Corporate Social Responsibility and Tax Avoidance in Sub-Saharan Africa

A Case Study of the Beverage Manufacturing Sector

Integrated Master Thesis in International Development and Business Studies

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Abstract

To this date, the tax-CSR-nexus has mainly been analysed through regression studies examining the global-level data of major multinational corporations and is currently not well documented in specific developing countries and regions. Based on the CSR disclosure and annual reports for the Sub-Saharan African subsidiaries of three major beverage companies, I analyse the connection between the companies’ CSR initiatives on the one side and their tax avoidance behaviour on the other. Globally, I find that the CSR and tax avoidance of the three companies seem inversely related – the poorest CSR performer has the highest tax contribution and vice versa. On the regional level however, trends seem ambiguous indicating that a connection between CSR and tax avoidance may vary substantially even within company groups. Developmentally, my analysis show that the inclusion of tax avoidance parameters into companies’ CSR reporting may have significant implications for government expenditure in Sub-Saharan Africa. In Rwanda for example, seven years of corporate income tax payments by Heineken alone were equivalent to almost 40% of the entire country’s health budget in 2012. Potentially decreasing tax avoidance behaviour, by acknowledging tax payments as part of companies’ CSR achievements, may therefore help assure much needed government revenue.
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1 Introduction

1.1 Problem Field

The connection between corporate social responsibility (CSR) and corporate tax avoidance has received little attention in the past – by researchers and the public alike. Academically, Freedman (2003) and Christensen & Murphy (2004) were the first to point out the link between the two fields and call for more research and debate on the topic, the latter arguing that “businesses should adopt corporate social responsibility standards on taxation” (2004:37).

It has been argued that corporate tax payments are “the largest and most obvious contributions of firms to non-shareholders and non-employees” (Desai and Dharmapala 2006:4) but despite this fact, taxes are rarely part of corporations’ operationalized CSR reporting. Furthermore, the academic CSR literature “has paid little attention to organised tax avoidance by companies even though it has real consequences for the life chances of millions of people” (Sikka 2010:153). The issue therefore seems to originate from an absence of academic discussion and analysis.

But why is it important to consider tax avoidance within CSR frameworks? Let me open up the issue by briefly illustrating one corporate case example. A recent article describing The Coca Cola Company quoted a report pointing out how the company has $13.9 billion in cash stored in tax haven subsidiaries (Carl Levin quoted in Corporate Crime Reporter 2014) – profits it has avoided paying taxes on. At the same time, Coca Cola has been awarded with numerous CSR awards such as being the winner of the European CSR Award Scheme in Norway (2012) and the Hall of Fame in PR News’ 2013 CSR awards in part for “investing $23 million in carbon reduction projects” (2013). The issue that this brief example points out is that some corporations may have documentable, positive, tangible CSR achievements, but at the same time, they may be avoiding corporate income taxes. In the case of Coca Cola, the amount dedicated to carbon reduction projects seem almost insignificant compared to the magnitude of its tax avoidance. In effect, judging by ‘contemporary CSR frameworks’¹, Coca Cola receives positive media attention and win awards for their responsibility, praising their contributions to uphold ethical societal standards, but what about the social and environmental outputs² that the company’s tax contributions could have if they were not being avoided? Imagine for example how much additional energy, infrastructure or health care a government could provide to its people for the

1 I use this term broadly for existing CSR frameworks currently being utilized by corporations and which do not consider corporate income tax payments, e.g. the Global Reporting Initiative (n.d.).
2 I use the term ‘output’ as something measurable, e.g. ‘number of jobs created’. It is thus different from both ‘outcome’ (which value does it have that X number of jobs were created e.g. how many people can now provide for their families) and ‘impact’ (which effect does it have that X number of jobs were created that would not otherwise already happen, e.g. were jobs really ‘created’ or simply ‘shifted’?) (for additional literature on this, see e.g. Stannard-Stockton 2010).
corporate tax payments collected from $13.9 billion of currently untaxed profits. The positive social outputs of CSR initiatives therefore have to be weighed against the negative social output of tax avoidance.

The ‘Tax-CSR-nexus’ has received additional attention in the past 2-3 years (see e.g. Dowling 2014; Jenkins and Newell 2013; Knuutinen 2014; Preuss 2012; Scheffer 2013) with authors arguing – in one way or the other – for the fields of CSR and corporate tax avoidance to become increasingly merged in order to more fully describe the social performance of companies. Some authors (e.g. Lanis and Richardson 2011, 2012, 2015; Muller and Kolk 2012; Ylönen and Laine 2014) have presented suggestions as to how a possible connection between the two fields may be analysed either qualitatively or quantitatively. However, **concrete research on the issue remains scarce and seem almost entirely confined to the global-level behaviour of Fortune 500 companies.**

This makes the issue under-researched regionally, and concerning developing countries specifically, for which a lack of corporate income tax payments may have the proportionately highest impact on society simply by virtue of these countries’ prevailing tax composition relying more heavily on corporate taxation. On average, the corporate income tax made up 16% of total government revenue for low-income and lower-middle income countries in 2012 (Crivelli, Mooij, and Keen 2015:4) compared to an OECD average of 7.2% - 10.6% from 1965 to 2012 (OECD 2015). Of different low-income countries and regions, my reason for focusing on Sub-Saharan Africa in particular, is based on Keen’s findings showing that non-resource related tax revenue (as % of GDP) in this region was “essentially stagnant” from the early 1980s to 2005 (2013:5) indicating that taxation seem particularly challenging in this region (see section 2.3).

Furthermore, existing methodological parameters used to quantify or determine a corporation’s tax avoidance, have some shortcomings, which seem to make existing conclusions un-replicatable in a developing country context. For example, using a company’s overall effective tax rate (ETR) to determine its level of tax avoidance may have some relevance on the global level, but it may be misleading on the regional level. In addition, using overall CSR indices or awards to determine a company’s CSR performance may give little indication as to how the company is performing ethically and socially on the regional level, such as their specific behaviour in Sub-Saharan Africa.

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3 Norway (18.9-29.3% from 2000-2013) and Australia (15-23%, same period) are significant outliers in this statistic and have therefore been excluded.
In essence, the purpose of the above is to show that not considering tax practices as part of analysing a corporation’s ethical and social ‘performance’ may undervalue the social output of the company’s tax payments. There is currently a poor connection between the corporation’s direct CSR (and charitable) contributions on the one hand and the potential social outputs of its tax contributions on the other – especially with regards to developing countries. Furthermore, the developmental implications that his may have, through the raising of additional government revenue in low-income countries, also seem under-researched. These gaps in the academia and practice of CSR has led me to ask the research question stated in the following section.

### 1.2 Research Question

**How can a possible connection between corporations’ CSR initiatives and potential tax avoidance be analysed and what would such an analysis look like?**

#### Working Questions

1. How has the connection between CSR initiatives and tax avoidance been analysed in the existing literature and what has been the limitations by approaches hitherto? *(see chapter 3)*
2. How can a framework for a more in-depth and regionally specific analysis of CSR initiatives and tax avoidance be developed? *(see chapter 4)*
3. How can such a framework be utilized in analysing specific cases, and which connections between CSR initiatives and tax avoidance does it show? *(see chapter 6)*
4. Which developmental implications do these case study findings have for economies in Sub-Saharan Africa? *(see chapter 7)*

**Demarcation:** Conceptually, this paper is not concerned with European or American corporations avoiding taxes in their country of origin or between other industrialized countries. Corporate tax avoidance is conceptually only of concern to this thesis if it takes place in low-income/least developed countries and mainly by foreign actors.

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4 Using the wording of ‘social performance’ (or ‘corporate social performance’, CSP) rather than ‘social responsibility’ is much in line with Carroll’s early formulations (1979:499), focusing more on the actual social achievements of the corporation rather than the ‘duty’ to be a good corporate citizen.

5 Jenkin & Newell’s study “Tax, CSR and Development” is one of the only studies on this combined field (2013).

6 From an ethical perspective, this paper welcomes corporations like Microsoft which seems to avoid corporate taxes in The US (Hickey 2013) while investing huge sums in developing countries through their Bill & Melinda Gates Foundation instead (2015).
1.3 Outline of Thesis

Chapter 2 begins with a description and discussion of the definitions of the two main concepts used in this study: ‘corporate tax avoidance’ and ‘corporate social responsibility’ (CSR) (section 2.1). Secondly, it presents the tax avoidance phenomenon more broadly focusing on the recent increase in public and political interest; the mechanisms used by corporations to avoid taxes; and the magnitude of the issue (section 2.2). Lastly it describes the underlying assumption of why taxes are important in a developmental context more broadly, focusing mainly on the importance of government revenue collection (section 2.3).

Chapter 3 reviews the existing literature on the nexus between CSR and corporate tax avoidance. It starts with an overall indexation of existing studies into two main groups followed by a more in-depth analysis of the existing arguments, approaches and geographical foci of the literature. It looks first at quantitative, statistical studies and then various case studies in order to identify gaps in the literature.

Chapter 4 looks at my second working question with the main purpose of developing a replicable, analytical framework including appropriate parameters for analysing the CSR-tax-nexus for specific corporate cases on a sector-by-sector basis in a particular country or region. The chapter starts by describing the potential limitations in utilizing a purely quantitative and statistical approach when analysing the tax-CSR-nexus. Secondly, it considers and discusses various tax avoidance and CSR parameters in order to create a practical and applicable study design. Thirdly, it describes which assessment criteria I use to analyse each tax avoidance and CSR parameter. Lastly, it describes which data the methodological approach will be based on when used in Chapter 6 and which limitations this data has.

Chapter 5 describes my process and arguments for selecting the specific cases analysed in the following chapter. Secondly, it briefly presents the Sub-Saharan beverage market. Lastly, it briefly presents the selected corporate cases and the extent of their local presence including a list of local operations, regional revenue etc.

Chapter 6 analyses and discusses the combined CSR and tax-avoidance parameters of the selected corporate cases Heineken, Diageo and SABMiller based on 1) their level of disclosure and 2) actual performance. The analysis focuses mainly on Sub-Saharan Africa (the regional perspective) but utilizes global data where no regional data is available. Sections 6.1 to 6.5 analyse each parameter using the framework described in section 4.2 of the methodology chapter.
Table 2 and Table 3 in section 6.6 give a visual overview of the companies’ disclosure and performance on the global and regional level, followed by a reflection and discussion of my findings in relation to the earlier literature on the field.

**Chapter 7** analyses and discusses which developmental implications the above analytical framework (implementing tax avoidance parameters into CSR) may have by demonstrating which developmental outputs the concrete tax payments of the analysed corporate cases could have. I calculate and compare the monetary value of the companies’ corporate income tax (CIT) contributions in Sub-Saharan Africa to the size of the government coffers in their countries of operation and reflect on the extent of social provisions that these tax payments could (hypothetically) pay for. Lastly, I compares the overall size of the tax payments to flows of official development assistance (ODA).

**Chapter 8 and 9** presents my main conclusions and give suggestions for further research.
2 Background and Context

In this chapter, I start by describing and discussing the definitions of the two main concepts used in this study: ‘corporate tax avoidance’ and ‘corporate social responsibility’ (CSR) (section 2.1). I then present the tax avoidance phenomenon more broadly focusing on the recent increase in public and political interest; the mechanisms used by corporations to avoid taxes; and the magnitude of the issue (section 2.2). Lastly, I describe and discuss the underlying assumption of why taxes are important in a developmental context more broadly, focusing mainly on the importance of government revenue collection (section 2.3). My main arguments are presented in the beginning of each section.

2.1 Concepts & Definitions

In the following two sections I argue that the definition ‘tax avoidance’ best captures the tax concept analysed in this study as this definition has been used in the existing literature to describe the immoral aspect of taxation – not the illegal one. With regard to CSR I describe that my study largely follows the definition and framework of Carroll (1979) giving attention to all four dimensions, both the economic, the legal, the ethical and the discretionary.

2.1.1 Corporate Tax Avoidance – A Definition

In defining ‘corporate tax avoidance’, it is important to distinguish between illegal corporate tax behaviour and immoral corporate tax behaviour. The most commonly used terms in this regard are ‘tax evasion’ and ‘tax avoidance’ (see e.g. Fuest and Riedel 2009; Jenkins 2005; Knuutinen 2014). Tax avoidance is commonly defined as immoral, such as the utilization of ‘loopholes’ and ‘grey areas’ in the international tax regime e.g. by keeping the rights to intellectual property in a tax haven or utilizing intra-group loans to shift profits to low-tax jurisdictions (more on specific mechanisms in section 2.2.2). On the other hand, tax evasion is commonly defined as being illegal such as the misinvoicing of import or export to local tax authorities. Sikka does point to the fact that it can often be difficult to distinguish between the two concepts:

There are perennial debates about the meaning and significance of ‘tax avoidance’ and ‘tax evasion’. Generally, tax avoidance is considered to be lawful and tax evasion is used to describe practices that contravene the law. However, in practice the distinction is not so clear-cut. The promoters of some strategies have described their schemes as ‘avoidance’, but when subsequently scrutinised and challenged in the courts they have been found to be ‘evasion’. (2010:154)

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7 Henceforth the terms ‘corporate tax avoidance’, ‘tax avoidance’ and ‘profit shifting’ are regarded the same.
Although this may be the case for some tax optimization mechanisms, others are clearly illegal, making a distinction important. **It is essential to distinguish between these two concepts, as they have significantly different policy implications** and may be curtailed in quite different ways. Tax avoidance may be extremely difficult to address on a country-by-country basis, as it exists in the grey area between two or more national tax regimes. Tax evasion on the other hand, can be combatted largely through tangible, country-specific mechanisms such as increased capacity at local borders and/or regional initiatives such as the automatic exchange of information between two or more trading economies.

Tax evasion can therefore be addressed more easily from a nation-level policy perspective than avoidance of corporate income taxes. An example of a corporation directly involved in potential tax evasion is the import-company *Lusitano* operating in The Philippines. It was recently discovered that they were declaring importing various products significantly below the market price (typically at one tenth of the price declared by competing companies for the exact same product), likely in an attempt to **evade** import duties (Anon 2015).

Within the existing literature, various authors have used other terms for describing either tax avoidance, tax evasion or a combination of the two. Such terms include ‘tax aggressiveness’ (see e.g. Chen et al. 2010; Lanis and Richardson 2012, 2013), ‘tax planning’ (see e.g. Christian Aid 2008; Kawor and Kportorgbi 2014; Ylönen and Laine 2014) and ‘tax abuse’ (see e.g. Christensen and Murphy 2004; Cobham 2014). It is important to note that individual authors often define their own definition depending on the scope of their study, and that a great level of ‘definition-inconsistency’ remains within this field of study to this date. For instance, The International Bar Association defines that ‘tax abuse’, to them, include:

> [T]he tax practices that are contrary to the letter or spirit of domestic and international tax laws and policies. They include tax evasion, tax fraud and other illegal practices – including the tax losses resulting from other illicit financial flows such as bribery, corruption and money laundering. The term ‘tax abuse’ also includes tax practices that may be legal, strictly speaking, but are currently under scrutiny because they avoid a ‘fair share’ of the tax burden and have negative impacts on the tax revenues and economies of developing countries. (2013:7, emphasis added)

In that sense, IBA’s definition of ‘tax abuse’ captures both the illegal and the immoral aspects in the same definition. As my study focuses only on the immoral aspect, I have therefore deliberately chosen not to use this formulation.

