not just from Coca-Cola products.
VI	Source: Data from 95 stores.
VII	Source: 14 full-time salaried employees surveyed.
VIII	Source: World Bank PovcalNet. Available at http://iresearch.worldbank.org/PovcalNet/povcalNet.html converted to 2009 Prices using USDA Economic Research Service GDP Deflators.
IX	Source: Romero Pineda & Asociados reported minimum wages (2009). Available at http://www.romeropineda.com/downloads/New_Minimun_Wages.pdf.
X	Source: Romero Pineda & Asociados reported minimum wages (2009). Available at http://www.romeropineda.com/downloads/New_Minimun_Wages.pdf.
XI	Source: Canasta Básica Alimentaria, Encuesta de Hogares dePropósitos Múltiples 2009. Available at http://www.digestyc.gob.sv/publicaciones/EHPM2009.pdf.
XII	Source: Canasta Básica Alimentaria, Encuesta de Hogares de Propósitos Múltiples 2009. Available at http://www.digestyc.gob.sv/publicaciones/EHPM2009.pdf.

Figure 10: Monthly wages across the Coca-Cola value chain in Zambia



MDC = Micro distribution center
SSD = Strategic sales depot
ZB = Zambian Breweries

Exchange Rate $1:5690ZMK. All prices/wages converted to 2009 prices using USDA Economic Research Service GDP deflators. All figures are per capita.

Note: See page 49 for Figure 10 sources.

El Salvador

The highest wages in the Coca-Cola/SABMiller value chain are earned by those working in the formal sector, including employees at the sugar mills, those who work at the bottling company, and owners of *depositos* (distribution warehouses in rural and urban areas). These employees showed a very healthy purchasing power, often above the national average. Retail owners also earn a relatively high average monthly income, one that is higher than the national mean income. Sugarcane workers earn average incomes that are just above the minimum wage and about three times rural basic nutritional basket (per capita). Sugar producers and sugar mill workers earn incomes above the sugar refinery statutory minimum wage. However, some distributors, retail employees, and even retail shop owners earn less than the minimum wage, although their wages are usually well above the urban basic nutritional basket.

Zambia

Workers in the formal sector consistently earn above the poverty line, minimum wage, and mean income. Zambian Breweries staff, micro distribution center (MDC) owners, and small-scale farmers receive some of the highest incomes. Sugarcane harvesters, temporary workers, MDC employees, and truck drivers earn the least.

Figure 10: Sources

I	Source: 2007 CSO Quarterly Employment and Earnings Inquiry.
II	Jesuit Centre for Theological Reflection's Social Conditions Programme, which reported take-home pay of between K3000 and K15000. Here the mid-point was used for the graph. Available at http://www.jctr.org.zm/bnb/BNBJune09Lusaka.pdf.
III	Source: Weighted average of 372 farmers.
IV	Source: Provided by Zambian Breweries.
V	Source: Provided by Zambian Breweries.
VI	Source: Provided by Zambian Breweries.
VII	Source: 4 owners surveyed, all reporting earning at least $1,002 per month.
VIII	Source: 4 employees surveyed two of whom earned at least $100 and two of whom earned at least $351.
IX	Source: 2 SSD drivers and 1 ZB driver reported a salary of between $100 and $351 a month. Two independent Truck Drivers were also questioned but researchers consider the data unreliable.
X	Source: World Bank PovcalNet. Available at http://iresearch.worldbank.org/PovcalNet/povcalNet.html.
XI	Source: The Minimum Wages and Conditions of Employment Act, 1994. Available at http://www.mywage.org/zambia/pdf-files/3._chapter_276_minimum_wages.pdf.
XII	Source: World Bank (2005), "Zambia: Poverty and Vulnerability Assessment." Available at http://www.sarpn.org.za/documents/d0001457/PVA_Zambia_June2005b.pdf.

Figure 11: Worker benefits in Zambia and El Salvador

	Sugar workers	Sugar mills	Other suppliers	SABMiller bottlers	The Coca-Cola Company	Distributors	Truck Drivers	Retailers
Zambia	Smallholder farmers have access to health care but have no access to other benefits.	Zambia Sugar provides health care benefits to employees and their families.	N/A	Employees receive comprehensive benefits.		Workers at distribution depots do not have access to benefits. At MDCs, only some operators had access to basic amenities, such as water and sanitation.	ZB truck drivers have the same benefits as ZB employees. Independent truck drivers' receive reimbursements for health care.	Retailers are self employed.
El Salvador	Employees receive some benefits, but temporary harvesters do not.	Workers at the mill receive benefits that exceed minimum requirements under Salvadoran law.	N/A	Employees receive comprehensive benefits.		ILC direct distribution channels receive same benefits as ILC employees.	ILC truck drivers and independent owner-drivers receive same benefits as ILC employees.	Retailers are self-employed.

Sugarcane workers

On average, industrial sugar use accounts for approximately 30 percent of sugar purchases. The two mills supplying SABMiller's bottling plant, ILC, in El Salvador source sugar from their own land, rented land, and farm cooperatives, which are collectively owned and operated by local families. These families hire sugarcane harvesters, who often have few alternatives for employment.

Sugarcane harvesters are the most vulnerable group in the Coca-Cola/SABMiller value chain. They are low-skilled workers who are employed to cut sugarcane on a seasonal basis and, in some cases, without formal contracts. They typically earn around the minimum wage in both Zambia and El Salvador and often lack access to medical facilities for the treatment of injuries they sustain when not using protective equipment during harvesting.

According to the Salvadoran Sugar Association, sugar cane cutters receive compensation above the minimum wage. Some of the workers who participated in our research mentioned earning more than the minimum wage while others earn less. Of the 20 sugarcane workers we interviewed in El Salvador, 11 indicated that their wages did not allow them to meet their basic needs. They indicated that they were not able to save money or access basic services.

In Zambia, the everyday difficulties of making ends meet are compounded by the high incidence of HIV/AIDS among smallholder sugar farmers and harvesters. As migrant workers, harvesters are particularly at risk for HIV/AIDS.

Sugar producers: Smallholder farmers

In both countries, smallholder farmers play an important role in growing the sugar that is used in Coca-Cola products. In Zambia, the Kaleya Smallholders Company is a unique employment opportunity for informal workers at the farm level. The company was founded by Zambia Sugar in 1981 with donor support as a poverty alleviation and expansion project. The company consists of 160 smallholder farmers, who each have an average of 6.5 hectares. The farmers are able to secure credit for seed and fertilizer using their land as collateral. Participating families earn 10 times the average rural household income in the area. A proposal to expand this model in the surrounding area has received considerable community support and will be implemented by the European Union (EU) in the coming years. The EU is expected to invest $6 million, pending further consultation over the relocation of some homes to make way for cane fields.

Sugar mills

Pay and benefits for employees in the sugar mills—in the formal sector—far exceed those in the informal sector. The mills provide much-needed employment in the community and mill employees reported high levels of satisfaction and loyalty to their employer. Sugar mill workers enjoy salaries at least 76 percent above minimum wage in El Salvador, an entitlement to legal benefits associated with full-time employment, and additional discretionary company benefits. (See Figure 9 for detail on wages and benefits).

> Many people are hired during the sugarcane cutting season, which has been important for both sugarcane cooperatives and private producers. Because there are very few options [aside from] coffee cutting, workers are willing to be employed even for a short period of time [in order to] generate income. People go out of their way to have some kind of income and to be able to support their family.
>
> *—Community leader from the communities nearby the El Angel mill*

SABMiller's bottlers

Employees of SABMiller's bottling plants in both countries enjoy wages and benefits well beyond those required by law. Benefits for employees at Zambian Breweries include health care, an insurance plan, and retirement incentives that compare favorably with other major companies in Zambia. Employees at ILC receive life insurance, a holiday bonus, and pension plans. ILC facilitates access to government health, employment, and pension benefits, and employees receive additional company benefits in these areas.

Employees of Zambian Breweries gave particularly positive feedback on HIV/AIDS treatment and support programs the company provides. Zambian Breweries offers extensive HIV/AIDS services to its employees and their dependents free of charge, including education and awareness-raising programs, voluntary testing and counseling, and free antiretroviral drugs as needed. The standard of care patients receive is very high compared to that of other large organizations in the country. This program has been commended by the Zambian Business Council on HIV and AIDS. Focus groups in both countries also demonstrate fairly positive employee attitudes about the bottlers. Of the 14 employees interviewed at ILC, several feel they have good-quality jobs and eight are fairly satisfied with their wages. They also expressed pride that they work for ILC because they consider it to be part of a prestigious global company.

Employees gave particularly high praise to the company-sponsored Colmenar program, a savings and loan cooperative designed to enable employees to save money and borrow at favorable rates.

One area of criticism raised by some of the employees interviewed in El Salvador was the perception that professional staff members were treated better than operational staff. An average bottling plant has a small professional staff, consisting of senior managers, line managers, quality control experts and administrators. However, the majority of staff members are in operational roles, overseeing the manufacturing, distribution and sale of Coca-Cola products. A small number of employees interviewed felt that professional employees enjoy additional benefits, such as medical insurance, increased opportunity to pursue professional training and education, and greater ease when scheduling vacation. By contrast, operational employees felt they faced difficulty taking their full annual leave entitlement because there were insufficient personnel to serve as substitutes.

Feedback from 31 bottling plant employees interviewed in Zambia[54] suggested similar concerns, particularly in relation to wages and working hours. Although the use of temporary and casual labor was reportedly low at Zambian Breweries, differing terms of employment between temporary and permanent staff were a cause for concern.

> We have an employee cooperative—El Colmenar—in the organization that helps with credit, supermarket and gas station discount coupons, scholarships for children, etc. El Colmenar has no restrictions made by the company; on the contrary, it promotes it. Colmenar is like a bank agency. It helps us.
>
> *—ILC employee*

Micro distribution centers apply the supply chain knowledge of the Coca-Cola system to support small and medium enterprises to become distributors of Coca-Cola products. Coca-Cola and SABMiller work with local entrepreneurs to build distribution hubs from which products are delivered using bicycles, pushcarts, or motorcycles to hard-to-reach small retail outlets in urban and peri-urban centers in developing countries.

Distribution

In El Salvador, two-thirds of Coca-Cola products are distributed directly by SABMiller's bottling plant, ILC, and the remaining portion are distributed by independent *depositos* (urban/rural warehouses), *mayoristas* (rural wholesalers), and *minibodegas* (small mostly urban warehouses).

In both El Salvador and Zambia, SABMiller's bottlers help distributors develop and grow their businesses by providing incentives, such as credit and free crates of beverages based on distribution volume targets. In El Salvador, distributors interviewed for this study indicated that ILC had provided them with training on business skills and marketing in the past, but it had not done so recently. They would welcome more training opportunities. Owners of *depositos* interviewed for this study reported having a good source of income, on average more than twice the minimum wage, and that sales of Coca-Cola products represented over half of their average profits. As expected, owners of smaller warehouses or small retailers reported much lower monthly profits.

Owners of MDCs in Zambia reported a desire for increased access to marketing training and materials. They also indicated that licensing regulations were a hindrance to business, and they were seeking improved dialogue with their city council on this topic. In 2008, the Harvard Kennedy School and the International Finance Corporation conducted a study sponsored by The Coca-Cola Company of the MDC model in East Africa. They found that the model presented significant benefit to the Coca-Cola business, enabling it to reach consumers in dense, urban areas, and provided much-needed opportunities for local entrepreneurs. They identified a number of opportunities for tailoring of the model to increase its positive development impacts while not sacrificing its business benefits; for example, by formalizing the owner recruitment process, improving access to finance, and supporting entrepreneurship education programs.

It is important to recognize that MDC and other independent distributor workplaces are in the informal sector. As a result, employees may not have written contracts, as reported by three *deposito* employees interviewed in El Salvador. These employees also reported earning lower than the minimum wage and did not have significant income from other sources. The working environments in these centers also present potential safety challenges, since they are often in small spaces with deteriorated infrastructure and limited access to basic amenities, such as water and sanitation.

Coca-Cola products arrive at distribution centers by truck, some of which are driven by drivers employed by SABMiller's bottlers and some of which are independent trucking firms. In El Salvador, ILC has sought to shift drivers from formal employment within ILC into independent contracts as owner-drivers to increase distribution efficiencies. In this role, the truck drivers rent the truck from ILC and cover their own expenses while distributing products. In two years time, the drivers have the option to buy the truck. Owner-drivers receive the same benefits and support as normal ILC employees. However, some drivers indicated they were concerned that this new approach would mean less security of employment.

Self-employed retailers

The sale of Coca-Cola products supports vital self-employment and employment opportunities in both countries. Many entrepreneurs in traditionally excluded groups, such as women and the elderly, pursue livelihoods in this way. Women are far more likely to find employment in the retail sector in El Salvador than in Zambia. However, small-scale retailers are in the informal sector, and, as such, they face vulnerabilities, such as lack of access to private health care and lack of job security. Most have incomes close to the local minimum wage equivalent or less.

For retailers, sales of Coca-Cola products have relatively high margins compared to sales of other consumer goods products, but not in comparison with competitor beverages on a unit basis. However, Coca-Cola volumes tend to be higher than competing brands and therefore the total contribution to income by Coca-Cola products, for retailers, is higher. As profit margins are relatively low on individual unit sales, store owners in both countries reported selling Coca-Cola products for higher than the recommended retail price to boost their margins.

The Coca-Cola/SABMiller value chain supports retail sales by providing marketing materials and mentoring retailers as needed to improve their business skills. Also, if the retailers have a sufficiently large volume of sales, The Coca-Cola Company provides assets such as coolers or iceboxes as needed. Furthermore, the Coca-Cola/SABMiller value chain encourages retailers to expand their portfolio of products to grow their businesses.

Investment in training and capacity building

The Coca-Cola Company and SABMiller's bottling plants currently make a range of investments in the value chain to enhance the skills, knowledge and capacity of different actors, including the provision of technical assistance and credit programs for sugar producers. For example, in El Salvador, ILC invested $775,000 in training programs for employees between April 2008 and March 2009 in order to give workers—mainly those in sales, distribution and marketing—more opportunities for advancement.

Zambian Breweries has also made a number of investments to boost entrepreneurial skills at retail outlets and channels $92,000 a year into employee training. Zambian Breweries sales representatives also mentor high-volume retailers to improve business skills development.

> "Selling Coca-Cola products is one of the easiest ways for a shop owner to make a living. This is because it is a high-demand product that everyone knows. We are in the fabric of the small town—drinking Coca-Cola is an affordable aspiration."
>
> *—Coca-Cola system representative in El Salvador*

Recommendations for follow-up action

- **Work collaboratively with local communities and workers to identify living wage benchmarks and consider making living wages a component of supplier audits.**
- **Find opportunities to improve productivity that increase wage levels without extending the workweek.**
- **Consider whether commercial factors (such as price negotiations) undermine the ability of business partners to pay a living wage, and work toward integrating living wage principles into buying practices, including rewarding suppliers that pay a living wage.**
- **Encourage rigorous and regular monitoring to ensure existing labor standards are met.**
- **Employ a "wage ladder" to benchmark progress in wage improvements over time.**
- **Investigate the constraints facing small-scale retailer and distributor partners in the Coca-Cola system to identify opportunities to address economic and other barriers to successful growth.**
- **Engage with stakeholders to advocate for improved legal protections, health care and capacity building and training, for those in the informal sections of the value chain, and opportunities to move informal workers to formal employment.**

9

Value chain: Empowerment

Headlines

- Sugarcane workers are often unable to improve their living and working conditions. Some retailers and distributors face similar challenges.
- Sugar producers often have little ability to impact sugar price negotiations when selling their product because of the oligopolistic structure of the sugar market.
- Despite good wages, benefits, and job security in the formal sector jobs in the value chain, unions play a limited role in both El Salvador and Zambia.
- There are limited opportunities for self-employed distributors and retailers to act collectively due to the lack of organization within the informal retail sector.

Empowerment is a difficult concept to measure, but it is an important dimension of development. Empowered people participate actively in the processes that affect their lives by voicing their views and influencing decision making. One measure of the empowerment of workers is the extent to which they can organize themselves, bargain collectively, and use communications channels to make their opinions heard.

Empowering people living in poverty is an essential way to ensure that people benefit from business-led economic growth. Empowered stakeholders can also lead to more productive and stable supply and distribution chains that are better able to weather adversity. People who are engaged and are heard can warn businesses of emerging tensions and potential conflicts, as well as share insights that strengthen processes and spark product innovation and inform collective advocacy efforts to bring about change.

> The union is an excellent organization; it helps workers, intervenes before the management, and negotiates for everybody.
>
> —*Employee at El Angel sugar mill*

> In the company there is no union, because the employees have a fear of getting fired.
>
> —*Employee at El Angel sugar mill*

Limited voice of informal sector workers

Individuals working in the informal sector rarely have the opportunity to organize themselves into groups or associations in order to collectively advocate for policies and practices in their interest. The sugarcane harvesters and independent distributors and retailers in the Coca-Cola/SABMiller value chain are no exception. Without a collective voice, they are often unable to influence government or business policy that would have the potential to improve their lives. In Zambia, only a limited number of retail owners belong to organizations such as the National Association of Marketers, which advocates on issues such as amenities in the marketplace, licensing, and fees paid to local authorities.

Influencing price negotiations

This research did not address the role of SABMiller and The Coca-Cola Company in price negotiations. Sugarcane producers often have little ability to impact sugar price negotiations when selling their product to mills. The highly oligopolistic[55] nature of sugar processing in many markets where there are very few mills, coupled with the regulatory restrictions, such as quotas and fixed domestic pricing, means that producers have next to no influence on price negotiations. This is particularly true in relation to the raw materials directed to the processor.

Smallholder farmers in Zambia interviewed for this study reported having no say in price negotiations with Zambia Sugar. In El Salvador, sugar producers reported that they had little power to directly negotiate the price they receive for their sugar from the mills, even as their costs rise. Their rising costs, which are not accounted for in the maximum prices regulated by the government for the domestic market, are one of the main arguments sugarcane producers make against increasing worker pay. There are various sugar producer associations, such as PROCANA,[56] as well as various producer associations, but none of them represent all sectors, and small-scale farmers are usually underrepresented. According to the national sugar legislation, the net income of all the sugar and molasses produced is shared by cane producers (54 percent) and mills (45.5 percent).

Role of unions

In both countries, unions have been weakening for a number of years. In El Salvador, for example, unions have a weak presence after decades of being repressed and then being systematically disbanded. In Zambia, unions are historically associated with improving workplace conditions, wages, and benefits. However, labor unions have weakened since the pinnacle of their political strength in the 1990s, with the adoption of structural adjustment policies playing a major role in their demise. The ILO Freedom of Association and Protection of the Right to Organise Convention (1948) provides workers with the legal right to join and operate workers' organizations without government or employer interference. The researchers found no evidence that the companies were preventing such organization.

There are mixed levels of unionization in the formal sector workplaces across the value chain in both countries. At the El Angel mill, there is a good track record of dialogue and cooperation between the union and the mill management owners. Mill employees reported that unionization has led to notable improvements in their working conditions through collective contract negotiations.

The employees at the Central Izalco Mill are not unionized and reported that workplace conditions are generally satisfactory and that they do not require a union to maintain conditions.