Another important distinction is the one made by Jenkins and Newel who describe the difference between ‘tax avoidance’ and what they refer to as ‘tax planning’:
Since tax incentives are often provided by governments to induce certain types of behaviour by companies, responding to such incentives is not regarded as tax avoidance, although it reduces the company’s tax payments. (2013:383, emphasis added)

This is an important distinction as it has implications for the parameters one can use to determine an individual corporation’s level of tax avoidance. I will discuss this in more detail in section 4.2.1. It is also an important distinction as it clearly emphasizes that the utilization of deliberately given tax incentives should (morally) not be considered equal to utilizing grey areas and loopholes.

Considering the above, this study only focuses on tax avoidance and on profit shifting in particular (see Leakage 3 in Figure 1 below) which I will explain in greater detail in section 2.2. This immoral aspect, as I shall argue in the following section, falls within the realm of corporate social responsibility. Illegal tax evasion (see Leakage 1), and therefore the effects of trade misinvoicing and illicit financial flows more broadly, is therefore not within the scope of this paper, as I argued that these issues are better addressed from a policy perspective than a CSR perspective.8

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8 For literature on this subject, see e.g. Baker (2005) or Kar & Spanjers (2014)
2.1.2 Corporate Social Responsibility (CSR) – Origin and Definition

The concept of corporate social responsibility (CSR) has been around for almost a century originating as early as the 1930s (Carroll 1979:497). Wendell Wilkie for instance “helped educate the businessman to a new sense of social responsibility” (Chet 1964:157, citing historian William Leuchtenburg). The ‘modern era of CSR’ however, is considered by many to be marked by Howard Bowen’s publication ‘Social Responsibilities of the Businessman’ from 1953. Bowen defined CSR as “the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.” (1953). Since Bowen, many definitions of CSR have followed, emphasizing on different aspects of the concept. Davis for example defined CSR as "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest" (1960:70), thereby adding an additional dimension to Bowen’s definition. McGuire argued that “The idea of social responsibilities supposes that the corporation has not only economic and legal obligations, but also certain responsibilities to society which extend beyond these obligations” (1963:144, emphasis added). This definition thereby adds the importance of the underlying economic and legal obligations to the definition.

On the other end of the spectrum – and heavily quoted as a ‘counter-argument’ within much of the CSR literature – Friedman argued that:

> Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. (1962:133)

Friedman always argue that business needs to act within any legal regulations, but not beyond that. He argues that if the business executive is making decisions based on the considerations of other stakeholders than stockholders, he is in effect “imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other.” (1970:5). In this sense, Friedman would argue that it is the social responsibilities of corporations to refrain from tax evasion as this is illegal. Refraining from tax avoidance on the other hand, would not be the social responsibility of corporations according to Friedman, as this is beyond the law – it is in the immoral sphere, as I described in the previous section.
Today, the CSR concept has come a long way, and thousands of companies (and their shareholders, not least) are clearly seeing the importance of (some level of) social and/or environmental consideration beyond legal minimum requirements. However, I still find Friedman’s reflections insofar as to consider social responsibilities as a form of taxation worthy of resurfacing. The mere wording itself points out exactly the link to corporate taxation that I am trying to bring forward: 1) That in effect both CSR-initiatives and taxation can be an equally good ‘road’ leading to the same societal outputs, and 2) that the one should therefore not be considered without the other. Although Friedman (through his legal and economic emphasis) mainly focused on the social responsibilities associated with 1) contributing to employment creation; 2) increasing economic growth; and 3) adding value to society through the companies’ products and services, I believe he would not have been hesitant in also categorizing companies’ corporate income tax payments as a direct social contribution to society. The reason why Friedman may not have explicitly stated payment of corporate income taxes as an example of the corporation’s social responsibilities now more than 40 years ago, may have been that tax avoidance was not yet an issue back then prior to globalization, so there was likely no relevance in pointing this out – it was obvious. In essence, Friedman may not have categorised “refraining from tax avoidance” as a corporate responsibility, but he may still have acknowledged tax as a company’s social contribution.

Following Friedman, today, a definition of CSR which is fundamental to much CSR literature, is that of Carroll, stating that: “The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (1979:500). This definition not only captures and indexes the corporation’s social responsibilities into four dimensions (see Carroll 1979:500, 1991:42 for a visualization), it is particularly interesting as it is very dynamic – it allows for CSR issues/priorities to change over time and to be re-evaluated based on the expectations of society. This CSR definition is therefore open to the issue of corporate tax avoidance, insofar as society has an expectation for corporations to refrain from such behaviour – which definitely seems to be the case at present time, as I will show in the following section.

9 A discussion of the motivation for engaging in CSR activities is beyond the scope of this thesis. Whether corporations are engaged in CSR purely to avoid reputational risks; purely as a result of philanthropic dreams or anywhere in between those two extremes, will therefore not be discussed here. For literature on corporate intentions, corporate legitimacy and business ethics, see e.g. Rendtorff (2009).
10 I base this statement on the cascade of CSR reports globally; the thousands of detailed reports submitted to the Global Reporting Initiative specifically (n.d.); and not least the fact that large portions of investments are today beyond the reach of corporations that do not make CSR considerations (see e.g. Domini Social Investments 2015)
11 Friedman’s primary examples of CSR included “reducing pollution” and “hiring hardcore unemployed” (1970:4)
Considering the above, the definition of CSR used in this thesis follows that of Carroll focusing on all four ‘dimensions of expectations’ and is what I understand as ‘CSR’ going forward. As will become evident in the following chapters, my primary focus within the four dimensions are on the following:

- **The economic aspect** focus on two primary facets:
  a. Supply chain considerations with macro-economic effect, including contribution to hiring locally and the sourcing of local raw materials (see parameter 1 & 2 in section 6.1), and
  b. Tax considerations with effect on the budgetary expenditure of affected economies through direct corporate income tax contributions accruing to the governments in the countries of operation (see section 6.5).

- **The legal aspect** focus on compliance with existing legislation, particularly with regards to environmental and labour considerations (see parameter 12 in section 6.2 and parameter 17 in section 6.3)

- **The ethical aspect** focus mainly on environmental considerations, human rights and labour rights (see all parameters in sections 6.1 to 6.4, aside those related to the legal aspect above).

- **The discretionary aspect** is confined to direct contributions to charity and cash payments to local community development (see parameter 3 in Section 6.1)

Chapter 4 will explain my specific CSR framework in greater detail.\(^\text{12}\)

### 2.2 Corporate Tax Avoidance: Background, Mechanisms & Magnitude

This section present the tax avoidance phenomenon more broadly focusing on the recent increase in public and political interest; the mechanisms used by corporations to avoid taxes; and the magnitude of the issue. I describe 1) that there has been an increased public and political focus on the issue of corporate tax avoidance within the past couple of years; 2) that there are several different mechanisms for avoiding taxes; and 3) that (despite this) there is still little evidence of the actual magnitude of tax avoidance in developing countries, and that estimates of tax evasion are often mistakenly used to validate the issue of corporate tax avoidance.

\(^{12}\) Going forward, I make the assumption that CSR may lead to (some level of) developmental outcomes (economically, ecologically and otherwise) through e.g. local employment creation and local sourcing of production input materials. My focus is therefore mainly on describing how corporate taxation fit into this, more so than describing the (potential) developmental outcome of existing CSR parameters in general. For additional literature on these aspects, see e.g. Sagebien (2011) or Cypher & Dietz (2009).
2.2.1 Background: Increased Political and Public Focus on Tax Avoidance
The issue of corporate tax avoidance itself – in low and high-income countries alike – has received increasingly higher attention among researchers and the general public over the past years. As Dowling points out, the global importance of the issue “was signalled by being included on the agendas of the G8 and G20 conferences in 2013.” (2014:174). Around the same time, the issue was presented and advocated for through case examples e.g. from Ghana and Zambia by organisations such as Action Aid (2010, 2013), Oxfam (2000, 2014, 2015) and Global Witness (2013) particularly pointing out the unfairness of corporations not contributing to the local tax revenue base in their countries of operation, considered unethical and immoral (particularly) when operating in the sphere between low and high-income countries. The issue has (and currently is) also on the agenda of the OECD’s so-called ‘Profit Shifting and Base Erosion’ (BEPS) programme (2013, 2014c); the joint African Union (AU) & United Nations Economic Commission for Africa (UNECA) (2015); and think tank Global Financial Integrity (Hollingshead 2010) in collaboration with other members of the Financial Accountability & Corporate Transparency (FACT) Coalition (2015). The issue has been further catalysed by a cascade of case examples from the EU and the US involving major multinational corporations utilizing tax havens on a grand scale or engaging in tax avoidance schemes such as Apple, Starbucks, GE, Amazon and many more (European Commission 2014a, 2014b; Grice 2013; International Tax Review 2014; Rubin 2015). Many of these cases were exposed following leaked documents of the International Consortium of Investigative Journalists (ICIJ) in 2012, revealing how European countries such as Luxembourg had offered special tax deals (so-called Advance Pricing Agreements13) at close to 0% corporate tax rate for specific multinational corporations (MNCs) (Galizia et al. 2014). Although the issue of tax avoidance is global, this study focuses on tax avoidance in low-income countries and Sub-Saharan Africa in particular – I focus for which the reason will be explained in detail in chapter 3.

2.2.2 Mechanisms Utilized for Avoiding Taxes
This section briefly describes some of the specific methods utilized in order for corporations to avoid taxes as well as a definition of what a ‘tax haven’ is.

According to Benari, tax schemes can fall into three broad categories (of which all but ‘false invoicing’ is within the scope of tax avoidance):

“Schemes involving financial transactions (e.g. debt buying, over payment, use of dividends); schemes involving geographical locations (e.g. tax havens, outward domestication); and schemes involving cost of goods (e.g. false invoicing, transfer pricing).” (2009:4, emphasis added)
Abusive transfer pricing has been identified by some as the most important method of MNCs’ profit shifting (Heckemeyer and Overesch 2013) and has been documented widely in the literature over more than 40 years (see e.g. Bartelsman and Beetsma 2000; Crow and Thorpe 1988; Cypher and Dietz 2009:496; Vaitso 1974). Transfer pricing can be defined as “the setting of prices for intra-group or company transfers of goods and services” (Law and Smullen 2008), and is therefore in itself not necessarily problematic. Abusive transfer pricing however, is problematic, and can take place when a corporation with subsidiaries in jurisdictions with varying tax regimes reports ‘incorrect values’ in its transferred prices in order to shift profits from high tax jurisdictions to low tax jurisdictions. In practice, corporations ‘trading with themselves’ are supposed to use the ‘arm’s length principle’ (OECD 2014a) when determining the price of any product or asset whether tangible or intangible traded on an intra-company basis, which in all its simplicity means that it should set the price as if it was trading with or selling to an external entity. In reality however, this is an extremely difficult affair and particularly intangibles remain the subject of much controversy (see e.g. Hanlon, Mills, and Slemrod 2005; OECD 2014a) as it can be difficult to determine what is a reasonably price to pay e.g. to use the right to produce a beer under a certain name. Furthermore, it is not illegal for a multinational group to hold the right to a trademark, logo or patent in a tax haven subsidiary with little more than a mailbox and then lease the right to such trademarks, logos or patents to its other subsidiaries in order to shift profits to the subsidiary established in the low-tax jurisdiction.

‘Tax havens’ or ‘low tax jurisdictions’ and their very existence are one of the very fundamentals for tax avoidance to be worth the while for any corporation. Without tax havens, there would be a significantly lower incentive for profit shifting, as the differences in the statutory tax rates would be lower. Financially speaking, there is a greater incentive for corporations to shift profits from a jurisdiction with a 30% corporate tax rate to one with a 0.5% corporate tax rate, than from a jurisdiction with a 30% tax rate to one with a 25% tax rate. According to Fisher, tax havens have become “commonplace and even an integral part of modern business practice. ... the vast majority of international tax avoidance involves tax havens.” (2014:338+343). When it comes to a precise definition of what a tax haven is, the OECD defined the characteristics as “no or only minimal taxes”, “lack of effective exchange of information”, “lack of transparency” and “no substantial activities” (1998:23). Often, the first and last of these aspects are given the most emphasis. The actual number of tax havens globally depends on ones criteria. For example, Ireland with a 12.5% statutory corporate income tax rate are included in some definitions, but not in others (for a full list of tax havens using the four most commonly cited definitions, see Government Commission on Capital Flight from Poor Countries 2009:19–21). Studies such as that by Maffini, investigate the connection between a MNC’s use of tax havens and its level of tax avoidance (2009). My analysis also explores this potential connection (see section 6.5).
Debt financing and particularly intra-group loans is another popular method for transferring profits to low tax jurisdictions (Zucman 2014:126). For example, a recent study by Foss shows how a recent sale of Norwegian Statoil Fuel & Retail to the Canadian firm Couche-Tard for NOK 15 billion through a newly-established holding company in Luxembourg saved the company NOK 530 million in taxes by using the intra-group loan method (2014; Riisnæs 2015). In a developing country context using data on worldwide affiliates of German MNCs, Fuest et al found that “affiliates of multinational firms located in low tax countries provide loans to affiliates located in high tax countries.” (2011:1). Debt financing is therefore also a popular mechanism for tax avoidance.

Lastly, outward domestication is “a way of transferring assets across borders to countries with lower tax rates” (Benari 2009:3). This mechanism is therefore concerned with the intra-group transfer of assets rather than products. As Benari further states:

The difference between an overseas branch and a foreign subsidiary is in the form of ownership. Both are controlled by the parent company, but only the subsidiary is considered a separate legal entity. From a tax standpoint, the profits of the overseas branch are included in the parent company’s profits while the subsidiary can be subject to tax in the country where it is located. (2009:11)

With outward domestication, a multinational corporation can thereby transform an overseas branch into an overseas subsidiary. An example of this is Diageo Plc residing in the UK. Utilizing outward domestication they were able to transfer their Johnny Walker subsidiary to Dutch ownership without having to pay any (known) taxes on the sale (2009:13). Outward domestication is more complex than the earlier mentioned mechanisms, and I have found no examples of this method used in a developing country context.

2.2.3 Magnitude of Corporate Tax Avoidance
This section presents a few estimates as to the magnitude of tax avoidance in developing countries in order to emphasize that there are very few (if any) reliable estimates at this moment.

Cobham roughly estimates the potential cost to developing countries as a result of corporate profit shifting at $50 billion looking at effective tax rates for US MNCs utilizing data from The US Department of Commerce (2005:9–12). This is a rough estimate from a working paper and provides little documentation in terms of the specific calculations used. A policy paper from Oxfam estimates that developing countries as a whole “could be missing out on tax revenues of about $35 billion a year as a result of tax competition” (2000:9–10). The authors define ‘tax competition’ as comprising both avoidance and evasion. It can therefore not be determine from this estimate how much is illegal tax evasion and how much is immoral tax avoidance. The authors also make several assumptions that make their estimate so simplistic that it should hardly be referenced at all – such as using the average OECD corporate tax
rate of 35% to calculate the tax loss for developing countries, even though these may have vastly
different corporate income tax rates. Given the clear methodological shortcomings in these two
studies I therefore agree with Fuest & Riedel when they point out that “most existing estimates of tax
revenue losses in developing countries due to evasion and avoidance are not based on reliable
methods and data.” (2009:vi). The two above estimates are (to my knowledge) the only known esti-
mates of tax avoidance in developing countries to this date (not including case studies)\textsuperscript{14}.