At SABMiller's bottling plant in El Salvador, employees are not unionized, and they reported mixed views on how necessary it is to have a union. Some employees reported a concern that even if a union existed, there may be lack of engagement by management. Despite some reports that union members might face discrimination from management, this view is not widely held, and appears to stem from an incident in the late 1970s when the plant was under different ownership in which union members undertaking direct action lost their jobs. Some employees advocated for a more effective forum to engage with one, stating that the current anonymous employee engagement mechanism does not work and that motions presented in writing are not resolved.

In Zambia, the union present at Zambian Breweries holds monthly meetings between union members and management and overall appears to enjoy positive relations. However, some employees interviewed complained that the union was not particularly active. One employee blamed management for the union's lack of effectiveness, claiming that "Management perceives the union as a nuisance... the union is left with just junior workers who cannot argue out issues very well. The union is struggling to survive."[57] This is consistent with a national trend of reduced trade union activity and influence. Another employee felt that management unfairly restricted employees' ability to pursue other sources of income, given the company's restrictions on employees selling Coca-Cola products through independent businesses. The complaint about this restriction, driven by the desire to avoid conflict of interest, may imply there is opportunity to strengthen dialogue between employees and management.

While some grievance mechanisms are in place, there is scope for these to be improved in order to facilitate better communication. The establishment of well-defined, transparent processes for workers to share their views with management would strengthen relations and help ensure that labor standards are properly enforced, and some recommendations to this end are detailed below.

Oxfam believes that where there is a lack of robust industrial relations between workers and management, there is limited scope for dialogue or collective action to alter policies and practices and to help ensure that labor standards are properly enforced.

Recommendations for follow-up action

- **Ensure the right of freedom of association and to collective bargaining.**
- **Take a deeper look into any cases of failed factory grievance and dispute resolution systems and, if appropriate, address breakdowns with the relevant union of employee representatives.**

10

Value chain: Security and stability

Headlines

- Sugarcane harvesters face potential risks to their health and safety.
- Endemic crime in El Salvador affects people throughout the value chain. Independent truck drivers in Zambia face potential safety risks posed by working extended hours on hazardous roads.

A lack of security can severely hamper development. Protection from a variety of insecurities—economic, medical, nutritional, or environmental—is essential to the well-being of people living in poverty. Secure people enjoy freedom of movement, freedom of speech, and access to essential resources to help them endure unexpected threats to their livelihoods, which can include serious illness, unemployment, and natural disasters. Secure workers can practice their livelihoods in safety, free from hazardous occupational risks, poor working conditions, and crime.

Dangers of sugarcane harvesting

Harvesting sugarcane is a rigorous physical activity requiring the use of a machete to cut large stalks of cane. Ninety percent, or 18 out of the 20 sugarcane workers we interviewed in El Salvador, reported facing occupational safety risks, including injuries, burns, and poisoning, on a regular basis. A quarter, or five, have suffered work-related accidents and frequently do not have adequate safety gear, leaving them vulnerable to hazards. Despite these risks, when asked about what would improve their working conditions, 60 percent, or 12, indicated better salaries, while only 20 percent, or four, indicated better access to medical services and basic benefits.

Crime in El Salvador

El Salvador faces particularly high levels of violent and petty crime when compared with most developing countries. Extortion is common, and organized gangs, or *maras*, intimidate and victimize people routinely. In the Coca-Cola/SABMiller value chain, sugarcane producers, suppliers, and distributors (especially owner-drivers) reported concerns about gang activity, such as muggings, extortion, and vandalism. The town of Nejapa, where ILC is based, is a known gang stronghold, with a high crime rate. ILC has created a 24-hour security and monitoring program to protect its plant workforce, but some employees still reported feeling vulnerable when traveling to and from their homes. ILC has also created a job-training program for former gang members, partly as a result of its ongoing community dialogue. Community leaders pointed out that young men in the area often lack job opportunities and therefore turn to gangs.

Owners of distribution businesses commented that crime makes them afraid to invest in improving or expanding their businesses. Over half (four out of seven) of those interviewed reported having serious security problems, and one third reported making extortion payments, or "rent," to gangs. Forty percent (34 out of 85) of retailers interviewed also reported that security problems negatively impacted their business.

Dangerous road conditions in Zambia

Independent drivers transporting Coca-Cola products by truck are facing increased incentives to work longer hours as a result of the rapid growth of the business. This dynamic, coupled with hazardous road conditions, places the truck drivers at considerable safety risk.

Recommendations for follow-up action

- **Engage sugar farmers and producers to improve safety and health of sugarcane harvesters.**
- **Investigate why independent truck drivers in Zambia work more than eight hours per day and discuss with drivers potential mechanisms to ensure safe driving.**

11

Value chain: Diversity and women's participation

Headlines

- Women involved in sugar growing and harvesting face traditional gender biases, thus limiting their ability to earn an income, own land, access credit, and build their skills.
- Very few women work in SABMiller's bottling plants in either country, despite nondiscrimination policies in place.
- Women play a significant role in the retail of Coca-Cola products, yet their ability to be successful is hindered by lack of access to credit, training, and support networks.

Women, who represent a large proportion of the world's poor, face unique barriers when seeking education, employment, and health care. Women are more likely than men to be denied basic rights, often have a limited role in decision making, and are more vulnerable to violence. Complex systems of discrimination prevent women from breaking through the barriers that often consign them to live in poverty. Women are often underrepresented in the most secure jobs in society and overrepresented in the most vulnerable forms of informal work.[58] Promoting gender equality and women's full participation in economies can help drive economic growth: Numerous studies have shown that when women's incomes increase, family health, education, and well-being improve.

Women's empowerment

Women in both countries face numerous forms of gender-based discrimination, which limits their ability to fully contribute to economic and social value creation in their communities. In Zambia, many girls are prevented from going to school in favor of early marriage—an estimated one out of four girls ages 15 to 19 is married, divorced, or widowed. Polygamy is

“

[When] we get out at night, we are exposed to the dangers outside the facilities. It would be good if the company provided transportation. ”

—Female employee at ILC

legally permitted and widespread, affecting 16 percent of married women in the country.[59] Women are often dependent upon men and have limited economic opportunities.

In El Salvador, women’s conditions are comparatively stronger due to differing cultural norms, but women also face serious barriers in reaching their full economic potential and accessing education. Women in El Salvador have equal rights to own land by law, but tradition often prevents women from fully exercising their rights.[60]

Women’s underrepresentation

The study revealed that in both countries there are clear barriers to women’s participation in sugar farming and production due to biased land allocation, lack of access to credit, and limited educational opportunities.

Agricultural policies, laws, and practice can often disadvantage female producers. Access to land is a major problem, particularly for married women. Most do not have the capital to buy land outright, and state and traditional systems of land allocation favor men. Without access to—and control of—land, women’s social, economic, and political security is compromised. Land tenure is a prerequisite when gaining access to credit and loans for agricultural essentials, such as seed, fertilizer, and equipment.

Women are largely underrepresented in the most secure, formal jobs in many developing country economies—including in the Coca-Cola/SABMiller value chain—and often overrepresented in the most vulnerable jobs. In both countries, sugarcane cutting is traditionally considered a male role, and men earn as much as two and a half times the income earned by women. As harvesting requires significant physical strength, limited numbers of women participate in it. In Zambia, women own only 6 percent of small-scale sugar farms, and even in the progressive Kaleya Smallholders Company[61] women constitute only 23 percent of the formal membership but conduct up to 80 percent of the farm labor.

Figure 12: Participation of women as owners and workers in the Coca-Cola value chain in Zambia and El Salvador

	Sugar workers	Sugar mills	Other suppliers	SABMiller bottlers	The Coca-Cola Company	Distributors	Truck Drivers	Retailers
Zambia	Smallholder schemes 16%	N/A	N/A	21% in Copperbelt Bottlers and 10% in Zambian Bottlers		No female distributors who operate a business alone	N/A	33%
El Salvador	16%	7% in total (8% at Central Izalco and 4% at El Angel formal employees)	N/A	ILC 8% (in manufacturing, only 2.5%)		2 out of 7 self-employed distributors	N/A	85%

Mill work is also physically strenuous and demands long hours, and is therefore traditionally considered more appropriate for men. Despite the low rates of female employment, no overtly discriminatory practices were identified during routine audits. The Coca-Cola Company's supplier standards require that the mills uphold internationally recognized nondiscrimination standards.

Women in SABMiller's bottlers

Women are underrepresented in formal jobs at bottling plants in both countries. Despite strong policies requiring nondiscrimination, most bottling plant jobs are perceived as more appropriate for men given that they require physical strength. Other factors contributing to the low rates of female employment may include security challenges.

The research revealed that formal jobs in the value chain are male dominated and that there is gender-segmentation by occupation, type of activity, and level of seniority in the value chain. Despite formal policies to prevent discrimination against women in the workplace, women remain underrepresented. Several factors have led to this imbalance, one of which is the lack of security for workers who travel long distances to work.

Women in distribution and retail

Women most often work in distribution as employees or alongside their husbands, and are less frequently the owners of the businesses. In Zambia, for example, husband-and-wife teams own and operate two of the country's largest independent distributorships. Women in the distribution business interviewed for this study indicated they were concerned that they had fewer opportunities for advancement and business growth than men. They noted that the distribution business was particularly susceptible to crime and requires physical strength, presenting challenges for women.

By contrast, women play a very significant role as owners and operators of small-scale retail outlets. In the cases where these outlets are attached to their homes, women are able to work while at the same time being in contact with their families. Of the approximately 64,000 retail outlets in El Salvador, an estimated 76 percent[62] are owned or managed by women, and in Zambia, a third of the approximately 25,000 outlets are estimated to be women-owned. Both bottling plants offer training workshops for small retailers. Women retailers interviewed for this study reported that lack of access to credit limited their ability to grow their businesses. However, in El Salvador women retailers reported having the same access to credit as their male counterparts.

Recommendations for follow-up action

- **Establish focused business training and support for women in the Coca-Cola/SABMiller value chain to work toward more equal employment opportunities.**
- **Make further efforts to recruit women for nontraditional and senior management jobs.**
- **Consider ways to increase women business partners' access to credit, taking into account the unique circumstances women face when running businesses in these communities.**
- **Research how operations and practices in the value chain empower or undermine small women farmers.**

12

Local environmental impacts: Focus on water and recycling

Headlines

- Growing sugar requires by far the most water of all of the activities carried out along the Coca-Cola/SABMiller value chain.
- Both of SABMiller's bottling plants in Zambia and El Salvador are engaged in community dialogue on water use.
- Full treatment of wastewater by both SABMiller bottling plants has been well received by the community.
- SABMiller's bottling plants in both countries are proactively seeking to spur local recycling industries, given the increasing role Coca-Cola product packages are potentially playing in the waste stream. Despite these efforts, the recycling industry in both countries is limited or declining.

Development, access to drinking water, sanitation, and hygiene are all strongly interconnected. A lack of access to water can create conflict among water users in a region, while a lack of basic sanitation can lead to illness and a poor quality of life in surrounding areas.*

Businesses can have a serious impact on access and water quality, based on their operations and supply chain. When businesses operate near local communities, they can provide a vital service by offering access to a clean water supply and by fully treating their wastewater. Ultimately, businesses should take steps to ensure that they are not infringing on the community's access to or the quality of water in the short or long term. Both SABMiller and The Coca-Cola Company are members of the CEO Water Mandate, which includes a commitment by companies to strengthen water sustainability policies and practices.

On July 28, 2010, the UN General Assembly adopted a resolution[63] recognizing the human right to water, and calling on nations and international organizations to provide financial resources, build capacity, and transfer technology to developing

*This study did not conduct an analysis of the impacts of chemical usage in sugar cane fields.

Table 10: Sales by packaging type in El Salvador

Packaging type	Participation in HL sold (%)
PET	52%
Glass returnable bottles	35%
Can	9%
Bag in box	4%
Postmix	<1%
Refpet	<1%
Total	**100%**

Table 11: Sales by packaging type in Zambia

Packaging type	Participation in HL sold (%)
PET	24%
Glass returnable bottles	70%
Can	6%
Bag in box	0%
Postmix	0%
Refpet	0%
Total	**100%**

countries to help them scale up efforts to provide safe, clean, accessible and affordable drinking water and sanitation. The General Assembly expressed deep concern that some 884 million people are without access to safe drinking water and more than 2.6 billion lack access to basic sanitation. This issue is most severe in developing countries, with studies indicating that annually 1.5 million children under the age of five die and 443 million school days are lost because of water- and sanitation-related diseases.

A lack of access to water can create conflict among water users in a region, while a lack of basic sanitation can lead to illness and a poor quality of life in surrounding areas.

As in the developed world, the agriculture industry is the biggest user of water in most developing countries, with industrial use coming in at a distant second. While water is used by Coca-Cola as the primary ingredient in its beverages and for manufacturing activities, such as cooling machines and washing facilities, the most significant impact of the value chain on water resources is at the agricultural stage. Sugar fields in Zambia are primarily irrigated via flood irrigation and the processing of sugarcane requires the use of water to wash the cane.[64] In El Salvador water usage is lower since sugarcane grows during the wet months.*

The Coca-Cola Company is a member of Bonsucro (formerly known as the Better Sugar Cane Initiative, BSI), a multistakeholder association established to reduce the environmental and social impacts of sugarcane. The Company's partnership with Bonsucro engages producers to promote better management practices that measurably reduce impacts (e.g., drip irrigation), and to design procurement strategies that help the Coca-Cola system to further reduce the environmental impacts of its supply chain. These reduced impacts are evaluated by an accredited auditor. In addition, The Coca-Cola Company is working with sugarcane producers to launch pilot projects aimed at benefitting both the producer and the environment, including in El Salvador.

*This study did not conduct an analysis into the adequacy of water pricing in either country.

In both Zambia and El Salvador, significant parts of the value chain are located near water sources that serve multiple purposes—domestic, agricultural, and industrial. The main issues characterizing the water debate are access in Zambia and scarcity in El Salvador. In both countries, this study revealed the paramount importance of open and transparent dialogue with communities about water. Both ILC and Zambian Breweries engage in regular dialogue on this topic with communities surrounding SABMiller's bottling plants.* Both plants are covered by The Coca-Cola Company's water stewardship commitments.

The Coca-Cola Company global water stewardship

The Coca-Cola Company has committed to recycle the water used in operations by returning to the environment, at a level that supports aquatic life, the water used in the Coca-Cola system operations through comprehensive wastewater treatment by the end of 2010. Whereas seventy percent of industrial wastewater around the world goes untreated, currently 94 percent of Coca-Cola plants around the world meet this internal requirement including both plants studied in this report. The remaining 6 percent of plants have started projects and will come into full compliance in 2011.

Wastewater is water used in system operations that is recycled through a treatment and cleansing process. The Coca-Cola Company's standards are aimed at ensuring that the quality of the wastewater meets or exceeds applicable laws and regulations before being released back into the environment. Treated wastewater also is sometimes reused within plants for utility purposes such as in boilers, evaporators and chillers, and outside for landscape irrigation and dust control, reducing the plants' use of external water sources.

The Coca-Cola Company has undertaken water footprint studies to gain insights into water consumption, potential effects on watersheds, and future availability to serve collective needs. In the past two years Coca-Cola has undertaken studies in the Netherlands (0.5-liter bottle), in Europe (beet sugar) and in North America (orange juice).

With regards to each of its 900+ bottling plants, The Coca-Cola Company has created a strategy to evaluate the sustainability of the water resources they use to produce beverages, as well as the sustainability of the water resources used by the surrounding community. As part of this program, which was established in 2008, all manufacturing plants are required to:

- **Form a water resource management team that includes the plant manager, plant engineers, water resource expert(s), bottler and business unit technical and public affairs representatives.**
- **Work with water resource expert(s) to determine the source of water for the bottling plant and local community, and to complete a source vulnerability assessment that inventories risks to these source waters.**
- **Prepare a process source water protection plan with actions, roles, responsibilities and funding needs.**
- **Implement the source water protection plan.**
- **Maintain and update the source water protection plan with source vulnerabilities and source water protection plans updated on five-year intervals and more frequently on an as-needed basis.**

*This study did not conduct an analysis into water usage in other parts of the value chain, including in sugar cane fields.

Table 12: Water use ratios at SABMiller bottling plants for 2009*

Country	Plant	Water Ratio YTD (HL/HL)	Water YTD (HLs)	Production Volume YTD (HLs)
Zambia	Ndola CSD	12.14	1,087,994	89,600
Zambia	Lusaka CSD	5.64	2,197,140	389,535
El Salvador	In La Constancia CSD	2.62	5,854,733	2,237,168
El Salvador	In La Constancia Juice and water	1.72	4,317,683	2,506,809

CSD = Carbonated Soft Drink

Access in Zambia

Water supplies are abundant in Zambia, and yet as the population and economy grow, communities are increasingly competing for access to this water. For instance, water use in sugar growing has been a source of tension over water access. There is increasing competition between Zambia's power utility and Zambia Sugar for water from the nearby Kafue River, which is used for hydropower generation and sugarcane irrigation and by local communities. Owing to the ongoing expansion of Zambia Sugar's growing areas, this competition is growing more intense.

SABMiller states that its CSD bottling plants in Zambia use from 5.64 to 12.14 hectoliters of water to produce 1 hectoliter of Coca-Cola products. In El Salvador, this ratio is as low as 1.72 for water and juices and 2.62 for carbonated soft drinks.

SABMiller water strategy

Water represents a significant risk to parts of our business, as well as to some of the communities in which we operate. We also know that issues of scarcity and accessibility cross community and national boundaries and involve interdependent factors that can vary from country to country and region to region. It follows that the water issue cannot simply be managed within the confines of our own operations. Local water challenges are usually best solved in partnership with NGOs, local governments and other local businesses. In the regions where we operate, we aim to foster a collaborative approach to ensure the best outcome both for our business and for the local community. Our water strategy is based on the 5Rs (pRotect, Reduce, Reuse, Recycle and Redistribute), a comprehensive, risk-based approach to managing water in our business and in the value chain. This model provides a consistent approach, recognizing the different local issues and circumstances faced by each of our businesses. Over and above our internal commitment to become 25 percent more water efficient by 2015, SABMIller has established the Water Futures partnership, which includes watershed protection collaborations with NGOs and governments across the world, including countries at risk of water scarcity in Africa and in Latin America. SABMiller published the first corporate water footprint in partnership with WWF in 2009 and in 2010 extended this further to include soft drinks in markets such as South Africa.

See www.sabmiller.com/water for further details.

*Source SABMiller

In 2008, Zambia Sugar commissioned an independent study of the impacts its expansion would have on water availability for the community. As a result, it decided to put in place efficient irrigation systems in consultation with the local water development board. Currently, only pivot and flood irrigation are used because sugarcane producers feel that drip irrigation is not economically viable. The sugar mills supplying the bottlers in both countries reported taking steps to minimize their water use and treat their wastewater.

Scarcity in El Salvador

In El Salvador, water is increasingly scarce and highly polluted, and there are no municipal water treatment facilities. Water supplies are under pressure from a growing population, urbanization, and increased economic activity. ILC's bottling operations adjoin the San Antonio River, which is used by local communities, including Nejapa, and other industrial manufacturers and producers. Tests have shown that water sources are being polluted by other companies' effluents, and this provides an opportunity for SABMiller to work with these companies to encourage them to harmonize their practices with those of the bottling plant. These specific instances of pollution in the San Antonio River could represent an area for immediate action. For the water used at the CSD plant in Nexapa (see Table 12), ILC currently pays $0.44 per cubic meter of water. Included in this fee are the actual abstraction costs at the respective soft drink plant, the costs of water treatment, and a fee for a reforestation programme.