In summary, the above sections describe that 1) there has been an increased public and political focus
on the issue of corporate tax avoidance within the past couple of years; 2) that there are several
different mechanisms for corporations to avoid taxes; and 3) despite this there is still little evidence
of the actual magnitude of corporate tax avoidance in developing countries.

2.3 Taxation from a Development Perspective

This section describes why tax is important from a developmental perspective. I start by discussing
(broadly) why taxes are important for various forms of ‘development’ – economic, institutional and
otherwise. Secondly, I discuss how much tax revenue is needed and how the level of taxation between
developed and developing countries currently differs. Thirdly, I discuss barriers to increased tax
collection in developing countries; and lastly I describe why corporate income taxes in particular are
an important part of this overall tax composition.

I argue that increased taxation as well as improved tax administration may have several positive
developmental effects. Secondly, that the revenue base of developing countries currently seem signi-
ficantly below that of developed countries as a proportion of the size of the economy, limiting the
provision of public services. Thirdly, that barriers such as corruption, lack of trust and a government
legitimacy deficit may make changes complex. Lastly, I argue that since corporate income taxes make
up a higher proportion of the total revenue base in developing countries this may potentially make
corporate tax avoidance affect these countries more negatively than elsewhere. The last point may
also potentially weaken government legitimacy further thus complicating a potential transition
towards a greater level of individual taxation and generally hampering a broader tax composition.

2.3.1 Why are Taxes Important from a Development Perspective?

To this date, there are several arguments as to why taxes and taxation itself, is important for various
forms of ‘development’. Fuest & Zodrow argue that “The ability of governments to raise taxes in order
to finance public goods is essential to achieving economic development and growth.” (2013:3). This

\textsuperscript{14} For estimates on illegal tax evasion which is beyond the scope of this study (and too often mixed and confused
with tax avoidance), see e.g. Hollingshead (2010); Christian Aid (2008:2, 2009); or Jenkins & Newell (2013:383,
Table 1);
point is supported by Bräutigam who argues that “without the ability to raise revenue effectively, states are limited in the extent to which they can provide security, meet basic needs or foster economic development” (2008:1).

Sikka focus on the increased level of national independence and autonomy that a country can gain from raising more taxes rather than relying on external finance and not least official development assistance (ODA) arguing that:

Tax revenues are free from external pressures and are non-returnable. They provide the most durable resource to finance social infrastructure and provide much needed economic and social development to improve the quality of life of millions of people. (Sikka 2010:166)

Fjeldstad argues that taxation and tax administration is an important aspect for governments to build legitimacy, and conclude that "considerable and sustained efforts are required before the tax systems in most low-income countries will be significantly broadened and perceived as legitimate by the majority of citizens." (2014:182). Along the same lines, Moore argues that “All else being equal, the dependence of governments on general taxation has positive effects on the quality of governance." (2007:3) thereby emphasizing the importance of not relying too heavily on natural resource revenue for government coffers15. Bräutigam argues that the role of taxation in state building can be divided into two main areas:

[T]he rise of a social contract based on bargaining around tax, and the institution-building stimulus provided by the revenue imperative. Progress in the first area may foster representative democracy. Progress in the second area strengthens state capacity. Both have the potential to bolster the legitimacy of the state and enhance accountability between the state and its citizens. (2008:1)

In summary, this brief section illustrates that there may be several aspects of importance related either directly or indirectly to the collection and administration of taxes. Aside from the main, economic-financial argument that more tax revenue may equal more public services, other effects of taxation may include a higher level of national autonomy, higher quality of governance, increased institutional capacity, a chance to boost governmental legitimacy and not least earning the trust of the population. My analysis and discussion in chapter 6 and 7 primarily focus on the aspect of government revenue and social provisions.

15 This argument is in line with those of ‘the rentier state’ and ‘the resource curse’. For more literature on this, see e.g. Shaxson (2007) or Ross (2011).
2.3.2 How much Government Revenue does it take?

One thing is to acknowledge the importance of taxes, another is to understand how much tax revenue is then required for an economy to ‘better function’. One way of looking at this globally, is to compare the difference in tax revenue to GDP ratio between developed and developing countries. On this matter, Fuest & Riedel describe that in 2005 “the average tax revenue to GDP ratio in the developed world was approximately 35%. In the developing countries, it was equal to 15%.” (2009:1). This shows a clear discrepancy between the two groups and clearly indicate that (on average) developing countries have a significantly lower government budget compared to the size of their economy – in effect making them unable to provide the same level of services.

Keen adds another important element to this by noting that:

Between the early 1980s and 2005, resource-rich countries in sub-Saharan Africa increased their tax–GDP ratios by about 7 percentage points; non-resource related tax revenue in the region, on the other hand, was essentially stagnant (2013:5, emphasis added).

Although a discussion of the dependence on rent from natural resources is beyond the scope of this paper, Keen’s argument illustrate a general tendency of relying heavily on resource rents that fosters a low level of accountability between the public and the state. Keen’s argument is also my main reason for focusing on Sub-Saharan Africa in particular, as it indicates that taxation seem particularly challenging in this region.

Giving any exact proportions of what the appropriate amount of tax as a ratio to GDP will be, is beyond the scope of this paper. My observation is simply that in order for developing countries to provide the same level of public services as developed countries currently are, it seems that their total government revenue relative to the size of their economy has to gradually increase compared to what it is now.

2.3.3 What are the Barriers for Increasing Taxation in Developing Countries?

In order for the above government revenue increase to be realised in developing countries, there are certain barriers, which largely follow the arguments of section 2.3.1.

Brautigam et al emphasize that in many developing country cases “large sectors of the economy escape the tax net entirely” (2008:4). One of the main reasons for this may be a lack of trust in the government, as people are unwilling to pay taxes unless they believe such taxes are being used well. Bird describes the importance of taxpayers “seeing their money going to some worthwhile use” (Bird 1997 quoted in Keen 2013:21, emphasis added) and discuss the case of more purposive use of earmarking in order for the population to clearly see the link between what they pay in taxes, and which aspects of the government budget these payments are going to. Though this barrier is often
described on the level of individual taxpayers, the same tendency may to some extent also be the truth for corporate taxpayers less willing to pay taxes to what they may consider an inefficient or corrupt government.

Brautigam *et al* expands on the above by arguing that:

Most industrialized countries have succeeded in creating high levels of both capacity and consent. Their governance rests on fiscal systems that are the subject of policy debate, but rarely thrown into fundamental question or doubt. Developing countries are more diverse and, in most cases, in a far less happy situation. Their tax systems are often regressive and distortionary. Tax administration is usually weak and characterized by extensive evasion and corruption. (2008:4)

In line with the aspects presented in section 2.3.1, these arguments therefore emphasize that the barriers for developing countries are not confined to tax administration or tax composition, but may also rest on a lack of legitimacy and trust as well as quality of governance. Even if one were to assume that the citizens or corporations would not be opposed to a higher level of taxation in general, as long as the public services and social provisions were equally increased, significant barriers thus remain.

### 2.3.4 Why are Corporate Income Taxes Important in Particular?

The aspect of corporate income taxes (CIT) specifically (and the avoidance of such) is mainly emphasized in the ‘tax-for-development literature’ for two reasons. Firstly, CIT often constitutes a significant proportion of the overall revenue base in many low-income countries. As Picciotto puts it “the purses of developing countries rely more heavily on corporate taxes, and the bulk of that comes from international companies” (Athanasiou 2014:396). For example, corporate income tax contribute to 21% of the total tax base in South Africa, being the third largest contributor to tax revenue as a whole (National Treasury and South African Revenue Service 2013:90–91). In Ghana, corporate income taxes make up about 7% of total government revenue equal to the proportion made up of personal income taxes (see Figure 2). Looking at low-income and lower-middle income countries in general, the corporate income tax made up 16% of total government revenue in 2012 (Crivelli et al. 2015:4). In comparison the OECD average have been 7.2% - 10.6% from 1965 to 2012 - though Norway (18.9-29.3% from 2000-2013) and Australian (15-23%, same period) are significant outliers in that statistic (OECD 2015). Corporate income tax therefore make up a higher proportion of the revenue mix in developing countries, making the potential impact of corporate tax avoidance higher than in high-income countries.
The second reason is that taxing corporations effectively can set an example. As Keen argue “Certainly there seems little hope of encouraging improved compliance by smaller taxpayers if larger ones are manifestly escaping tax, legally or otherwise.” (2013:22). This argument follows my discussion of government legitimacy and trust as per the previous section. In its essence, Keen’s argument is that governments have to build legitimacy towards their people by showing that they are capable of taxing corporations and use those taxes for the greater good of society, before they achieve a mandate to tax the population more broadly.

In summary, the previous sections have shown why taxation more broadly and corporate income taxes specifically may be important from a development perspective not only providing much-needed government revenue, but potentially also contributing to increased state building, improved government legitimacy and greater international autonomy.
3 Literature Review

This chapter looks at my first working question with the purpose of reviewing the existing literature on the nexus between CSR and corporate tax avoidance. It starts with an overall indexation of existing studies into two main groups followed by a more in-depth analysis of the existing arguments, approaches and geographical foci of the literature. It looks first at quantitative, statistical studies and then various case studies. From this, I have identified five major gaps in the literature, which my methodological and analytical chapters seek to address. 1) None of the existing studies focus on Sub-Saharan Africa. 2) Most of the studies utilize parameters to measure corporate tax avoidance, which may give a poor indication of regional tax behaviour. 3) Some of the studies rely heavily on companies’ overall social performance and disclosure, overlooking potential regional differences. 4) Several of the existing studies do not make an adequate distinction between disclosure and performance – both concerning CSR and tax avoidance. 5) Most studies focus on whether there is a connection between tax avoidance and CSR rather than giving suggestions as to how this connection (or lack of) can be presented.

The start of the debate on the nexus between CSR and corporate tax avoidance which put the issue on the academic agenda more broadly, were Christensen and Murphy’s study “The Social Irresponsibility of Corporate Tax Avoidance” (2004) and Freedman’s study “Tax and Corporate Responsibility” (2003). The authors’ main argument was that CSR should not be analysed without also considering corporations’ tax avoidance behaviour, as the social implications of the one cannot be analysed in isolation from the other. Following these, there is now a growing but still modest amount of literature on the link between CSR and corporate tax avoidance. The recent literature can be broadly categorized into two groups based on their purpose and approach:

a) Quantitative studies statistically assessing the connection between CSR performance or disclosure and corporate tax avoidance behaviour based on various CSR and tax avoidance parameters (Davis et al. 2013; Hoi, Wu, and Zhang 2013; Huseynov and Klamm 2012; Landry, Deslandes, and Fortin 2013; Lanis and Richardson 2012, 2015; Muller and Kolk 2012; Watson 2014); and

16 The literature also consist of a third type of studies that I will categorize as ‘discussion studies’. In these, the authors either debate ethically and morally whether or not corporate tax avoidance should be seen as an issues of CSR or whether CSR may be a better tactic for limiting corporate tax avoidance, as opposed (or complimentary) to policy approaches (Avi-Yonah 2008; Christensen and Murphy 2004; Desai and Dharmapala 2006; Dietsch 2011; Dowling 2014; Fisher 2014; Freedman 2003; Hasseldine and Morris 2013; Jenkins and Newell 2013; McGee 2010; Oxfam 2000; Preuss 2012; Scheffer 2013; Sikka 2010, 2013). This study only analyse the first two categories of studies, but will refer to some of the discussion studies where relevant.
b) Case studies discussing the link between CSR reporting and corporate tax behaviour based on one or two specific companies (Riesco, Lagos, and Lima 2005; Ylönen and Laine 2014).

3.1 The Quantitative Studies

The quantitative studies focus on company-level data from countries such as Australia (Lanis and Richardson 2012), Canada (Landry et al. 2013), the US (e.g. Lanis and Richardson 2015; Watson 2014) and India (Muller and Kolk 2012). The studies utilize quite different variables/parameters in assessing ‘CSR achievements’ and ‘level of tax avoidance’ which is likely to be one of the primary explanations as to their different conclusions. For example, based on 434 firm-year observations in the US from 2003-2009, Lanis & Richardson find that “the higher the level of CSR performance of a firm, the lower the likelihood of tax avoidance.” (2015:449). Similarly, three years earlier and based on a sample of 408 publicly listed Australian corporations for the 2008/2009 financial year the same authors’ results show that “the higher the level of CSR disclosure of a corporation, the lower is the level of corporate tax aggressiveness.” (2012:105). The difference between ‘CSR disclosure’ and ‘CSR performance’ should be noticed, as there can be a vast difference between whether a corporation disclose CSR parameters and the actual performance of such parameters. For example, if ‘Company A’ discloses the CO₂ emissions associated with the distribution of its merchandise and ‘Company B’ does not, it cannot be concluded that ‘Company A’ performs better than ‘Company B’. One can assume that ‘Company B’ may not be disclosing, because it is not performing as well as ‘Company B’, but there can also be several other reasons for this lack of disclosure, perhaps simply because ‘Company B’ is more focused on other CSR issues than ‘Company A’. The difference between disclosure and performance is therefore extremely important, but has this far received disproportionately low attention and reflection in the existing literature.

Hoi et al utilizing data from the same database as Lanis and Richardson’s 2015-study, equally finds a connecting between CSR and corporate tax behaviour stating that “firms with excessive irresponsible CSR activities are more aggressive in avoiding taxes” (Hoi et al. 2013:33). Muller & Kolk adding another dimension to their study from India by comparing local firms to multinational enterprises (MNEs), finds that “MNEs pay considerably higher effective tax rates than do local firms, and MNE subsidiaries known for CSR pay more tax than do MNE subsidiaries less known for CSR.” (2012:1).

Conversely, Davis et al finds “no evidence that firms with higher quality CSR reports or higher CSR indexes (...) pay more in corporate taxes.” (2013:22). In between these two opposites, Huseynow and Klamm finds that only one of their CSR variables, ‘diversity strength’, is significantly associated with
tax avoidance measured as ‘Cash ETR’\textsuperscript{17} (effective tax rate). As they point out, their correlation matrix signals “some association between CSR, tax management, and tax avoidance; however further investigation is necessary to clarify this role.” (2012:812).

Where the above studies seek to assess whether there is a link between corporate tax avoidance and CSR aspects, other studies find other variables to be of greater importance. For example, Watson finds that:

\begin{quote}
the relation between CSR and tax avoidance is moderated by earnings performance ... a lack of social responsibility is positively associated with tax avoidance in firms with low current or future earnings performance, but this effect is diminished when current or future earnings performance is high. (2014:1)
\end{quote}

Along the same lines, Landry et al finds that “family firms are less tax aggressive than non-family firms ... tax behaviours are not necessarily aligned with corporate social responsibility ... the ownership structure moderates this relationship.” (2013:611–12). They thereby add more emphasis on the ownership structure in determining the level of tax avoidance, than CSR behaviour.

**What are my main observations looking at the existing quantitative studies?**

Firstly, only one of these studies focus on developing countries for which corporate tax avoidance may have the largest adverse effect (see section 2.3).

Secondly, there is a focus in the existing literature on analysing on the group-level whether companies with high CSR disclosure or performance, are also those less likely to utilize tax avoidance mechanisms. In my view, most global conglomerates are themselves dynamic entities consisting of a cascade of decision-making processes and are often mutually intertwined (as is also the occasion with my case examples as I describe in chapter 5). A universally applicable and generalizable connection between tax avoidance and CSR, based on group-level data from MNCs originating in high-income countries, may therefore not necessarily represent companies’ behaviour in low-income countries.

Thirdly, whether the existing studies focus on e.g. ownership structure, earnings performance or specific (artificially aggregated) CSR categories from global social investment databases, the purpose of all these studies are to identify potential generalizations. Such foci may have a tendency of underprioritizing the opportunity of simply analysing the data that is already available on the individual subsidiary level, which may potentially invalidate suspicion of tax avoidance for specific subsidiaries.

\textsuperscript{17}‘Cash ETR’ is based on cash payments rather than ‘GAAP ETR’ which is based on income. More on this in section 4.2.1.
Lastly, some of the quantitative studies do not discuss the difference between disclosure and performance – both concerning CSR and tax avoidance. As I described above, conclusions based entirely on level of disclosure may be a poor representation of companies’ actual achievements.

### 3.2 The Existing Case Studies

The existing case studies present concrete examples of one or two companies with more in depth details as to how their CSR achievements and tax behaviour may be connected (in one way or the other). Ylönen & Laine analyse the case of the Finnish multinational company Stora Enso which imports wood pulp from its Brazilian subsidiary Veracel through its subsidiary SEA in the Netherlands. The case is interesting for two reasons. Firstly, the company has “received external acclaim both for its CSR performance and for its approach to disclosure” (2014:2). The authors, quoting Patton (1990:174) therefore make the point that if tax avoidance happens there, it is likely to happen anywhere (2014:2). Secondly, the company (discretely, yet explicitly) admits to use transfer pricing to shift profits to their low tax subsidiary in The Netherlands – this level of self-disclosure and acknowledgement is rarely the case. The reason for this, can to some extent be explained by the fact that “Brazil is not an OECD member and is an exception to the norm here in not adhering to the Transfer Pricing Guidelines.” (2014:10). Had Stora Enso not been utilizing a tax haven, the authors roughly estimate that the company would have paid additional €47 million in corporate taxes at the Finnish corporate tax rate of 26% instead of the 1.5% actually paid to the Netherlands. The authors main finding is therefore that “extensive CSR reports and high rankings in CSR indices sometimes offer very little information about a company’s responsible behaviour or otherwise in terms of tax practices.” (2014:14, emphasis added). Although their methodology is different, this conclusion thereby supports the findings of the quantitative study of Davis et al as mentioned in the previous section.

Much in the same fashion, Riesco et al analyse two mining companies operating in Chile: “Exxon which has a poor reputation concerning CSR practices, and BHP Billiton, generally regarded as a CSR leader” (2005:3). Their findings generally support those of Ylönen and Laine (2014) above, as their paper “finds relevant evidence that even CSR leaders may engage in some of the above-mentioned practices [e.g. transfer pricing], when it comes to profit reporting and taxation.” (Riesco et al. 2005:3).

Both case studies therefore argue that there may not be a direct relationship between CSR and tax avoidance behaviour and that this connection is likely to be more complex – especially when it comes to multinational corporations operating in low and middle-income countries.
In summary, the combined arguments of both quantitative studies and case studies in the existing literature questions whether there is a connection between CSR and tax avoidance behaviour. It is this possible connection and relationship that my analysis explores and discusses. However, where earlier studies have primarily focused on the ‘whether’, my analysis goes one step further, in the sense that I focus on creating a practically applicable framework which can be replicated in other countries and sectors to adequately present a comparable format of involved companies’ actual CSR and tax avoidance disclosure and performance. The purpose of such a framework is to present the actual data in an easy-to-understand format in order for people to draw their own conclusions. The logic behind this, is, that if it is not clear to you why there is or is not a clear trend between the companies’ CSR and tax avoidance behaviour, then there is no clear trend. In other words, the data itself is more valid than my interpretation of it and should therefore be brought forward and given centre stage. For example, someone who values social and human rights concerns the highest will interpret the data differently than someone who values environmental concerns above all else.

These considerations based on the gaps in the existing literature, are what I take with me to the next chapter in which I will describe how a more comprehensive framework can be developed and what it will consist of.
4 Methodology: Developing a Tax-CSR Framework

This chapter looks at my second working question with the main purpose of developing a replicable, analytical framework including appropriate parameters for analysing the CSR-tax-nexus for specific corporate cases on a sector-by-sector basis in a particular country or region. The chapter starts by describing the potential limitations in utilizing a purely quantitative and statistical approach when analysing the tax-CSR-nexus. Secondly, it considers and discusses various tax avoidance and CSR parameters in order to create a practical and applicable study design. Thirdly, it describes which assessment criteria I use to analyse each tax avoidance and CSR parameter. Lastly, it describes which data the methodological approach will be based on when used in chapter 6 and which limitations this data has.

I argue firstly that the existing, quantitatively focused studies may not adequately capture the complexity of MNCs’ behaviour on the regional level. Secondly, that existing tax avoidance parameters may not be ideal for analysing potential tax avoidance behaviour regionally and that a new parameter such as a ‘tax-revenue-ratio’ (TRR) may be a better option for shedding light on MNCs’ tax behaviour regionally (and thus in developing countries specifically). Thirdly, I argue that a sector-specific selection of existing CSR parameters based e.g. on the Global Reporting Initiative seem adequate in analysing the companies’ ‘contemporary CSR achievements’. Lastly, I argue that publicly available tax and CSR data seem acceptable for my analysis, even though it does have some conceptual limitations.

4.1 Quantitative or Qualitative Study?

In this section, I will argue why a purely quantitative study approach – particularly regression analysis – may not be appropriate for analysing the tax-CSR-nexus on a regional basis. This is not to say that existing globally focused regression studies have no value, but rather to explicitly emphasize their potential limitations in explaining the tax-CSR-nexus in a developing country context.

Earlier studies based on various regression analyses (e.g. Lanis and Richardson 2015; Muller and Kolk 2012) have aimed to find a connection between CSR and tax avoidance with the purpose of being able to conclude something general and universal about corporate ethical behaviour. As mentioned, this study is more concerned with looking at the specific parameters for assessing groups of corporations within specific sectors and regions, and with developing an approach that can be replicated elsewhere and used to analyse other companies in other sectors.

My reasons for not choosing a quantitative study approach, is founded on the following observations. Firstly, marking a multinational corporation as ‘tax avoider’ will likely often be false. Doing so may be an over-simplified reality that undermines the adverse and complex international company structures
where competitors may often have stakes in the same subsidiaries; have agreements between each other; and licenses and assets may change ownership within periods of time too narrow to adequately assess who was the main contributor to the corporation’s tax behaviour. There are perhaps some US corporations that can be largely categorised as tax avoiders (see e.g. Helman 2010 for a description of General Electrics), but on a regional level and in a developing country context specifically, the scenario seems different.

Secondly, looking at the tax behaviour of parent MNCs (see e.g. Lanis and Richardson 2015) often may not give any indication as to where the corporation may be avoiding taxes.

Thirdly, the importance of different CSR parameters may vary from sector to sector and region to region. Even the CSR communication of local subsidiaries may be very different from that of the multinational parent because different stakeholders have different expectations. Conceptually, I am a strong believer that a corporation’s ethical and social behaviour should primarily be analysed in the perspective of its own sector and region. For example, the social responsibility of a consulting company in Denmark is very different from that of an oil company in Ghana. Their patterns of CO₂ emissions for instance, are vastly different, the former mostly contributing environmentally through emissions from their servers, plane tickets to attend meetings, electricity for their computers and wood for the paper they print on. The latter may be flaring gas from oil extraction, emitting CO₂ when transporting and distributing its material across the globe or when building heavy machinery. We may be able to create comparable parameters such as CO₂ emissions per revenue portion or per number of employees, but comparing the two may be like comparing apples and pears. It may therefore make little sense to assess which of the two is ‘the most socially responsible’, without considering the sector and region of their operations.

Lastly, a purely quantitative approach may often not determine who performs best on many of the CSR parameters, when these have more nuances. For example, one corporation may report the best result in terms of ‘percentage of local sourcing’ globally, but another corporation may report a slightly lower result but also provide more information on specific regional performance. A quantitative approach may only look at the ‘percentage of local sourcing’, but it may be more valuable to know that only the latter company reports on this on a regional basis. Furthermore, many CSR parameters may simply not be measureable quantitatively, e.g. those relating to human and labour rights for which some level of subjective interpretation may be necessary.
With these considerations in mind, I have therefore chosen to use a case study methodology (see e.g. Flyvbjerg 2006; Patton 1990) for my analysis, comparing a small selection of companies and their subsidiaries based partly on data which can be quantified and partly on data which cannot.

4.2 Study Design

This section describes and discusses existing tax avoidance and CSR parameters in order to develop a combined framework for analysing the tax-CSR-nexus. I firstly discuss and compare existing tax avoidance parameters. Secondly, I describe my selection of ‘contemporary CSR parameters’; and lastly I present my combined analytical framework for analysing the corporate cases. I argue that 1) existing tax avoidance parameters may have a set of limitations making them insufficient in describing potential tax avoidance on the regional level; 2) that a ‘tax-revenue-ratio’ may be a better parameter for determining potential tax avoidance on the regional level; 3) and that existing CSR parameters seem sufficient in describing companies’ environmental and rights-based aspects.

4.2.1 Selection of Tax Avoidance Parameters

Earlier authors have relied heavily on three parameters for determining whether corporations can be categorised as (potential) tax avoiders or not: 1) Number of tax haven subsidiaries; 2) number of tax disputes; or 3) effective tax rate (ETR). The following sections discuss the potential and limitations in utilizing these parameters. I argue that none of the existing tax avoidance parameters may adequately capture actual tax contributions on the regional level and may lead to incorrect conclusions and improper extrapolation of static tax-CSR-connections rather than shedding light on companies’ potential tax avoidance by simply using data that is readily available but currently remains unanalysed.

Tax Havens as Tax Avoidance Parameter

This parameter has been utilized by several authors (see e.g. Maffini 2009; Zucman 2014) as a preliminary indicator in identifying potential tax avoiders. There is clear evidence that 299 of the biggest US companies have shifted a total of $2.1 trillion in profits to low tax jurisdictions using tax haven subsidiaries (Rubin 2015). However, when analysing tax avoidance from Sub-Saharan Africa or other low-income countries specifically, there is currently less evidence supporting the notion that ‘tax haven subsidiaries equal tax avoider’.

It may seem that MNCs with a large number of holding companies in tax havens with no actual activities in these countries are more likely to be avoiding taxes, but whether these taxes are being avoided from Sub-Saharan Africa, other low-income countries and regions or merely from high-income countries, is scarcely documented.
A multinational group’s number of subsidiaries in tax havens may therefore work as a preliminary indicator in identifying potential tax avoiders, but it is quite detached from documenting corporations’ actual tax conduct. With these observations in mind, I will use this parameter in my analysis in Chapter 6 to test whether it can explain the tax behaviour of the companies I analyse.

**Tax Disputes as Tax Avoidance Parameter**

Another parameter for measuring or identifying corporate tax avoidance is ‘number of tax disputes’ latest used by Lanis & Richardson, describing their sample and selection of parameter in the following way:

> Our sample comprises 434 firm-year observations from the KLD database covering the period 2003–2009. Of the 434 observations, 217 are defined as tax avoidance observations. **That is the firm has been involved in a major tax dispute involving federal, state, local or non-US government authorities, or was involved in a controversy over its tax obligations which raised public concern** during the period 2003–2009 (2015:444, emphasis added)

The limitations of this parameter are several. Firstly, it assumes that only those who have been involved in either 1) a dispute or 2) “a controversy which raised public concern”, are avoiding taxes. Clearly, that may not always be the case and thus largely leave it up to the capacity of the legal system as well as the focus of the press to determine who is a tax avoider and who is not. This may skew attention towards larger corporations, for which journalists (by virtue of the companies’ size), may be more eager to identify a potential tax scandal – few people would be interested in reading an article about a small company avoiding taxes. Secondly, this parameter may not work well in an environment where the legal system has fewer resources to pursue tax disputes, which will likely more often be the case in low-income countries than in The US. Its replicability in a developing country context therefore seems low. Thirdly, this parameter assumes that a corporation acting one way in one jurisdiction acts the same way in all jurisdictions. For example, if a large corporation is involved in a tax dispute in Korea, this parameter assumes that it acts the same way in Nigeria. As I will show, this may not necessarily be the case. Fourth, the parameter is at risk of confusing tax avoidance with tax evasion or at least not distinguishing between the two. Lanis & Richardson does not specify whether a ‘tax dispute’ can be either a legal or an immoral act, but as their definition specifies that disputes involve government authorities, disputes are perhaps often a legal matter and therefore a sign of evasion rather than avoidance.

In sum, this parameter may therefore work well as a preliminary indicator to screen companies worthy of further scrutiny, but as a measure to determine whether companies are tax avoiders or not, it seems to have several limitations – specifically when applied to a low-income country context.
I will use this parameter in chapter 6 to test whether it can explain the tax behaviour of the companies I analyse. The estimation of tax disputes in section 6.5 is based on a search in Google News’ Media Archive (Google n.d.) using two formulas: 1) “[company name] AND ‘tax dispute’” and 2) “[company name] AND ‘tax avoidance’”. I have limited my search results to the past 10 years. In my selection, I have included only cases directly related to corporate income tax avoidance thus deliberately omitting cases related to other tax-related issues such as tax evasion or VAT disputes.

### Effective Tax Rate (ETR) as Tax Avoidance Parameter

The effective tax rate (ETR) shows the relationship between a company’s profits and its actual taxation. For example, if a company makes $10,000 in profits and pays $3,000 in taxes (on profit) its ETR is 30%.\(^{18}\) ETR can be different from the statutory tax rates\(^{19}\) for several reasons, some of which I will explain in more detail below. One of the most frequent reasons for changes in the ETR on a year on year basis, relates to companies incurring a loss in a financial year, thereby incurring deferred tax ultimately giving them an ETR lower than the statutory rate in the following year. To avoid such year on year fluctuations, researchers normally look at a five-year average ETR.

The (five year average) ETR has been used extensively in the existing Tax-CSR literature and is **likely the most widely used parameter for measuring tax avoidance to this date** (see e.g. Davis et al. 2013; Hoi et al. 2013; Huseynov and Klamm 2012; Lanis and Richardson 2011, 2012; Muller and Kolk 2012). Nevertheless, there are two significant limitations in using ETR as a parameter for measuring or identifying tax avoidance:

**a)** One cannot distinguish between the utilization of deliberately-given tax incentives on the one hand and actual, unwanted tax avoidance on the other (see section 2.1.1.); and

**b)** ETR shows no relationship between ‘local engagement’ and ‘level of taxation’ when analysing specific subsidiaries and may therefore in fact overlook tax avoiders.