SABMiller's bottler dialogue on water

The Zambian Breweries plant is in a residential area; two of the adjacent neighborhoods are served by the municipal water supply and a third is a low-income area that sources water from a nearby spring, which is shared with the plant.

For a number of years, a pipe on the outside of the Zambian Breweries plant was leaking treated wastewater. Community members began to use this water on their subsistence farm plots. When Zambian Breweries later installed upgrades to its water efficiency processes, it repaired the pipe and the water supply was shut off. As a result of the repair, the community no longer had access to the water that they had been using from the leaking pipe. Many community members had depended on this water to grow maize and bananas for their families. A community leader interviewed for this study stated that Zambian Breweries did not consult with the local community prior to fixing the pipe, thereby inadvertently depriving the community of an important water supply.

Zambian Breweries is now considering solutions to the situation in dialogue with the community leader. Elsewhere, also as a result of community dialogue, Zambian Breweries has provided standpipes with free clean water for the community and has also surrounded the pipes with concrete slabs to enable access. In return, the community guards the sites from vandalism.

ILC's model of engagement around water is particularly interesting and has borne significant fruit for the company and the community. ILC's bottling operations adjoin the San Antonio River, which is used by local communities and other industrial manufacturers and producers. Although ILC fully treats its wastewater, other companies along the river discharge untreated wastewater into the river. This led to a perception in the community that ILC was also not treating its wastewater. As a result of a formalized, ongoing dialogue with community leaders and local government representatives, ILC was able to communicate that it fully treated its wastewater. ILC began to provide information to the community on the quality of water it discharged. This dialogue also opened up a discussion among community members about how best to handle the ongoing water pollution issue caused by other companies not treating their wastewater.

The discussion has also broadened to include other local issues, such as reforestation, community funding needs and the importance of local hiring for jobs at the bottling plant.

Packaging, reuse, and recycling

The issue of landfill waste is a growing problem worldwide, particularly in developing countries. Contaminants and run-off from overburdened landfill sites can affect groundwater supplies, which in turn can impact the health of neighboring residents. Reducing waste has the potential to benefit communities and businesses alike. While SABMiller bottling plants and many suppliers in the value chain have recycling programs, their scope is still limited.

In Zambia, 70 percent of Coca-Cola products are sold in returnable glass bottles, and the rest are sold in either aluminum cans or PET plastic bottles. Returnable glass bottles represent a zero-waste model in many respects—the reuse of the bottle prevents the accumulation of packaging waste. However, the bottles still have an environmental impact as they must be transported back to the bottling facility, washed, and rinsed.

There is local interest in recycling the PET and aluminum bottles generated by the Coca-Cola/SABMiller value chain. However, the recycling industry in Zambia is limited. Therefore, Zambian Breweries has proposed to the Environmental Council of Zambia that it establish a Producer Responsibility Organization to begin recycling packages on a larger scale. These measures were taken as a response to concerns that Zambian Breweries switched to plastic without recycling considerations.

A detailed feasibility study for a recycling plant is now under way. In the interim, some PET plastic is transported outside Zambia to South Africa for recycling, but a large percentage still ends up in the capital city's landfill.

In contrast, in El Salvador, 52 percent of Coca-Cola products are sold in PET plastic bottles, only 35 percent are in returnable glass and 9 percent are in

The Coca-Cola Company sustainable packaging policy

The Coca-Cola system is working to advance a global sustainable packaging strategy to prevent waste over the life of product packaging. Currently, approximately 85 percent of Coca-Cola product volume is delivered in recyclable bottles and cans.

By 2015, Coca-Cola has targeted to recover the equivalent of 50 percent of the bottles and cans the company sells worldwide.

The Coca-Cola system encourages packaging efficiency in its supply chain through cost savings. In 2009, approximately in 85,000 metric tons of primary packaging were avoided, resulting in an estimated cost savings of more than $100 million.

In 2009, the company introduced the PlantBottle PET package—the only recyclable bottle made partially from plant-based materials that can meet stringent beverage quality requirements.

aluminum cans. Coca-Cola is also often sold in plastic bags from small shops and kiosks. This is not officially sanctioned packaging of The Coca-Cola Company, although ILC recognizes that it is a popular way in which consumers choose to consume their products.

ILC estimates that it contributes 3.5 percent of the total plastic waste in the country and that 45 percent of all the postconsumer plastic recycled in the country is linked to the Coca-Cola/SABMiller value chain. El Salvador once had a thriving recycling industry; however, the economic downturn has hit the industry hard, leading to widespread closures of recycling businesses.

ILC is looking into how it can help jumpstart the aluminum recycling market in El Salvador. ILC is also concerned about the fact that increased consumer demand for PET plastic packages is increasing the waste generated locally. In 2007, ILC initiated an intensive social marketing campaign to promote returnable glass bottles as a better choice for environmental sustainability, although glass bottles still have an environmental impact as they must be transported back to the bottling facility, washed and rinsed. A marketing campaign, “The Returnable One,” has been implemented across the country via banners, press releases, radio programs and TV advertisements. ILC also funds numerous community programs that focus on teaching children about the importance of recycling.

Recommendations for follow-up action

- **Publish independent analyses indicating the safety of water discharged from the bottling plants on a regular basis.**
- **Encourage water-intensive suppliers to implement best practice policies and practices on water through its sustainable agriculture program.**
- **Carry out a comprehensive analysis of water impacts along the value chain in both countries along the lines of water footprint work that has been carried out in other parts of the world.**
- **Conduct analysis to ensure that water use does not negatively impact local water availability, and evaluate whether improved pricing for water may address demand issues.**
- **Advise other companies, the government and the local community to collectively tackle water pollution by reducing dumping and improving cleanup of the San Antonio River in Nejapa.**
- **Use marketing to promote increased consumer recycling, and work with suppliers and retailers to encourage better recycling in the marketplace and implement global sustainable packaging best practices.**

13 Products and marketing*

Headlines

- The Coca-Cola Company has limited product offerings in both countries.
- Consumers view Coca-Cola as an aspirational product, associated with success, and they make it a part of their cultural and family celebrations.
- In Zambia 51 of 64 retailers interviewed felt that Fanta was predominantly consumed by children.
- The Coca-Cola Company has committed to putting nutrition information on nearly all its products globally. Yet the returnable glass bottles that represent the majority of sales in both countries do not currently include nutritional information labels.

Food and beverage companies have direct impacts on the health and well-being of consumers through their products. Companies are increasingly in dialogue with civil society groups and governments about the impacts of their products on consumer health and well-being. They are also increasingly mindful of issues such as malnutrition, the dual burden of obesity and malnutrition, and the role of women in family diet decision making.

When marketing their products, companies must ensure that they take into account the needs of special or vulnerable segments of the population. In developing markets, literacy rates are low and most people have not had access to formal education. Companies marketing to these consumers have a responsibility to market ethically, ensuring that their marketing and labeling of products is transparent, honest, and understood.

*This study did not conduct an analysis of the impact of Coca-Cola products on overall nutrition or health.

Product portfolio

The Coca-Cola product portfolio in El Salvador and Zambia is limited. The Coca-Cola Company's sales data show that the vast majority of consumers in both countries purchase sparking beverages rather than the alternative offered. Data also show that consumers in El Salvador are showing a growing preference for juices.[65] In Zambia, juice sales make up only 2 percent of nonalcoholic beverage sales.[66]

Globally, The Coca-Cola Company has over 500 beverage brands and more than 3,300 products. They include regular as well as low- and no-calorie sparkling beverages and still beverages, such as 100 percent fruit juices, juice drinks, waters, sports and energy drinks, teas, coffees, and milk- and soy-based beverages. In some developing countries, the Coca-Cola system has products which address nutritional needs, such as Nutrijuice in the Philippines—a juice drink fortified with micronutrients to address high levels of iron deficiency in schoolchildren. The Company has committed to replicating this model on a global scale, working in partnership with governments and civil society organizations.

Marketing practices and consumer perceptions

The Coca-Cola Company uses a range of marketing strategies to promote its products, with a total spend of $5.11 million[67] in El Salvador. Coca-Cola is a leading brand in both El Salvador and Zambia, and consumers interviewed for this study reported associating the brand with aspiration and success. In Zambia, it is seen as a status symbol that represents an urban, upper-middle-class lifestyle. In both countries, consumers reported that they made Coca-Cola an important part of their cultural and family celebrations.

Of Coca-Cola retailers interviewed in Zambia, 51 of 64 said that Fanta is very popular with children. Research in Zambia also revealed that some consumers use Coca-Cola products as unintended, as a home remedy to rehydrate patients suffering from diarrhea, in spite of the availability of oral rehydration salts.

The Coca-Cola Company has a Global Responsible Marketing Policy that prohibits marketing any of its brands in television, radio, and print programming made specifically for children under 12 years old, or those programs whose audience is over 35 percent children under 12.

Nutritional labelling*

The Coca-Cola Company's Global Responsible Marketing Policy is to include nutritional information on nearly all product packages worldwide by 2011. In Zambia and El Salvador, the plastic bottles and aluminum cans containing Coca-Cola products already provide this information, in the same manner as in the developed world. However, Coca-Cola products sold in returnable glass bottles do not feature nutritional information. The Coca-Cola Company states that nutritional information is unlikely to be included on returnable glass bottles in the future given the extremely high cost of replacing the current "fleet" of bottles with all new bottles. Nutritional information is not available on a significant amount of packaging in both countries. However, in 2011 the Company has plans to either establish a consumer telephone line or an online database whereby this information will be made available. Interviews with consumers in both countries indicated that many do not understand the caloric or nutritional content of food and beverage products, even when presented with the information.

*The analysis did not do a comparative analysis of consumer understanding of the nutritional content of other beverages.