The first point can be illustrated for example by looking at Nigeria’s biggest multinational company **Dangote Cement**. From 2010 to 2014, the company had an average ETR of -1%. With a nominal corporate income tax rate at 30% (PWC 2014:1460), one may at first find this figure alarming, but in reality the reason for this effective level of taxation is that the company is gaining tax credits from their “pioneer status” making several of their operations tax exempt for 2-5 years (Dangote Cement

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\(^{18}\) There are two commonly used measures of ETR: 1) ‘GAAP ETR’ and 2) ‘Cash ETR’. The former is based on income and the latter on cash payments. This study uses the former, but always utilizes average rates for five years or above to account for fluctuations. For additional literature on this, see e.g. Huseynov & Klamm (2012).

\(^{19}\) For a complete, detailed overview of all countries’ corporate income tax rates, see e.g. PWC (2014).
Thus, those who use this figure as a parameter for actual tax avoidance resulting e.g. from abusive transfer pricing or intra-company loans may easily arrive at incorrect conclusions.

The second aspect is even more important to emphasize: Whereas the ETR is a good indicator to determine a multinational group’s combined, overall level of tax, it can be potentially misleading on the country-by-country level. Let me illustrate this with a simple example:

- Over the course of five years ‘Subsidiary 1’ of ‘Multinational Company A’ makes revenue of $1 million in a given country with profit before taxes of $100,000 and paying corporate income taxes of $25,000 – an effective tax rate of 25%.
- Over the same years, ‘Subsidiary 2’ of ‘Company B’ (operating in the same sector as Company A) makes revenue of $2 million in the same country making profits before taxes of only $50,000 but paying corporate income taxes of $15,000 – an effective tax rate of 30%.

Does the lower ETR for Subsidiary 1 indicate that this multinational corporation is more likely to be avoiding taxes? No. Firstly, it may have received a tax holiday, as with the example of Dangote Cement. Secondly, it may have had years with a negative result, allowing for deferred tax lowering its effective tax rate. On the other hand, why is ‘Subsidiary 2’ making only half the profit on twice the revenue? One company may just be making higher profit margins because they are more efficient, but the difference may also be a preliminary indicator that ‘Company B’ is shifting profits abroad. In essence, the limitations with ETR is therefore that it may sometimes label companies as tax avoiders which are not tax avoiders, and in other situations it may overlook companies that are actually avoiding taxes.

With the above observations in mind, I will use the group-level ETR in my analysis in Chapter 6 to determine the companies’ global tax contributions and compare this with the companies’ global CSR disclosure and achievements. I will use this comparison mainly to reflect on the difference between global and regional performance and disclosure and to compare my findings to those of earlier studies.

**Tax-Revenue-Ratio as Tax Avoidance Parameter**

In order to give a better foundation for analysing corporations’ tax avoidance regionally, I propose using an indicator which in all its simplicity (and entirely based on data which can be compiled from annual reports) can have the ability to categorically mark some companies or subsidiaries as ‘non-tax avoiders’ as well as marking others as ‘potential tax avoiders’.

The logic and the calculation is simple: If a company is consistently increasing its local revenues over time, we can expect that it is performing better and better financially. If the company is consistently
making more revenue but keeps having a low profit (and thus low corporate tax payments), perhaps it is shifting profits elsewhere and therefore should be the focus of further scrutiny.20

Using the same examples as in the previous section, what I will call the ‘Tax-Revenue-Ratio’ (TRR) of Subsidiary 1 is thereby 2.5% ($25,000 tax / $1 million revenue) but the TTR of Subsidiary 2 is only 0.75% ($15,000 tax / $2 million revenue). In other words, the former contributes significantly more to the local tax base as a proportion of local revenue than the latter.

To give a few concrete examples from Sub-Saharan Africa, the company Bralirwa in Rwanda owned by Heineken, had a five-year average ETR of 27% and a TRR of 7.6%. On the other hand, Zambian Breweries owned by SABMiller had a significantly higher ETR of 38% but a lower TRR of 4.8%. Therefore, despite an 11%-point lower ETR, Bralirwa seems to pay a notably higher level of taxation than Zambian Breweries in comparison to the size of their ‘local engagement’ (measured by the size of their revenue).

My argument is that looking at a pool of companies in the same sector operating in the same region, will give a general idea of the tax-revenue-ratio. The more companies we include in the sample, the better we can establish what the average or the median is. From that, we can identify if there are any significant outliers, such as companies with significantly lower TRRs, which should then be the subject of further scrutiny. Conversely, the companies with the highest TRRs are least likely to be shifting profits out of the country. The use of the indicator is thus primarily to mark corporations with high TRRs as non-tax avoiders and mark those with low TRRs for further tax scrutiny.21 Practically, if one is looking at a list of MNCs with a high number of tax haven subsidiaries, this indicator can be used to eliminate some of these from further scrutiny in particular countries if it can be shown that their local subsidiaries have high TRRs in these places.

I will use this indicator as my main tax avoidance parameter. When interpreting the tax performance of each subsidiary in section 6.6, I exclude subsidiaries that have been owned by the parent company for less than 5 years and those that are not majorly owned. I do this in order to exclude potential tax

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20 As a measure of the level of ‘local engagement’, revenue could potentially be substituted or supplemented by a tax-asset-ratio or tax-employee-ratio when analysing other sectors. The importance is in being able to see the actual taxation as a proportion of the company’s local activity and size, as it is otherwise not possible to compare companies (in the same sector and region) to each other.

21 One may also need to consider the statutory corporate income tax (CIT) rate as an explanatory variable in TRR variations, e.g. if specific countries in the region analysed have significantly different rates than others. In this specific analysis however, the subsidiaries analysed typically operate within very similar tax regimes comprised of CIT rates around 25-35% (PWC 2014).
Methodology: Developing a Tax-CSR Framework

avoiding subsidiaries for which the parent company cannot have been in a position to contribute to or facilitate such behaviour.

4.2.2 Selection of ‘Contemporary CSR Parameters’

This section describes my selection of specific ‘contemporary CSR parameters’ and is entirely based on the framework developed by The Global Reporting Initiative (GRI)\(^2\) (n.d.). The reason for this, is that this is the framework that the analysed companies are already using. The GRI framework may have certain limitations, and other frameworks for reporting contemporary CSR aspects may therefore generally be more desirable. However, the scope of this thesis and my development of a tax-CSR framework is not to deconstruct existing CSR reporting frameworks and evaluate which of these work best, but rather to build on any existing frameworks, which currently do not contain tax avoidance considerations. As such, the exercise is simply one of adding an extra element to existing methods.

The ‘contemporary CSR parameters’ are indexed into four overall categories (A to D) as per Figure 3 in the following section (with the tax avoidance parameters as category E). Some of the companies I analyse report using the G3 framework and others using the G4 framework (Global Reporting Initiative n.d.). Rather than analysing every single parameter, I have compared the parameters that the companies themselves have chosen to report on – that is the parameters that currently seem 1) most relevant to the sector, and 2) which can be compared (a distinction between the G3 and G4 frameworks is therefore not relevant). In practice, it is infeasible to analyse a parameter that none of the companies are reporting on. Even if core GRI parameters are neglected by all companies in the same industry, they are not relevant to this analysis, as the strength is in differences between the companies more so than how the companies could be performing more generally. Parameters that I have deemed not comparable are those for which the companies implicated are using different methodologies. For example, when reporting on recycled packaging\(^2\) one company has no overall figure but reports sporadic regional estimates of actual recovery rates; another reports on percentage of all products sold in returnable packaging; and the third reports on percentage of beer sold in returnable packaging (Diageo plc 2014c:39; Heineken N.V. 2013b; SABMiller plc 2014d:13). Such methodological variances make the data difficult to compare, and all such incomparable GRI-parameters have therefore been deliberately omitted from this particular case analysis.

\(^{22}\) GRI provides “the world’s most widely used standards on sustainability reporting and disclosure” with thousands of reporters from over 90 countries reporting since the late 1990s (Global Reporting Initiative n.d.)

\(^{23}\) This is indicator ‘G4-EN28’ of the so-called ‘G4 reporting guidelines’ (Global Reporting Initiative n.d.)
Why not (also) use existing CSR benchmarks\(^{24}\) and awards to determine CSR performance and disclosure, like some of the earlier literature does (see e.g. Lanis and Richardson 2015; Ylönen and Laine 2014)? Popular sustainability indices and benchmarks include e.g. Dow Jones Sustainability Index (DJSI), the FTSE4Good and the Carbon Disclosure Project (CDP)\(^{25}\). My reason for not using these scores and certifications to determine the companies’ level of CSR disclosure and performance, are threefold:

1. They do not give the appropriate depth of information and details;
2. It can often not be determined which parameters the respective organisations have weighted the highest in their overall scores and assessment; and most importantly
3. They do not show regional differences in the reporting, but focus on the global level.

For example, Diageo scores 100/100 in the FTSE4GOOD index giving the impression that they almost have nothing to improve, but as my analysis will show (see chapter 6), this is not the case – neither regionally nor globally. My reason for explicitly mentioning these benchmarks is to show that I have considered them for my own analysis based on the prior literature, but deliberately chosen another approach given their limitations.

In summary, my main argument is that the specific parameters need to be selected on a sector-by-sector basis and may therefore contain any CSR parameter either within the GRI frameworks or any other CSR framework that the analysed companies are already using for their reporting. I therefore do not give recommendations towards any existing, specific CSR reporting frameworks in this thesis. My focus is rather to argue that tax avoidance should be included and considered in any CSR reporting framework. The following section shows the specific parameters included in my analysis.

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\(^{24}\) I use the term ‘benchmark’, ‘index’ or ‘award’ in this regard as a combined ranking or assessment conducted by another entity based on their individual assessment criteria and weighing, e.g. the Carbon Disclosure Project.

\(^{25}\) Diageo is the leader in all three indices with a bronze class certification in the first and scores of 100/100 in the two latter (Carbon Disclosure Project 2014a; Diageo plc 2014b; FTSE 2013:2). Heineken follows closely also in the bronze class and with scores of 98/100 and 99/100 respectively (Heineken N.V. 2014b:10). In contrast, SABMiller does not reveal their FTSE4Good score (SABMiller plc 2014d:1), they are no longer part of the DJSI (SABMiller plc 2014d:1) and they only scored 85/100 in the Climate Change aspect of the CDP (Carbon Disclosure Project 2014b).
4.2.3 Combined Analytical Framework

In light of the above, my combined analytical framework consists of five overall categories (A-E) each with a sub-set of 3-9 specific parameters – the latter based on my description and arguments in the previous sections. Overall, the framework compares the ‘contemporary CSR parameters’ (categories A to D, as described in section 4.2.2) with the tax avoidance parameters (category E, as described in section 4.2.1) depicted in Figure 3 below.

Figure 3 – Combined Tax-CSR Framework (own model)

Each parameter is analysed following two distinctions depicted in Figure 4 on the next page. Firstly, the analysis clearly differentiates between whether the company is merely disclosing in the specific parameter or whether it is actually showing the best performance as well, in comparison to its competitors. This allows for a broader level of analysis in which disclosure itself is also valued, even if the corporation is not necessarily the leader in terms of actual performance.

Secondly, the framework make a distinction between whether any parameter is disclosed globally or regionally. As I have mentioned, any regional disclosure or performance is valued higher than a corresponding global disclosure or performance.
Overall, the corporation with the best performance on the regional level will always be categorised as ‘the best’ and marked with green (the following section 4.3 describes this in detail). Any corporation with the lowest global performance or global ‘no disclosure’ will always be categorised as ‘the worst’ and marked with red (see section 4.3).

In between are ‘performance globally’, and ‘disclosure regionally’. In this circumstance, my framework values a regional disclosure higher than a global performance. For example, if Company A has a better global performance in a particular parameter than Company B, but Company B also reports on the parameter regionally, then Company B is valued highest in that parameter, regardless of its global performance being lower. My analysis therefore values the depth of the companies’ reporting as of higher importance than their level of reporting.

The analyses of each parameter are ultimately inputted into what I have chosen to call a ‘CSR-Tax Achievements & Disclosure Visualization Table’ (see Table 1 on the next page) showing the disclosure and performance of each company for each parameter. In order to distinguish between the global and regional level, two tables are presented separately – one global, one regional (see section 6.6).
Methodology: Developing a Tax-CSR Framework

### Table 1 – CSR-Tax Achievements & Disclosure Visualization Table (own model)

<table>
<thead>
<tr>
<th>Categories and Parameter</th>
<th>Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Company1</td>
</tr>
<tr>
<td><strong>A. Supply Chain &amp; Local Community</strong></td>
<td></td>
</tr>
<tr>
<td>1. Local sourcing of materials (%)</td>
<td>[value or level of disclosure]</td>
</tr>
<tr>
<td>2. Local hiring: senior management (%) (example)</td>
<td>20%</td>
</tr>
<tr>
<td>3. Donations (% of operating profit)</td>
<td></td>
</tr>
<tr>
<td><strong>B. Environment</strong></td>
<td></td>
</tr>
<tr>
<td>4. Waste recycling (%) (example)</td>
<td>70%</td>
</tr>
<tr>
<td>5. Recycled input material for packaging (%)</td>
<td></td>
</tr>
<tr>
<td>7. CO₂ emission: Production (Kg CO₂-eq per unit produced)</td>
<td></td>
</tr>
<tr>
<td>8. CO₂ emission: Packaging, co-products &amp; waste (kt CO₂-e)</td>
<td></td>
</tr>
<tr>
<td>9. CO₂ emission: Distribution and transportation (kt CO₂-e)</td>
<td></td>
</tr>
<tr>
<td>10. Renewable energy (% of total energy and electricity)</td>
<td></td>
</tr>
<tr>
<td>11. Biodiversity (example)</td>
<td>Disclosed</td>
</tr>
<tr>
<td>12. Compliance with regulation (incidents and value)</td>
<td></td>
</tr>
<tr>
<td><strong>C. Labour Rights</strong></td>
<td></td>
</tr>
<tr>
<td>13. Temporary workers (%)</td>
<td></td>
</tr>
<tr>
<td>14. Employee benefits</td>
<td></td>
</tr>
<tr>
<td>15. Collective bargaining (% covered) (example)</td>
<td>60%</td>
</tr>
<tr>
<td>16. Gender equality</td>
<td></td>
</tr>
<tr>
<td>17. Wage levels</td>
<td></td>
</tr>
<tr>
<td><strong>D. Human Rights</strong></td>
<td></td>
</tr>
<tr>
<td>18. Freedom of association &amp; collective bargaining</td>
<td></td>
</tr>
<tr>
<td>19. Discrimination (# incidents reported)</td>
<td></td>
</tr>
<tr>
<td>20. Child labour</td>
<td></td>
</tr>
<tr>
<td>21. Forced and compulsory labour</td>
<td></td>
</tr>
<tr>
<td>22. Lawsuits (human rights related) (example)</td>
<td>0</td>
</tr>
<tr>
<td><strong>E. Tax Avoidance</strong></td>
<td></td>
</tr>
<tr>
<td>23. Existing formal reporting of regional income tax</td>
<td></td>
</tr>
<tr>
<td>24. Income tax disclosure</td>
<td></td>
</tr>
<tr>
<td>25. Local income tax contributions – Tax-revenue-ratio (%)</td>
<td></td>
</tr>
<tr>
<td>26. Tax disputes (number of)</td>
<td></td>
</tr>
<tr>
<td>27. Tax havens (number of) (example)</td>
<td>0</td>
</tr>
</tbody>
</table>

It is important to note that this framework is developed and modified specifically for the beer and beverage industry. To use this framework for other sectors, one must focus on the parameters in categories A to D, which are relevant to the specific sector. For example, measuring water usage when comparing companies in the banking sector may not be relevant. Category E however shall always include some parameter for measuring tax avoidance regionally such as the tax-revenue-ratio.
4.2.4 Deliberate Omissions – A Reflection

As is evident from the previous section, some economic aspects with potential societal effect have been omitted. For example, the value to society of the companies’ products is not included in my analysis. My reason for this, is, that the cases I analyse are all beverage producers (as I will describe in chapter 5). This means that their final product is alcohol, which is often considered to have an adverse effect on society especially in terms of health. As the company’s consumers also pay significant levies on beverages, I make the assumption that the adverse health effects of alcohol consumption are offset by the levies thus assuming that these levies are being used in the health-sector. This may not always be the case, but a discussion of this is beyond the scope of this study. Had my case been e.g. smartphone producers, overlooking the direct positive impact of the companies’ products themselves, would likely be inadequate in the sense that access to such products may bring about significant societal changes considering e.g. the potential access to information, weather forecasts for farmers, general ability to communicate cheaper with peers etc. However, since the primary product is alcohol, this aspect has therefore not been considered. Future studies applying my developed framework to another industry, should consider this and other parameters when modifying the framework to the specific sector.