The Coca-Cola Company responsible marketing policy
The Coca-Cola Company is committed to monitoring and measuring its adherence to its Global Responsible Marketing Policy across all the markets it serves and has established a Children's Review Process to help guide the policy. Findings are published in the annual corporate sustainability report. Independent audits conducted by the International Council of Beverage Associations and the International Food and Beverage Alliance found that compliance with marketing to children policies in the industry is upward of 96 percent on TV, 100 percent in print, and 100 percent on the Internet.

Table 13: Product portfolio in El Salvador

Brand	Type	% Sale
Coca-Cola	Sparkling beverage	70.2
Tropical	Sparkling beverage	11.9
Fanta	Sparkling beverage	8.7
Sprite	Sparkling beverage	2.3
Fresca	Sparkling beverage	2.3
Powerade	Isotonic	2.0
Coca-Cola Zero	Sparkling beverage	1.7
Coca-Cola light	Sparkling beverage	0.4
Kinley	Still or sparkling water	0.4
Total		**100**

Table 14: Product portfolio in Zambia

Brand	Type
Coca-Cola	Sparkling beverage
Coca-Cola Zero	Sparkling beverage
Coca-Cola light	Sparkling beverage
Fanta	Sparkling beverage
Sprite	Sparkling beverage
Schweppes	Sparkling beverage
Sparletta	Sparkling beverage
Twist	Sparkling beverage
Kinley	Still or sparkling water
Mazoe	Non-sparkling beverage
Jolly Juice	Non-sparkling beverage
Burn	Non-sparkling beverage
Limca	Non-sparkling beverage

Recommendations for follow-up action

- **Explore the feasibility of introducing micronutrient supplementation programs in these markets, working with government, health, and civil society experts. Consider how a micronutrient-enhanced product's promotion, pricing, distribution, and service practices could increase community purchasing and health.**
- **Ensure that The Coca-Cola Company's Global Responsible Marketing Policies are being effectively and consistently implemented at a regional level.**
- **Leverage marketing messages to educate consumers on the value of proper nutrition, a balanced diet, and regular physical activity.**
- **Investigate how to provide nutritional information to consumers on new bottles, at point of sale and through other methods, given the wide use of glass bottles currently without labels and low levels of literacy in some areas.**
- **Collaborate with independent health experts, civil society, and governments to explore whether additional guidance or action is needed to educate consumers on nutrition and health.**

14

Enabling policies and institutions

Headlines

- The Coca-Cola/SABMiller system engages with governments on a wide range of issues.
- SABMiller's bottling plants, ILC and Zambian Breweries, take the lead on dialogue with their respective governments.
- Excise taxes and sugar tariffs are two key areas of policy engagement in both countries.
- The Coca-Cola Company and SABMiller are engaged in a range of environmental and health-related initiatives.
- SABMiller's bottling plant, ILC, and The Coca-Cola Company have made strides working with the Salvadoran government, the Salvadoran Sugar Association, and other stakeholders on ending child labor in sugarcane harvesting.

The success of a business is inextricably tied to the stability and prosperity of the country in which it operates. It is the role of government to fulfill rights, protect citizens, and provide social services to its people. Governments also tax companies and other entities to raise funds for public programs. Accountable government is essential for managing economic growth and ensuring that growth brings benefits to the poorest people in society. Multinational companies and their local partners often have wide networks of political and economic contacts and significant potential to influence government policies and industry practices. Their advocacy activities can have meaningful results on their bottom line as well as on the societies in which they operate.

Companies have a compelling interest in ensuring that host governments succeed in reducing poverty, raising living standards, and expanding the ranks of middle-class wage earners. Moreover, a positive, enabling environment helps ensure that companies can invest, grow, create jobs, and contribute to overall economic growth.

Civil society groups encourage companies to ensure that lobbying activities and advocacy positions support, rather than conflict with, their social and environmental- sustainability commitments. Robust corporate social responsibility requires transparency in public policy and political engagement, and alignment between sustainability commitments and lobbying agendas.

Public policy dialogue

The Coca-Cola Company and SABMiller engage with governments on commercial and sustainability issues at global, regional, and national levels. (See the sustainability commitments from The Coca-Cola Company and SABMiller on page 5.) These include the full range of issues that constitute the companies' sustainability and community engagement work, including environmental sustainability, health and physical activity, labor standards, and economic empowerment.

In Zambia and El Salvador, engagement with the government is largely carried out by Zambian Breweries and ILC (respectively), SABMiller's local operations. When the partnership or dialogue is on a topic of regional or global relevance, The Coca-Cola Company staff based in regional or global offices may join these discussions or may provide funds to support community investment. ILC and Zambian Breweries also often engage with government alongside their industry peers through associations such as the El Salvador Chamber of Industry and Commerce.

The companies may interact with the government on a range of issues, including regulations or laws that the companies oppose, such as taxes or tariffs that the companies consider discriminatory, and policies that they support, such as incentives for providing social and environmental benefits to communities. The policy dialogue may focus on changes that the companies may wish to see in government policy, or they may focus on contributions the companies can or already make to government programs, such as funding school programs on recycling or the importance of active, healthy living. For example, Zambian Breweries is in dialogue with the government about its proposal for a partnership to increase the recycling of used packaging. In El Salvador, The Coca-Cola Company and SABMiller partner with the government to promote sanitation and hygiene, nutrition education, as well as physical activity in elementary schools.

Taxes and tariffs*

The governments of both Zambia and El Salvador levy excise taxes on The Coca-Cola Company's sparkling beverages. These amount to 10 percent of the ex factory price in Zambia and to 10 percent of the retail price in El Salvador. In El Salvador, the government also imposes a 5 percent tax on non-strategic sales depots, excluding milk and packed water. In 2009, ILC paid approximately $12 million and Zambian Breweries paid approximately $3 million in excise tax.

*This study has not tried to determine the impact of excise taxes and tariffs in Zambia and El Salvador.

Excise taxes

The Coca-Cola Company and Zambian Breweries are developing an economic case to argue for a reduction in the excise tax levied on their sparkling beverage products. They argue that excise taxes are discriminatory and that with lower taxes they can grow their business and deliver greater economic benefits, including tax revenues, to the local economy.[68] Excise taxes on sparkling beverages are added to the retail price and increase prices faced by consumers.

In El Salvador, sparkling beverages have been taxed since 1978. During years prior to this study, ILC lobbied the central government authorities to remove excise taxes. Their main argument was that excise tax on local sparkling beverages causes a market distortion in favor of imported sparkling beverages and nonsparkling beverages and that its elimination or reduction would lead to additional sales and thus a general increase of tax revenue through direct taxation (i.e., on profits). However, a full analysis taking into account any social costs arising from increased sales of Coca-Cola products and lessons learned from other countries that have abolished excise tax has not been performed.

Sugar prices

In Zambia, the government has established sugar as a "sensitive and priority product," which has put regional prices ($650/ton) well above world market prices ($300/ton). The Coca-Cola Company and Zambian Breweries argue that being able to buy sugar at the international market price would not only reduce procurement costs for the Coca-Cola/SABMiller value chain, but also allow reduced costs to Zambian customers and increased volumes of sales, and drive economic development in the country. If the policy environment allowed, The Coca-Cola Company and Zambian Breweries would prefer to buy from lower-price producers of sugar. Zambia Sugar argues that higher prices have a direct, positive impact on poor agricultural workers in Zambia. It argues that lower prices from other countries are only possible due to higher levels of mechanization and that Zambia's more labor-intensive sugar production techniques should be protected rather than threatened.

The Salvadoran government does not currently regulate the price of domestically produced sugar. However, restrictions are placed on imported sugar, which can only be imported if domestic demand cannot be met with local supply—after a disappointing sugarcane harvest, for example. In this case, the importer must pay a 40 percent tariff plus a value-added tax. ILC sources sugar from its own mill in nearby Honduras and from local firms through the distributor, DIZUCAR. DIZUCAR and ILC agreed on a fixed price for sugar for a five-year time horizon. Since this time, the international price of sugar has risen significantly and DIZUCAR estimates that the losses for the Salvadoran sugar sector from this contract amount to $9.5 million per year.

Child labor in El Salvador

Child labor has historically been commonplace in Salvadoran sugar harvests. In 1998, the sugar industry established FundAzúcar, which has been leading the effort to eradicate child labor in the sector while improving access to education, health and nutrition, and children's rights.[69]

In 2004, after the Coca-Cola/SABMiller value chain became aware of the problem in its own sugar supply chain, it began working with the sugar industry, government, and International Labor Organization (ILO) to create a joint plan of action for ending child labor in sugarcane harvesting. Together, they agreed to communicate a zero-tolerance policy for child labor. Central Izalco and El Angel, the mills supplying ILC, enforced this zero-tolerance policy by refusing to accept sugarcane from producers who employed children.

Between 2004 and 2008, the ILO made multimillion dollar investments in programs to combat child labor in sugarcane harvesting. In coordination with the ILO, the Salvadoran Sugar Association funded farm labor monitors and social advocates for farm families, and The Coca-Cola Company funded a pilot program to identify safe, alternative, income-generation opportunities for teens living on farms. As a result of these multistakeholder efforts, during that period the incidence of child labor on sugar farms in El Salvador dropped by 72 percent compared to incidence rates in 2004 as tracked by the Salvadoran government's Ministry of Education.

Social initiatives linked to public policy

SABMiller's bottling plant, ILC, and The Coca-Cola Company regularly make social investments in El Salvador. Between 2008 and 2010, The Coca-Cola Company invested more than $1.3 million in social programs in local communities, including programs in local schools to fund environmental education and the installment of waste and sanitation facilities. In 2009, The Coca-Cola Company spent $210,000 on environmental protection and improved livelihood projects for 400 families living around the San Antonio River. The Coca-Cola Company also funds "Apuntate a Jugar," a program to promote active, healthy living in schools that benefited over 3,000 Salvadoran children between 2008 and 2010.