4.3 Manual for Analysing the Data: Assessment Criteria

In analysing the individual tax-avoidance and CSR parameters described in the previous sections, I use the assessment criteria described below.

Each parameter is given a colour code for and easy overview representing the worst and best performer and/or discloser for each parameter. Green indicates the best and red indicates the worst. I use the following assessment criteria to determine the best and worst performance and disclosure for each parameter: 1) If all companies have the same level of disclosure, the one with the highest performance is rated ‘best’ and marked with green. 2) The company with the best performance and/or disclosure is marked with green in any parameter with a clear best performer or highest discloser. 3) The company with the worst performance or disclosure is marked with red in any parameter with a clear worst performer or lowest discloser. 4) For parameters with no clear best performer or discloser, these are coloured orange in order to show that a clear best and worst company cannot be determined based on the information available. 5) All ‘no disclosures’ are marked with red. 6) In situations where one company has a written commitment or anecdotal evidence and the other has no disclosure, these are both marked with red, as they are considered equally poor. 7) In situations where two companies are performing significantly worse than the third, these are both coloured red (see e.g. Parameter 26: Number of Tax Haven Subsidiaries). 8) Where all companies have only global disclosure or only
regional disclosure, only this will be presented (see e.g. Parameter 1: Sourcing of Local Materials). 9) All parameters are analysed relative to the companies involved. For example, in Parameter 5: Waste recycling on the global level all companies perform well (above 95%), but the small differences are still rated as best and worst\textsuperscript{26}.

On a reflective note, when the framework is replicated elsewhere, another colour coding may be preferable, especially if a higher number of companies are analysed and compared. One may also choose to index level of performance into predefined intervals e.g. from ‘poor’ to ‘high’ based on the general performance of the parameter analysed for the specific sector. What is important is that the disclosure and performance of each parameter for each company can be presented in a comparable and easily visualized format and that each parameter is analysed systematically. Whether the performance is then analysed in intervals or as an absolute best and worst performer in each parameter, is a matter of preference.

My analysis of the cases is summarized in Table 2 and Table 3 in section 6.6.

4.4 Data Availability

One of the barriers in identifying potential tax avoiders in Sub-Saharan Africa is that financial information is somewhat more difficult to find and that there is perhaps a higher proportion of privately-owned corporations on the continent such as the second-largest beer manufacturer Castel Group (n.d.). However, according to an overview from the Orbis database\textsuperscript{27} there are still 3,253 companies (including branches) with detailed financial information in Sub-Saharan Africa (Bureau van Dijk 2015). Although more than half of these are in South Africa this is perhaps more an indication of the low number of large businesses in Sub-Saharan Africa in general, than an indication that a higher proportion of corporations being privately-owned or otherwise not having publicly available financial data.

4.4.1 Data for Analysing Tax Avoidance

As the Orbis database is expensive to access and does not contain much additional information in comparison to what can be aggregated from elsewhere, I have utilized an alternative data collection

\textsuperscript{26} One could also argue that since all companies perform above 95% in this parameter, they are all performing very well and should not be distinguished. As I have mentioned earlier, anyone looking at the findings are encouraged to interpret the findings in a different way than I have. This is exactly the strength of my suggested framework – that findings are often not static and rigid but can be interpreted in different ways.

\textsuperscript{27} Orbis is the world’s largest database of corporate information covering more than 150 million companies worldwide, and used by several tax avoidance researchers earlier (see e.g. Cobham and Loretz 2014; Maffini 2009). It is accessible but very expensive, and does in fact provide little additional data on corporations in Sub-Saharan Africa, compared to AfricanFinancials.com, although its sorting and searching mechanisms likely does make data compiling easier.
approach combining tax and ownership data from four sources. 1) African Financials.com, which is an online database with access to more than 6,900 Annual Reports from 16 Sub-Saharan African nations dating back to around the change of the millennium (2015). 2) Various local stock exchanges such as The Ghana Stock Exchange (n.d.) and The Nigerian Stock Exchange (n.d.). 3) Who Owns Who, an online database which contains limited but yet some corporate ownership information (Dun & Bradstreet 2015). 4) Companies’ own websites (see Appendix 1 - Corporate Documents Assessed for Data Compilation).

The challenges in using this data is that I will only be looking at publicly traded companies, therefore leaving out other types of businesses, for which tax practices may be significantly different. Although this is a noteworthy limitation, earlier studies such as that of Action Aid (2010), were also based on publicly available annual reports, and it is therefore possible to find examples of tax avoidance, even for companies with publicly available data. In addition, as my analysis is partly based on performance and partly based on disclosure, the lack of tax information for some subsidiaries is directly emphasised in the analytical framework and is thereby used as a specific variable itself.

4.4.2 Data for Analysing ‘Contemporary CSR Parameters’
For data on corporations’ social and ethical behaviour and their concrete achievements, I have used a combination of the following sources. 1) Global Reporting Initiative (GRI) (n.d.). 2) Business & Human Rights Resource Centre (for Parameter 22 specifically), which track human rights abuse with corporate involvement around the world (n.d.). 3) Companies’ own websites (see Appendix 1 - Corporate Documents Assessed for Data Compilation). 4) General news and web-searches to identify potential social, environmental and tax-related articles linked to the conduct of the multinational corporations or their local subsidiaries.

The main limitation in using this data, is whether corporations’ own reporting can be trusted. Self-reporting has been a major point of criticism broad forward by CSR sceptics over the past years, and with good reason. However, some companies have now responded by having (at least part of) their CSR parameters independently assured (see e.g. Diageo plc 2015; Heineken N.V. 2014b:48; SABMiller plc 2014d:21). This assurance remains limited and CSR achievements should therefore still be interpreted with caution. Nevertheless, this is still a noteworthy improvement.

In summary, I have argued in this chapter that 1) the existing regression-focused studies may not adequately capture the complexity of MNCs’ behaviour on the regional levels. 2) That existing tax avoidance parameters (such as the ETR or ‘number of tax disputes’) may have certain limitations for

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analysing potential tax avoidance behaviour on the regional level and that a new parameter such as a ‘tax-revenue-ratio’ may be a better option for shedding light on MNCs’ tax behaviour locally. 3) That a sector-specific selection of existing CSR parameters based e.g. on the Global Reporting Initiative may be adequate in analysing the companies’ ‘contemporary CSR achievements’; and 4) that publicly available tax and CSR data seem acceptable for my analysis, as a lack of disclosure is directly implemented into the analytical framework itself.
5 Selection and Presentation of Cases
This chapter firstly describes my process and arguments for selecting the specific cases analysed in the following chapter. Secondly, it briefly presents the beverage market of Sub-Saharan Africa. Lastly, it briefly presents the selected corporate cases and the extent of their local presence including a list of local operations, regional revenue among other details.

5.1 Selection of Sector and Cases: The Beverage Sector
After screening many potential sectors and specific companies, I made the following considerations for choosing the beverage sector in particular. 1) I wanted to look at a sector that is not in resource extraction, as the resource extraction sector is fundamentally different from other sectors in terms of tax composition and most often make specific agreements directly with the respective government as to how much they are to pay in taxes through special agreements and varying tax and royalty structures. 2) I wanted to focus on a sector for which there is a reasonable spread of countries where tax information is available for different companies. 3) I wanted to focus on a sector for which corporate image and reputation is important, assuring a reasonable level of existing CSR reporting over the past years. 4) I wanted to build on existing case studies, making the beverage manufacturing sector relevant as one of the popular examples of tax avoidance stems from SABMiller’s subsidiary Accra Breweries in Ghana (Action Aid 2010). 5) I wanted to focus on a sector that has been described in earlier literature to have a clear social connection to the societies in which they operate, partly through payment of taxes. In this sense there is a rich literature on the liberalization of various African economies (e.g. Tanzania in the 1990s) which broad in external beverage producers (in this case South African Breweries) who quickly became a success and e.g. contributed $73 million in taxes in 1998 (Willis 2002:246–247).

For these reasons, I have chosen to focus on companies in the beverage industry comprising mainly of four major players (including their subsidiaries and affiliates) and a few locally owned breweries too. The following sections give a brief description of the companies in the sector, which market they are competing for and which of them I have chosen to analyse in chapter 6.

5.2 Background: The Beverage Sector in Sub-Saharan Africa
The beverage sector of Sub-Saharan Africa is dominated by four major players who (now) own almost all local breweries and distilleries and/or have recently build new production facilities in the region: 1) Castel Group BGI, 2) Heineken N.V. 3) SABMiller plc, and 4) Diageo plc (see Figure 5 on the next page). The only countries in which independent beverages companies still seem to hold the major markets shares are Mauritius (Phoenix Beverages), Namibia (Namibia Breweries) and Liberia (Monrovia Breweries) – however, these companies still produce beverages for Heineken and/or
Diageo under license and directly refer to the companies as partners or minority shareholders in their respective annual reports. The official beer and beverage market in Sub-Saharan Africa is therefore dominated by these four multinational corporations.

Continently speaking, Africa is considered to be the fastest growing beer market in the world (Canadean 2015), and the major players have definitely realized this potential building new facilities and taking over older establishments in recent years, e.g. in Ethiopia (Reuters 2015), South Sudan (Allison 2012) and Nigeria (Champion Breweries plc 2013:3). Of the regional markets, South Africa is the biggest beer market with total volume of 30,921 hectolitres in 2014 followed by Nigeria and Angola with 15,200 hl and 12,790 hl respectively (Canadean 2015). Figure 5 below, shows in which countries the different companies are represented. As show, SABMiller, Heineken and Diageo are all competing for a share of the Nigerian market. Castel Group BGI and Heineken are competing in Ethiopia; Diageo and SABMiller in Tanzania and Diageo and SABMiller in Ghana. It is no coincidence that French-owned Castel Group holds the major market shares in almost all francophone African countries.

Figure 5 – Major Markets of Biggest Beverage Manufacturing Companies in Sub-Saharan Africa

29 The three non-coloured countries of Somalia, Sudan and Mauritania are Muslim countries and therefore do not have a (formal) alcohol industry.
5.3 Brief Introduction of Corporate Cases

5.3.1 SABMiller plc

SABMiller is the largest beer and beverage producer in Sub-Saharan Africa (measured by revenue) with operations mainly in Southern and Eastern Africa, but also major operations in Ghana and Nigeria (see Figure 6). 19% of the MNC’s employees (13,236) work in Africa, which also accounts for about 30% of global net revenue ($6,752 million) (see table with Key Figures).

The company has 13 main production subsidiaries in Sub-Saharan Africa including: Accra Breweries in Ghana; Cervejas de Mocambique; Chibuku in Malawi; Delta Corporation in Zimbabwe; International Breweries in Nigeria; Maluti Mountain Brewery in Lesotho; National Breweries in Zambia; Nile Breweries in Uganda; Sechaba Breweries Holding in Botswana; South Sudan Beverages Ltd; Swaziland Beverages Ltd; Tanzania Breweries; and Zambian Breweries plc (SABMiller plc 2014a) (see table ‘Operations in Sub-Saharan Africa’).

In addition to this, SABMiller also holds a 20% interest in the Castel Group’s African beverage interests (SABMiller plc 2014a:160).

International Breweries Plc in Nigeria was not acquired until 2012 and is therefore not included in the analysis of SABMiller’s potential tax avoidance. Concerning Delta Corporation in Zimbabwe, International Breweries Plc in Nigeria and Sechaba Breweries in Botswana, SABMiller only holds a minority shareholding in these companies and they will therefore not be included in the potential tax avoidance of SABMiller either (see section 4.2.1).

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30 The company has other subsidiaries such as MUBEX in Mauritius which principal activity is procurement, not production, and is therefore not included in the analysis.
5.3.2 Castel Group / BGI

Castel Group was founded in 1949 and is the second largest beer and soft-drinks business in Africa (Castel Group n.d.) (see Key Figures). The company owns (at least) 14 main production subsidiaries in Sub-Saharan Africa including: BGI Ethiopia; Brakina in Burkina Faso; Bramali in Mali; Braniger in Niger; Brasserie BB Lomé in Togo; Brasserie Motte Cordonnier Afrique (MOCAF) in The Central African Republic; Brasseries de l’Ouest Africain in Senegal; Brasseries du Cameroun; Brasseries du Tchad; Cuca in Angola; Sobebra in Benin; Sobraga in Gabon; Sobragui in Guinea and Solibra in Cote d’Ivoire (see ‘Operations in Sub-Saharan Africa’ and Figure 7).

In most of their countries of operation, the company holds the majority of the beer market. For example, Cuca is the largest beer and beverage manufacturer in Angola with a 90% market share (How We Made It In Africa 2010). An important market being the third largest in Sub-Saharan Africa after South Africa and Nigeria and currently under-supplied (ibid). In Ethiopia the group owns St George, Ethiopia’s oldest beer brand which was acquired in 1998 (Reuters 2015).

The level of information and transparency for Castel Group BGI is significantly lower than for the other three major beverage producers as they are a privately owned company. Due to this, I will not include Castel Group BGI in the following analysis. The group does have some CSR reporting (Castel Group 2011), but the content and substance of this reporting is substantially below that of the three other multinational groups. I have also been unable to find any reliable tax data for any of the group’s subsidiaries.