According to The Coca-Cola Company these programs are funded through the The Coca-Cola Company's Live Positively/Live For A Difference platform, through which the Company strives to make a positive difference in the world. Live Positively/Live For A Difference focuses on seven core areas key to business sustainability, with measureable goals and metrics for the Company and the Coca-Cola system. They are:

- Beverage Benefits: Strive to offer beverages for every lifestyle and occasion while providing quality that consumers trust.
- Active Healthy Living: Support active healthy lives through product variety, nutrition education, and physical activity programs.
- Community: Foster sustainable communities through economic development, philanthropy, and the creation of economic and social opportunities.
- Energy Efficiency and Climate Protection: Aim to be the beverage industry leader in energy efficiency and climate protection.
- Sustainable Packaging: Aspire to make our packaging a valuable resource for future use.
- Water Stewardship: Work to safely return to nature and communities an amount of water equivalent to what we use in our beverages and their production.
- Workplace: Create diverse, healthy, and safe work environments aligned with internationally respected human rights principles.

Progress on these commitments can be found in the Company's annual *Sustainability Review.*

Social investments in Zambia are primarily managed by The Coca-Cola Africa Foundation, which implements more than 130 programs in 32 countries, investing more than $25 million in African communities to date. Zambia is included in a number of the Foundation's Africa-wide programs, including a partnership with USAID on water access which aims to:

- Establish participatory, sustainable management of water and watershed resources for domestic and productive use and conserve the ecosystems and biodiversity they support.
- Increase the level of access to sustainable, improved community sources of water and sanitation services.
- Increase institutional capacity and investments in basic infrastructure.
- Foster improved behaviors in human sanitation and hygiene for positive health impacts.

Zambia is also part of the Africa Network for Children Orphaned and at Risk (ANCHOR), which The Coca-Cola Africa Foundation supports. Formed in response to the massive and worsening orphan crisis due to HIV/AIDS in sub-Saharan Africa, ANCHOR aims to bolster and extend the work done by communities that care for and support a total of 146,000 orphaned and vulnerable children across Africa. Finally, the Company supports a number of malaria programs in Zambia and across Africa, providing insecticide-treated bed-nets to millions of families and supporting the first World Malaria Day.

Recommendations for follow-up action

- **Ensure that public policy engagement is in alignment with sustainability objectives.**
- **Engage with local stakeholders to ensure transparent communication of policy initiatives.**
- **Collaborate with civil society and government on public policies that align with sustainability goals and local priorities.**
- **Engage with trade bodies, partners and government agencies around relevant issues, including regulatory and enforcement gaps around water and labor.**

15

Conclusion

This report reflects our three organizations' ambitious attempt to provide insights into the impacts of The Coca-Cola/SABMiller value chain on local communities. It was driven by our determination to collaborate more strategically and to create greater transparency around business impacts on poverty. We aimed to shine a light on issues that both business and development audiences want to understand better, and by doing so to inspire more companies to embark on a similar journey. We sought to put people at the center of this process and forge a new partnership between the private sector and civil society to share expertise and build a common agenda on these issues.

Based on this work, Coca-Cola and SABMiller have the opportunity to broaden the concept of corporate responsibility through dialogue and practice and to engage in dialogue in Zambia and El Salvador based on the findings of this report. As such, we prepared a series of specific recommendations for action, which appear throughout the report. Together these recommendations span the full breadth of the Coca-Cola/SABMiller value chain. For the purposes of this conclusion, we focus on three central areas where Oxfam's focus and the two companies' strategic priorities overlap. These areas represent opportunities for more coordinated dialogue and commitment among our organizations, and are also opportunities for governments, business, and civil society more broadly.

Enterprise development

Many microenterprises and small and medium enterprises (SMEs) exist in Zambia and El Salvador's informal economies and appear along the Coca-Cola/SABMiller value chain, including farmers, suppliers, distributors, retailers, and waste recyclers. These enterprises provide vital opportunities for self-employment in poor areas, particularly for women, where formal employment opportunities are scarce. As discussed in the report, we believe it is important to foster continual improvement among local businesses and to contribute to the development of local industry. We therefore recommend that both companies:

- Create a process to capture and share best practices among SMEs in the Coca-Cola/SABMiller value chain and more broadly to foster growth among local businesses and to contribute to the development of local industry.
- Engage with NGOs and financial groups to discuss providing microfinance to SMEs in the Coca-Cola/

SABMiller value chain, perhaps with a particular focus on women.

- Engage with Zambia Sugar, El Angel, and Central Izalco to explore providing technical assistance, training, and financing to sugar growers.

Women's economic empowerment

The research demonstrated that women continue to be excluded from many economic opportunities and tend to dominate the large informal retail sectors in both Zambia and El Salvador, where they run small shops adjacent to or in their homes. As discussed in the report, many women reported that they find it difficult to grow their businesses due to a lack of access to credit, particularly in Zambia.

In September 2010, The Coca-Cola Company announced 5 by 20, an initiative to empower five million women entrepreneurs in the Coca-Cola/SABMiller value chain by 2020. The Company recognizes how valuable women are to the Coca-Cola business and has committed to finding ways to help them grow their businesses. The Company will provide opportunities for economic empowerment in an effort to help women generate more income and begin to move their families out of poverty. In addition, 5 by 20 will provide training and capacity building activities and financing schemes so as to equip women for the workplace and allow them to grow and sustain their businesses. In light of this report, The Coca-Cola Company will make a special effort to direct 5 by 20 efforts to empower women in Zambia and El Salvador.

Our research showed that governments have a crucial role to play in developing national goals and strategies to assist women to become more economically empowered, but the private sector can play an important role in catalyzing these changes.

In light of this, the Company aims to build on the business training it currently offers and leverage initiatives to support more women in the value chain. It is also recommended that both companies:

- Make an increased effort to recruit women for nontraditional and senior management jobs.
- Consider ways to increase women's access to credit, taking into account the unique circumstances women face in running businesses in these communities.

Community access to water

Water has become a priority issue for many development practitioners who recognize the potentially devastating impact of water stress on poor communities. Companies that depend on water for their operations—such as The Coca-Cola Company and SABMiller—also recognize that the responsible use of water is a key business issue. Both SABMiller and The Coca-Cola Company have made international commitments to use and replace water responsibly. Building on these commitments, we recommend that both companies:

- Publish independent analyses indicating the safety of water discharged from the bottling plants on a regular basis.
- Encourage water-intensive suppliers to implement best practice policies and practices on water.
- Carry out a comprehensive analysis of water impacts along the value chain in both countries.
- Conduct analysis to ensure that water use does not negatively impact local water availability, and evaluate whether improved pricing for water may address demand issues.
- Advise other companies, the government, and the local community to collectively tackle water pollution by reducing dumping and improving clean-up of the San Antonio River in Nejapa, El Salvador.

What we have learned

The overall process leading to this report has been a source of learning for all our organizations. We have no doubt that civil society, government, and business can form strategic partnerships that leverage the unique skills, resources, and influence of each sector and that these partnerships are vital to address today's development challenges effectively.

We found that in order to realize the potential of our partnership, it was important to invest time and energy in building trust among our organizations and specifically across the project team which worked directly on the initiative. We also required strong leadership and a clear organizational mandate to support our involvement in the collaboration and to overcome the differences in our institutional cultures.

NGOs, such as Oxfam, are well positioned to provide a "development perspective" on value chain impacts and to draw attention to important social issues, such as poverty. The Oxfam Poverty Footprint Methodology provides an initial investigative step toward the ultimate goal of increasing social benefits throughout value chains. However, the Poverty Footprint analysis alone cannot point to specific solutions to address these multidimensional issues. To achieve systemic change, the necessary strategic, operational and policy changes must be devised by the private sector, civil society, and government working together.

The project confirmed our collective view that the private sector can play a large role in contributing to poverty alleviation. Companies, and particularly multinational corporations, are uniquely positioned to share business expertise, capacity, and resources to benefit communities in developing countries. Furthermore, NGOs can use poverty footprinting to better understand market impacts and opportunities for people throughout different value chains, create new platforms for stakeholder-driven change, and improve transparency around private sector community impacts.

Report methodology

Coca-Cola, SABMiller, and Oxfam commissioned comprehensive research in each country. It involved approximately three months of field research in Zambia and El Salvador, including a number of data collection activities. In order to ensure a balance between management- and community-provided information, the data collection was split into two separate but complementary tracks: corporate-facing research and community-facing research. Both tracks focused on the same research areas as defined by a project research brief but employed different data collection tools. Whenever possible, the teams compared and contrasted information between corporate and community tracks. Overall, 353 people participated in El Salvador and 259 people participated in Zambia. The following tools were used:

- Interviews: The corporate researchers conducted interviews with the functional heads of companies throughout the Coca-Cola/SABMiller value chain. The community research teams interviewed key union members, transportation workers, NGOs, community leaders, business owners, members of communities that share resources with Coca-Cola, municipal authorities, households, and consumers.
- Focus group discussions: The research teams convened focus groups in both countries with workers from bottling plants, workers from sugar mills, casual and nonunionized workers in Coca-Cola and SABMiller, micro distribution owners and workers, and migrant and former migrant workers to discuss labour practices. Focus groups were also convened with consumers and community members to address issues of marketing, consumption, and nutrition.
- Surveys: Informal, non-representative surveys were undertaken with actors across the value chain, including sugarcane producers and workers, sugar mill workers, and bottling plant workers, as well as distribution and retail business owners and workers.
- Livelihood surveys: Surveys were undertaken with sugarcane producers and workers, sugar mill and bottling plant workers, business owners, households that depend on water resources which SABMiller bottling plants also utilize, distributors and retailers from different income areas, entrepreneurs, employees of NGOs, and local residents.
- Marketing and consumer practices surveys: An informal survey on consumption patterns and perceptions was administered to participants at all levels of the value chain. In addition, distributors and retailers from different income areas answered questions on how products and marketing practices affect local cultural practices. A nonrepresentative group of schools, nearby residents, consumers, and various Coca-Cola product consumers answered questions on consumption patterns, nutrition awareness and other issues.
- Direct observations: In Zambia, the research team also conducted observations at water collection points and at latrine sites in communities near company plants. In El Salvador, observation occurred at local water sources, retail stores, and third-party distribution centers.