### Key Figures – Castel Group / BGI

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Globally (€ million)</td>
<td>2,800</td>
</tr>
<tr>
<td>Revenue in Africa</td>
<td>Unknown</td>
</tr>
<tr>
<td>Employees Globally</td>
<td>10,000</td>
</tr>
<tr>
<td>Employees in Africa</td>
<td>Unknown</td>
</tr>
</tbody>
</table>

Source: (Rayon Boissons 2009)

### Figure 7 – Castel Group BGI’s Presence in Sub-Saharan Africa

![Map of Sub-Saharan Africa with Castel Group BGI subsidiaries highlighted]

### Operations in Sub-Saharan Africa

- BGI Ethiopia
- Brakina (Burkina Faso)
- Bramali (Mali)
- Braniger (Niger)
- Brasserie BB Lomé (Togo)
- Brasserie Motte Cordonnier Afrique (CAR)
- Brasseries de l’Ouest Africain (Senegal)
- Brasseries du Cameroun
- Brasseries du Tchad (Chad)
- Cuca (Angola)
- Sobebra (Benin)
- Sobraga (Gabon)
- Sobragui (Guinea)
- Solibra (Cote d’Ivoire)
5.3.3 Heineken

Heineken is the third largest player in Sub-Saharan Africa with 17% of their employees (12,975) working in the region of ‘Africa and The Middle East’. This region also accounts for about 14% of Heineken’s global net revenue (£2,643 million) (see Key Figures). The company has 12 subsidiaries and affiliates in Sub-Saharan Africa: Bedele Brewery Share Company in Ethiopia; Bralirwa in Rwanda; Bralima in The Democratic Republic of Congo (DRC); Brarudi in Burundi; Brasco in Congo Brazzaville; Champion Breweries in Nigeria; Consolidated Breweries in Nigeria; a 20% stake in Guinness Ghana Breweries; Harar Brewery Share Company in Ethiopia; Heineken Breweries Share Company in Ethiopia; Nigerian Breweries Plc; and Sierra Leone Brewery (see Figure 8 and ‘Operations in Sub-Saharan Africa’).

In Ethiopia following a deal to buy two local breweries in 2011, Heineken is now the second biggest brewer after Castel Group BGI, which has a 50% market share (The Africa Report 2011). In Nigeria Heineken holds an estimated 60% share of the alcoholic drink market through their subsidiary Nigeria Breweries Plc (Ventures Africa 2014).

Of Heineken’s operations in Sub-Saharan Africa, its Ethiopian subsidiaries as well as Champion Breweries in Nigeria were not acquired until 2011, and will therefore not be included in the analysis of Heineken’s potential tax avoidance – neither will Guinness Ghana Breweries for which Heineken only holds a minority shareholding.

<table>
<thead>
<tr>
<th>Key Figures – Heineken N.V.</th>
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</thead>
<tbody>
<tr>
<td>Revenue Globally (€ million)</td>
</tr>
<tr>
<td>Revenue Africa &amp; Middle East (€ million)</td>
</tr>
<tr>
<td>Employees Globally</td>
</tr>
<tr>
<td>Employees Africa &amp; Middle East</td>
</tr>
</tbody>
</table>

Source: (Heineken N.V. 2014a)

Figure 8 – Heineken’s Presence in Sub-Saharan Africa

<table>
<thead>
<tr>
<th>Operations in Sub-Saharan Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bedele Brewery Share Company (Ethiopia)</td>
</tr>
<tr>
<td>Bralirwa (Rwanda)</td>
</tr>
<tr>
<td>Bralima (DRC)</td>
</tr>
<tr>
<td>Brarudi (Burundi)</td>
</tr>
<tr>
<td>Brasco (Congo Brazzaville)</td>
</tr>
<tr>
<td>Champion Breweries Ltd (Nigeria)</td>
</tr>
<tr>
<td>Consolidated Breweries (Nigeria)</td>
</tr>
<tr>
<td>Guinness Ghana Breweries (20% stake)</td>
</tr>
<tr>
<td>Harar Brewery Share Company (Ethiopia)</td>
</tr>
<tr>
<td>Heineken Breweries (Ethiopia)</td>
</tr>
<tr>
<td>Nigerian Breweries Plc</td>
</tr>
<tr>
<td>Sierra Leone Brewery</td>
</tr>
</tbody>
</table>

31 Consolidated Breweries merged with Nigerian Breweries on January 1, 2015.
5.3.4 Diageo plc

Diageo is the fourth largest player in Sub-Saharan Africa with 32% of their employees (8,761) working in the region ‘Africa, Eastern Europe and Turkey’. This region accounts for about 20% of Diageo’s global net revenue (£2,075 million) (see Key Figures). The company has three subsidiaries in Sub-Saharan Africa: East African Breweries operating in Kenya, Tanzania and Uganda; Guinness Ghana Breweries in Ghana and Guinness Nigeria plc in Nigeria (see Figure 9).

In terms of market shares, in Kenya for example, East African Breweries holds an estimated 85% of the formal alcohol market (Thiong’o 2013).

All three of Diageo’s African operations have been owned by the multinational group since 2004 or earlier, and will therefore all be part of the tax avoidance analysis.

5.3.5 Independent Beverage Manufacturers

Other than the above, there are a few independent or at least ‘semi-independent’ beverage manufacturers in Sub-Saharan Africa worth mentioning. Namibian Breweries is majority owned by local investment company Ohlthaver & List, but still produce the brands of both Heineken and Guinness under license (Namibia Breweries Ltd 2014:4). Another independent brewer is Phoenix Beverages in Mauritius for which Diageo has only a 1.9% shareholding (Phoenix Beverages Ltd 2014:38).

In summary, the previous sections give a general idea of the size and markets of each MNC. In the following chapter, I will analyse and compare Heineken, Diageo and SABMiller. As described above, there is little tax and CSR information available for Castel Group, which I have therefore chosen to exclude from my analysis. I will mainly refer to the independent beverage manufacturers for tax comparison purposes in section 6.5.

<table>
<thead>
<tr>
<th>Key Figures – Diageo plc</th>
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</thead>
<tbody>
<tr>
<td>Revenue Globally (£ million)</td>
</tr>
<tr>
<td>Revenue Africa, Eastern Europe and Turkey (£ million)</td>
</tr>
<tr>
<td>Employees Globally</td>
</tr>
<tr>
<td>Employees Africa, Eastern Europe and Turkey</td>
</tr>
</tbody>
</table>

Source: (Diageo plc 2014a)

Figure 9 – Diageo’s Presence in Sub-Saharan Africa
6 Analysis I: CSR and Tax Avoidance – Corporate Cases

This chapter looks at my third working question in order to analyse and discuss the combined CSR and tax-avoidance parameters of the selected corporate cases Heineken, Diageo and SABMiller based on 1) their level of disclosure and 2) actual performance. The analysis focuses mainly on Sub-Saharan Africa (the regional perspective) but utilize global data where no regional data is available. The following sections analyse each parameter using the framework described in section 4.2 of the methodology chapter. Table 2 and Table 3 in section 6.6 give a visual overview of the companies’ disclosure and performance on the global and regional level, followed by a reflection and discussion of my findings in relation to the earlier literature on the field.

My main findings are that the overall lowest performer and discloser in the ‘contemporary CSR categories’ (A to D) is SABMiller with 18 ‘not disclosed’ in 28 parameters and a handful of the lowest achievements as well. Between Diageo and Heineken, there is no clear overall best CSR performer or discloser. Each have about a handful of non-disclosures in some parameters, but better disclosure in others. In regional performance, Heineken is the best in category A and Diageo in category C. In global performance, Diageo is best in category B and D, whereas Heineken and Diageo perform equally well in category C. When it comes to tax avoidance (Category E) interpreting both performance and level of disclosure, there is no clear ‘avoider’ or ‘contributor’ when analysing data on the regional level as tax-revenue-ratios vary substantially even within company groups. On the global level, SABMiller has the highest effective tax rate (ETR) despite having the lowest CSR disclosure and performance. All of these findings show that the connection between CSR and tax avoidance is more nuanced than what an analysis of the companies’ global figures is able to reveal.

6.1 Supply Chain and Local Communities (Category A)

This section looks at each company’s utilization of local materials, local personnel and their contributions to local communities. My main findings are that Heineken has the highest level of disclosure in this category, reporting on all parameters on the regional level and SABMiller has the lowest level of disclosure only reporting on one of three parameters. In terms of performance, Diageo and Heineken perform equally well depending on how one weighs each parameter. Overall, SABMiller ranks lowest in this category.

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32 This excludes Castel Group which is by comparison completely opaque in terms of both CSR and tax disclosure despite being the second largest beverage manufacturer in Africa.
Parameter 1: Sourcing of Local Materials

When it comes to supporting the local economy through sourcing of local materials in Africa, Diageo performs best with 66% of raw agricultural materials sourced locally (2014c:76). Heineken takes second place with 48% (2014b:31), and SABMiller takes last place, providing only anecdotal evidence and a commitment (2014d:15).

Heineken has the deepest level of disclosure on this parameter providing information for several subsidiaries. For instance, Consolidated Breweries in Nigeria has 71% local sourcing (2012:3); Bralirwa in Rwanda 46% (2013:9); and Sierra Leone Breweries sources 29% of sorghum and 15% of sugar locally (2013:9). Diageo reports on the regional level.

Parameter 2: Hiring Locally

Globally, Diageo performs best in terms of local hiring with an estimated 80% of senior management coming from the country in which they work (2014c:23). For Heineken the figure is 57.1% (2013b) whereas SABMiller does not report on this (2014c:10). However, when it comes to level of disclosure Heineken also reports this figure on a regional basis indicating that local hires amounted to 48% for Africa and The Middle East (2013b).

Parameter 3: Charity & Community Investments

All three companies have about the same level of charitable contributions and community investments. SABMiller is best with $32 million equal to 0.8% of operating profit (2014d:7); Heineken second with €18.9 million equivalent to 0.7% of operating profit (2013g); and Diageo last with £16.5 million equal to 0.5% of operating profits (2014a:45). In terms of regional disclosure, Heineken is the only company of the three that shows a breakdown of these contributions on different regions e.g. with €2.6 million (0.1% of total operating profit) being spent in Africa and the Middle East (2013g).

6.2 Environmental Aspects (Category B)

This section analyses nine environmental parameters focusing on water efficiency, recycling, CO₂ emissions, renewable energy, biodiversity and compliance with environmental regulations. The aspect relating to emissions focus on the companies’ so-called ‘carbon footprint’ (see Figure 10). The most significant carbon contributing aspects for the beverage sector are 1) packaging material production, 2) cooling, 3) beverage production and 4) distribution.

My main findings are that SABMiller has the lowest level of disclosure in this category only reporting on three out of the nine parameters consistently. Diageo has the highest level of disclosure reporting

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33 Includes both raw materials and packaging materials
on almost all categories, closely followed by Heineken reporting on six of nine parameters. In terms of performance, SABMiller may perform at par with the others in terms of water efficiency and production emissions, but aside from that, they are significantly behind in performance, clearly illustrated by their lack of results to show. Whether Heineken or Diageo is the best environmental performer depends on which parameter one weighs highest. Diageo’s significantly higher utilization of renewable energy in production is admirable, but their water efficiency and CO₂ emission per unit produced is not particularly impressive. Overall, looking at both performance and disclosure, I will rank SABMiller the lowest and Diageo the highest.

**Parameter 4: Water Efficiency**

SABMiller has the highest level of disclosure, reporting this parameter on the country or company level in one easy-to-navigate online platform (SABMiller 2015). Heineken has almost the same level of disclosure, but data is more inconsistent leaving out some subsidiaries and it has to be compiled from several stand-alone documents (see Appendix 1). Diageo reports this parameter on the regional level (see Appendix 2 for a complete overview).

Methodologically, the results are not entirely comparable, as some measure the water use per litre of beer produced, and others measure it as water use per litre of all beverages (beer, soft drinks, cider, bottled water etc.). As beer requires more water to produce than soft drinks (and especially compared to a bottle of water), producers measuring water efficiency for all beverages rather than just beer must therefore have lower figures in order to be performing equally good or better. When interpreting the figures, it is also important to keep in mind that Heineken and SABMiller are primarily beer producers with 91% and 79% of total production being beer (Heineken N.V. 2013d; SABMiller plc 2014a:3), whereas Diageo is primarily producing spirits with only 20% of total production being beer (Diageo plc 2014a:13). It is therefore difficult to directly compare these figures, as it may require significantly more water to produce e.g. a 10-year malt whiskey than a lager.

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**Figure 10 – Heineken’s Carbon Footprint (source: Appendix 1)**

- Agriculture: 8%
- Malting and adjuncts: 6%
- Beverage production: 17%
- Packaging material production: 31%
- Distribution: 10%
- Cooling: 28%
With that in mind, SABMiller does have the lowest figures both globally with 3.5 hl of water to produce 1 hl of beer and on the national level with 3.6 to 6.9 hl/hl. For Heineken the figures are 3.9 hl/hl globally and 5.0 to 8.3 hl/hl on the national level, and for Diageo 6.9 hl/hl globally and 6.2 hl/hl for the region of Africa, Eastern Europe and Turkey. As SABMiller’s figures are for beer only, whereas Heineken’s also include soft drinks and water, it is safe to conclude that SABMiller performs better than Heineken on this parameter\(^{34}\), but how Diageo’s performance fit into the picture, remains unclear based on my reflections above. For a full overview of water efficiency, see Appendix 2.

Parameter 5: Recycling of Waste

When it comes to recycling of waste, all three companies have very similar level of reporting and performance. Globally Diageo is marginally ahead with \(97.9\%\) recycling of waste (2014c:38), Heineken at 96.8\% (2014b:27) and SABMiller at \(95.6\%\) (2014d:12).

Regionally any clear best or worst performer is difficult to determine. For example, Heineken reports a 90.7\% recycling rate in Ethiopia (2013f) and 92\% for Consolidated Breweries in Nigeria (2012:2) thereby indicating recycling rates below the global average. Diageo only reports regionally with a 95.5\% recycling rate for Africa, Eastern Europe and Turkey (2014c:38). Here the standards may be higher in Eastern Europe and Turkey than Africa, making it difficult to conclude whether the former is performing better than the latter. Then to add a bit of methodological disorder, SABMiller has chosen to indicate their country-by-country ‘waste performance’ by giving each subsidiary a score from level 1 to 5. The description of the score is ambiguous even though the actual scores are often not very positive. Most scores are below the one for SABMiller in Uganda being the best performer of the African operations recycling ‘over 90\%’ (SABMiller 2015). One can derive from this that other local producers must be below 90\% recycling rate, as is also the case with Sechaba Breweries at 85.8\% for which a separate CSR report reveal this figure (2012:44). Based on this I therefore categorise Diageo and Heineken as indistinguishable and SABMiller the under-performer.

Parameter 6: Recycled Input Materials for Packaging Content

Diageo reports that 37\% of the input materials for their packaging came from recycled content (2014c:26). Neither Heineken (2013b) nor SABMiller (2014c:12, 2014d:12–13) report on this parameter. As only one company is disclosing on this, it cannot be determined whether Diageo’s

\(^{34}\) For newly acquired subsidiaries, such as Heineken’s breweries in Ethiopia, it may not be expected that these are performing as good as those subsidiaries that have been under the group’s control for several years. However, including or excluding these does not change the conclusion in this situation.
performance is high or low. However, considering that emissions from packaging is the largest contributor to CO₂ emissions (see Figure 10), Diageo’s disclosure on this parameter should be weighed high in the overall assessment of environmental performance.