After this investigative process, the operational team devised a number of recommendations, which are noted at the end of relevant chapters. These recommendations should be seen as guiding principles and suggestions for action and not as formal commitments made by either The Coca-Cola Company or SABMiller. For more information about the report research methodology, please visit: www.oxfamamerica.org/povertyfootprint.

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Lead project team

The collaboration was managed by Kyle Cahill, Chris Jochnick, Roshini Moodley Naidoo, and Marianne Voss (Oxfam America); David Grant and Andy Wales (SABMiller); and Marika McCauley Sine, Heidi Koester, Malika Anand, and Afzaal Malik (The Coca-Cola Company). Bethan Grillo was seconded from PricewaterhouseCoopers (PwC) to Oxfam to participate in the report preparation.

Research

Andrew Smith, José Pablo Retana and Ruchira Joshi were seconded from PwC to Oxfam America for three months in order to lead the research teams in Zambia and El Salvador. In Zambia, research conducted at the community level was undertaken by a team led by Robie Siamwiza. In El Salvador, the community research was undertaken by a FUNDE team led by Andrew Cummings. PwC El Salvador was instrumental in delivering the corporate research, led by Carlos Morales, Regina Moreno, and Humberto Gomez.

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Advisors

We received crucial input from teams of advisors throughout the report's development. We are grateful for their continued input and guidance.

Global advisors

Jennifer Coates (Tufts Friedman School of Nutrition Science and Policy), Gary Gereffi (Duke University), Alan Knight (Single Planet Living), Richard Locke (Massachusetts Institute of Technology), Will Milberg (The New School for Social Research), Jane Nelson (Harvard Kennedy School), Kash Rangan (Harvard Business School), Daniel Vermeer (Duke University), and Alicia Yamin (Harvard School of Public Health).

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Zambia advisors

Robert Liebenthal and John Milimo (Zambia Open University), Parkie Mbozi (PSAf—Panos Southern Africa), Mabel Mungomba (Citizen's Economic Empowerment Commission), and Engwase Mwale (NGO-CC—Non-Governmental Organization Coordinating Council).

In-country leadership and project support

Leadership and project support in El Salvador were provided by Carolina Castrillo (Oxfam America), Pablo Largacha (The Coca-Cola Company), Olga Reyes (The Coca-Cola Company), and Jose Carlos Bonilla and Laura Gill (ILC). In-country leadership and project support for Zambia were provided by Ann Witteveen (Oxfam GB), Togi Chinoda and Norah Odwesso (The Coca-Cola Company), and Chibamba Kanyama and Wendy Muche (Zambia Breweries).

Also consulted

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The Coca-Cola Company humanitarian assistance

Unrelated to this study, The Coca-Cola Africa Foundation donated $2,500,000 to Oxfam between 2008-2010 for humanitarian work in response to the crisis in the Darfur region of Sudan. For more information see www.oxfamamerica.org

Endnotes

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40. Gross Value Added (GVA) is a measure of the value of the goods and services produced in the economy. It is primarily used to monitor the performance of a national economy and is a preferred indicator to measure the overall economic well-being of an area. Both GVA and Gross Domestic Product (GDP) are measures of output. They both measure the value of the goods and services produced in the economy. However, GVA differs from GDP in that GVA excludes taxes and subsidies. GDP equals GVA plus taxes, minus subsidies.

41. It has been assumed the average wage is the same in ILC production, distribution and sales. It has not been possible to adjust using separate wages bills for each part of the value chain or an average rate of personal income tax so that we can convert this to after-tax take-home pay.

42. The indirect GVA multipliers of 1.25, 1.37 and 1.31 for the production, distribution and sales sectors, respectively, were calculated using a Social Accounting Matrix obtained from the International Food Policy Research Institute and using a specialist software called IRIOS to extract indirect sector GVA multipliers. The indirect GVA multiplier expresses the ratio of combined direct and indirect GVA changes to the direct GVA change due to a unit increase in final demand. The indirect employment multipliers of 1.24, 1.25 and 1.09 for the production, distribution and sales sectors, respectively, represent the ratio of direct and indirect employment to the number of direct jobs in the Coca-Cola/SABMiller system's primary activities. Using employment data for each sector from the 2005 Census and GVA data from the 2005 Input-Output (IO) Table, researchers estimated the production, distribution and sales sectors' indirect impacts on employment across the economy. This was achieved by first estimating the indirect GVA impact and then applying to it the calculated ratio of employment to GVA. The difference between indirect and direct employment is the indirect employment impact. The induced impacts were calculated by establishing the effect on GVA, wages and salaries, and employment of the direct and indirect wages and salaries generated by the production, distribution and sales sectors. The IO analysis provided the marginal income effect, which would be the increase in GVA that would arise from an additional $1 of wages and salaries. This was then applied to the combined direct and indirect GVA impact, providing an estimate of induced GVA impact. Finally, using this estimate of induced GVA, the researchers calculated the induced impact on employment using the previously calculated employment-GVA ratio. For the purpose of this analysis, the researchers used gross wages. This slightly overstates the induced impacts as take-home pay would have been a more accurate input into the analysis of the relationship between wages and GVA. The induced multipliers are usually referred to as Type II, and they cover the combined indirect and induced impact. In the interest of transparency of calculation, shown below are the induced-only multipliers. The induced-only multipliers for GVA are estimated to be 0.85 for the production sector, 1.69 for the distribution sector and 7.78 for the sales sector. The induced-only multipliers for employment are 0.81 for production, 1.14 for distribution and 2.29 for sales. Overall, the combined multiplier for indirect and induced impacts in El Salvador was estimated to be 2.52.

43. This was developed by the University of South Africa's Bureau of Market Research for Coca-Cola South Africa in 2000. These multipliers were adjusted for use on this project by comparing the import-intensity of the Zambian economy vis-à-vis the South African economy, reflecting the likelihood of impact leakage through imports. This was done by obtaining the percentage of imports to GDP for the two countries and averaging imports over the last 10 years, in order to reduce the impact of picking a one-off year with unusual levels of imports. As the Zambian economy has higher import intensity than the South African economy, the multipliers are lower in Zambia due to increased leakages via imports. Therefore, an output multiplier of 1.75 for South Africa reduced to 1.53 for Zambia.

44. Employees in El Salvador are appointed through Compania de Servicios de El Salvador SA, whose parent company is Refreshment Product Services, Inc.

45. As at the end of 2009, The Coca-Cola Company had two employees in Zambia, who were paid by the local bottler, Zambrew. As of today, The Coca-Cola Company pays the associate via an independent entity called DCDM. DCDM is contracted by the Coca-Cola Indian Ocean Islands (CCIOI) which is a subsidiary of Coca-Cola Export Corporation, which is owned by The Coca-Cola Company.

46. A labor multiplier of 10.66 for South Africa reduced to 9.51 for Zambia.

47. See endnote 42 for further details.

48. This figure includes 354 direct jobs from Zambian Breweries and two local jobs from Zambrew

49. These percentages are not always comparable due to the different business types and cost structures.

50. These taxes are predominantely paid by SABMiller but also include some taxes paid by TCCC in each country

51. The ILO states that El Salvadorian informal employment as a proportion of non-agricultural employment is 57%. Women and Men in the Informal Economy: A statistical picture, ILO (2002), http://www.wiego.org/publications/women%20and%20men%20in%20the%20informal%20economy.pdf.

52. ILO states that Zambian informal employment as a proportion of total employment (including agriculture) is 88%. Policy Reforms and Employment Relations in Zambia, ILO (2008), http://www.ilo.org/public/english/region/afpro/harare/download/issues_paper_29.pdf

53. World Bank. World Development Indicators. http://devdata.worldbank.org

54. A total of 31 workers were interviewed in two focus group discussions held at the Lusaka and Ndola bottling plants and included permanent and temporary employees.

55. The domination of a market by a few firms.

56. PROCAÑA is the only producers association that is a member of the National Sugar Council (CONSAA), the national agricultural business association (CAMAGRO) and the National Association of Private Businesses (ANEP).

57. Focus group session at Zambia bottling operations included 31 people in total.

58. See http://www.oxfamamerica.org/issues/equality-for-women/background.

59. Gender equality and social institutions in Zambia, http://genderindex.org/country/zambia.

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61. Kaleya Smallholders Company Ltd (KASCOL) is a special case. It manages the Kaleya Smallholder Trust, started in 1981 by Zambia Sugar Company (ZSC), Development Bank of Zambia, Commonwealth Development Cooperation and Barclays Bank as a poverty-alleviation strategy and expansion strategy by ZSC to provide more cane for milling operations. Smallholders are organized into trusts to represent their interests and to purchase shares in the Kaleya Smallholders Company Ltd. Mazabuka Sugarcane Trust holds 25 percent of the shares in Kaleya on behalf of smallholder farmers.

62. Results of surveys made to Nejapa and San Salvador stores (June 2009).

63. http://www.un.org/News/Press/docs/2010/ga10967.doc.htm

64. Results of surveys made to Nejapa and San Salvador stores (June 2009).

65. According to TCCC's research

66. According to TCCC's research

67. The figures are net from recovery (i.e. from The Coca-Cola Company contributions).

68. Zambian Breweries Management Information, received from Dave Kvalsvig, Finance Director, Zambian Breweries (April15, 2009).

69. According to information provided by Fund Azúcar's executive director, $1.8 million has been invested in child labor eradication programs during the period 2003 to 2009

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