**Parameter 7: Emission of CO₂ in Production per Unit Produced**

SABMiller has the highest level of disclosure for this parameter with CO₂ emission in production per hl of beer produced being available for all African countries separately and accessible directly in the interactive tool on their website (SABMiller 2015). Heineken provides the same level of disclosure, but data has to be compiled from independent reports. Diageo only reports on this parameter globally and not consistently – they did not report on the figure in 2012 and 2013.

In terms of performance, the figures are difficult to compare as they vary in methodology and as the mix of products vary between the companies too. SABMiller’s figures only include “CO₂e emissions from fossil fuel energy used on site” per hl of beer (2014d:13). The calculations of Heineken and Diageo includes all beverages and also includes electricity use (Diageo plc 2014c:35; Heineken N.V. 2013d).

In 2014, SABMiller reported global figures of 10.3 kg CO₂-eq per hl beer and anything from 9.9 to 47.9 on the company level not including electricity (see Appendix 3). Heineken reported 7.2 kg CO₂-eq per hl beverage globally and 5.8 to 53.0 on the company level (see Appendix 3). According to my own calculations using Heineken’s additional appendices, soft drinks, cider and water production was only about 9% of Heineken’s total production volume of 194.4 Mhl in 2013 (2013d). Extracting these beverages from the calculation only changes the 2013 global average figure from 7.7 kg CO₂-eq per hl beverage to 8.4 per hl beer, still keeping Heineken ahead of SABMiller in global performance. When one adds that SABMiller does not include electricity in their calculation, Heineken is still significantly ahead in global average performance.

Diageo’s global figure is 25.5 kg CO₂-eq per hl beverage and thus more than three times larger than Heineken’s. When interpreting this figure, one should again keep in mind that Diageo’s mix of products is substantially different from that of SABMiller and Heineken (see Parameter 4: Water Efficiency).

**Parameter 8: Emission of CO₂ from Co-products, Packaging and Waste**

Another large contributor to the companies’ overall emissions is packaging material. For Heineken, this aspect of its operations amounts to almost a third of the combined carbon footprint (see Figure 10 above). Heineken indicate that in 2013 “total co-products, packaging and industrial waste” amounted to 3,238 kilotons CO₂-eq (2013d). Take note that this emission is not included in the direct and
indirect production emissions in the previous section and that it is more than twice the size of the company’s total production emissions of 1,393 kilotons CO₂-eq for the same year (ibid).

Neither Diageo nor SABMiller has any available reporting or estimate on this, and actual performance can therefore not be analysed. Heineken’s reporting on this parameter should be weighed high in the overall assessment of its environmental disclosure.

Parameter 9: Emission of CO₂ from Distribution & Transportation

When it comes to measuring and reporting CO₂ emission from distribution and transportation, Diageo is the only company reporting on this with an estimated 288-411 kilotons of CO₂-e in 2013 (2013a, 2014c:41). They describe the figure as a calculation estimating “transportation of finished goods to first paying customer” and indicate that the figure also contains ocean freight shipments as well as road and rail transport. This emission is considered as part of Scope 335, which means that it is not included in Diageo’s figure for overall CO₂ emissions from production (Scope 1 and 2)36 – this distinction is the same for all three companies. Considering Diageo’s total direct (Scope 1) and indirect (Scope 2) CO₂ emissions of 623.2 and 83.5 kilotons of CO₂-e respectively for the same year, emissions from upstream transportation and distribution are of major significance when calculating any company’s total carbon footprint (Scope 1+2+3).

Heineken only report on this with a few case examples (2013e), and SABMiller has no reporting.

Parameter 10: Renewable Energy & Electricity

When it comes to utilization of renewable energy, there is one clear leader in both disclosure and results: Diageo. While SABMiller and Heineken are sporadically indicating their percentage of renewable energy in the area of 1-4%, Diageo has a clear lead with 17.4% renewable energy (Appendix 4).

When it comes to renewable electricity specifically (indirect energy) Heineken and Diageo has about the same level of disclosure, but Diageo is significantly ahead in performance with 59% of electricity from renewable sources against Heineken’s 19.5% (see Appendix 4). SABMiller has no disclosure on renewable electricity.

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35 “Scope 3 emissions (i.e. indirect CO2e emissions) are from upstream and downstream supply chain activity (e.g. suppliers, distribution and logistics)” (Diageo plc 2014c:72)
36 “Scope 1 emissions (i.e. direct CO2e emissions) from on-site energy consumption of fuel sources, such as gas, fuel oil, diesel, as well as fugitive and agricultural emissions are reported for all sites where we have operational control. … Scope 2 emissions (i.e. indirect CO2e emissions) from purchased electricity and heat are also reported for these sites” (ibid)
None of the companies report on these parameters on a regional level, other than Heineken’s Bralirwa with 4.2% in 2012, which seems to be a special occasion (see Appendix 4).

**Parameter 11: Biodiversity**

Diageo has the highest level of reporting on this parameter disclosing a complete list of 35 operational sites near or adjacent to areas designated as having biodiversity value by the United Nations or national conservation lists, including Uganda Brewery and Mwanza Brewery (Tanzania) (2014c:30–33). The list contains information on red list species and the company indicate that “None of our operations or land that we own has a significant impact on either protected areas or areas of high biodiversity value outside protected areas” (2014c:34).

Heineken only has anecdotal examples of initiatives from the Netherlands and Spain (2013a), and SABMiller does not disclose on this parameter (2014c:13).

**Parameter 12: Compliance with Environmental Laws and Regulations**

Diageo has the highest level of disclosure concerning this parameter indicating number of non-compliance incidents and the sum of the fines involved globally. In 2014 there were two registered incidents with fines amounting to a total of £5,700 (2014c:40), a significant improvement from 2013 with nine incidents of non-compliance amounting to a total of £68,119 in fines. They also indicate that there was 15 spills totalling approximately 76,300 litres of spilled material (2013c).

Heineken has the second highest level of disclosure indicating 35 reported complaints “related to an environmental safety or industrial safety accident with off-site effect” (2013h). Half of these complaints were related to nuisance by noise whereas pollution complaints were the second most reported. The company recorded 33 accidents “with the potential to cause harm to human life, property or the ecosystem and/or that could cause nuisance to a third party” (ibid). The two main causes for these accidents were indicated as “equipment failure and brewery operations in general” (ibid). As opposed to Diageo, Heineken does not indicate the monetary effect of non-compliance.

SABMiller does not disclose on this parameter (2014c:15). As only Diageo reports on the monetary value of non-compliance, actual performance on this parameter cannot be compared.

### 6.3 Labour Rights & Decent Work (Category C)

This section analyses five parameters related to labour rights and working conditions. My main findings are that SABMiller has the lowest level of disclosure only reporting on two of the five parameters. Heineken has the highest level of disclosure reporting on all parameters on the global level whereas Diageo report on three of the five. In terms of performance, Diageo is best when it
comes to gender equality and not utilizing temporary workers, but Heineken is best concerning collective bargaining. Overall, SABMiller therefore ranks lowest in this category with either Heineken or Diageo ranking best, depending on whether one focuses on performance or disclosure as being most important.

**Parameter 13: Temporary Workers**

Temporary workers generally have fewer rights and benefits than permanent workers have and may therefore be preferred by companies in order to minimize profits. For instance, a report by Corporate Watch from 2005 described how Diageo’s subsidiary Guinness Nigeria laid off 500 workers followed by unions claiming that the company’s objective was “to replace permanent contracts with casual ones” and that “major redundancies in 1992, 1995 and 1997 had all been followed by employment of casual workers with no conditions of service” (2005:section 5.3.3). Corporations may therefore choose a high proportion of casual labour in order to avoid providing expensive services to their workers.

In utilizing permanent workers globally – and in stark contrast to the example above – Diageo far outperforms both SABMiller and Heineken with only 3.8% of employees being temporary workers (2014c:8). For Heineken the figure is 10.7% (7,895 of 74,233) globally (2013b). SABMiller has no reporting on this (2014a:116).

In terms of disclosure, Diageo is also the only company reporting on this on a regional level indicating that 3.3% (286 of 8,761) are temporary/fixed-term workers in Africa, Eastern Europe and Turkey (2014c:8). Not only the best level of disclosure, but also a regional performance that outperforms its competitors’ global performance.

**Parameter 14: Employee Benefits**

Heineken shows the highest level of disclosure in terms of employee benefits provided to temporary workers and full-time employees disaggregated on specific benefit types. For health care, 63 operating companies provide this for full-time employees, but only 30 provide it for temporary workers. For life insurance the difference is 47 to 20; disability coverage 62 to 31; parental leave 64 to 30 and for retirement provision 52 operating companies provide this to full-time employees but only 17 does so to temporary workers (2013b:LA3). This clearly emphasize the difference from being a permanent and temporary worker.

As neither Diageo (2014c:45) nor SABMiller (2014a:106;153, 2014c:16) are reporting on this, it cannot be assessed whether Heineken is performing better than its competitors, but revealing this global overview definitely gives them first place in terms of disclosure. This parameter should naturally
always be analysed in relation to the percentage of temporary workers (see Parameter 13: Temporary Workers) and will therefore be less relevant the lower the company’s utilization of temporary workers.

Parameter 15: Employees Covered by Collective Bargaining Agreements

All three companies indicate the percentage of their total employees covered by collective bargaining agreements. None of the companies however give a breakdown of this figure on specific regions or countries. The highest achiever is Heineken indicating that 62.7% of their employees are covered by at least one collective bargaining agreement (2013b). For SABMiller the figure is 40.9%37 (2014d:17) closely followed by Diageo at 38% (2014c:54).

Parameter 16: Gender Equality

All three companies provide information on gender equality on the global level. The best performer is Diageo for which women make up 34.5% of the total workforce, 28% of senior leaders, 43% of the executive committee and 44% of the board (2014c:50). SABMiller is second with women making up 19.7% of their workforce, 28.4% of executives and managers, 2 of 12 executive committee members, 20% of the board and 3 of 7 independent non-executive directors (2014d:17). Heineken is last on the global level with 19.9% women out of the total workforce (0.2%-point better than SABMiller), 15.4% of senior management, 0% of the executive committee and 20% of the supervisory board (2013b:LA1, LA13)38.

When it comes to regional disclosure Diageo again has the best performance with 29% of employees in their region Africa, Eastern Europe and Turkey being women (2014c:8). For Heineken female employees make up 11.2% of employees in Africa and the Middle East39 (2013b:LA1). SABMiller has no regional disclosure.

Parameter 17: Wage Levels

When it comes to wages, Heineken is the only company of the three reporting on this. Diageo describe that this data is omitted “because our global human resources systems are not yet set up to provide this data” (2014c:23) and SABMiller simply indicate this as ‘not disclosed’ (2014c:9).

Heineken has found a way of describing this that does not reveal too much, but still gives a decent level of information. They indicate that for twelve operations “the standard entry level wage is equal

37 Assuming that ‘number of employees being union members’, is the same thing as being covered by collective bargaining agreements
38 The individual gender aspects can be assessed individually, but in this case, the conclusion is clear even without this distinction.
39 Although the regions are slightly different in scope, I find the difference in percentage to be significant enough to conclude that Diageo is the best regional performer.
to the minimum legal wage”; for seven operations “there is no legal minimum wage or the information is not available”; and for all other operations “the standard entry-level wage is higher than the legal minimum wage” (2013b).

6.4 Human Rights (Category D)
This section analyses five human right’s parameters. My main findings are that SABMiller has no disclosure in any of the parameters and also performs worst in the last parameter (lawsuits) which is based on external sources (see section 4.4.2). Heineken and Diageo both report on all but one parameter, but Diageo has a deeper level of reporting as they disclose data on supplier level.

Parameter 18: Freedom of Association & Collective Bargaining
Heineken and Diageo are both reporting on freedom of association and collective bargaining with a good level of information, admitting to the need for some improvements for a proportion of operations and/or suppliers. Heineken states that:

One operation reported their employees do not have the freedom to join the union of their choice but that they have an agreement with one union. One operation reported that joining a union is compulsory and is determined by the category of the industry. One operation reported no freedom and mentioned there is no trade union. We will investigate in 2014 these two first situations as they seem not compliant with our policy. In all other operations we have freedom of association and collective bargaining. This is part of our policy on employees’ and human rights. (2013b)

Diageo stated that they are not aware of any violations when it comes to their operations. However, on supplier level, the company reports that:

Our review of supplier audits raised a total of 14 instances of non-compliance related to the category of freedom of association and collective bargaining. Of the 14 issues raised, the majority relate to the lack of, or improvement to, site worker committees, followed by lack of documentation and policy. Seven of these issues have been resolved, and we are following up with our suppliers to resolve the remaining seven. (2014c:54)

SABMiller has no disclosure for this parameter (2014c:20). I have not analysed the performance of this parameter, as the nature of this parameter does not allow for a clear distinction between Heineken and Diageo. However, Diageo has the highest level of disclosure as they report even on supplier level.

Parameter 19: Discrimination
Heineken is the only company of the three disclosing on discrimination with 20 reported incidents in 2013 (2014c). Through their so-called Speak Up Service they received a total of 177 reports of which 26% concerned fraud, 24% misconduct/inappropriate behaviour, 11% a conflict of interest, 11%
discrimination and harassment, and the remaining 28% a variety of other reports. However, Heineken does not describe which actions were taken as a result. SABMiller does not disclose this parameter (2014c:20) and Diageo indicate that they “do not share absolute numbers either internally or externally to protect employee confidentiality” (2014c:54).

Parameter 20: Child Labour

Both Diageo and Heineken provide an additional level of disclosure in terms of child labour and give additional descriptions. Heineken indicate that 66 operations have a minimum working age; that one operating company has no minimum working age; and that information is not available for one operation. In 23 of the operations, the minimum working age is equal to the overall legal minimum working age of the country. In 43 operations, the minimum working age in the company is higher than the overall legal minimum working age in the country. The lowest minimum working age within all operations is 15 years of age in Austria. Heineken also indicate that the basic minimum age is 15 years old but 14 for developing countries with the allowed minimum age for hazardous work being 18 years and 16 years under strict conditions (2013b).

Diageo indicate that they are unaware of any operations at significant risk concerning child labour. With regards to suppliers, they state that:

> Our review of supplier audits raised a total of seven issues of non-compliance under the category of children and young workers, however, no instances of child labour were found. Five issues were related to the maintenance of proof-of-age documentation and two to policy documentation. None of the issues were related as critical. One of the issues has been resolved, and we are following up with our suppliers to resolve the others. (2014c:55)

In sum, Heineken therefore provide most information on operational level, but Diageo providing supplier level detail thereby show the deepest level of disclosure. SABMiller has no disclosure on this parameter (2014c:20).

Parameter 21: Forced and Compulsory Labour

When it comes to forced and compulsory labour both Diageo and Heineken have mechanisms in place to assess the performance of their suppliers in adhering to their supplier code of conduct. However, Diageo is currently one step ahead of Heineken, as they already present results:

> Our review of supplier audits raised a total of four instances of non-compliance with issues related to the SMETA\(^{40}\) audit section ‘employment is freely chosen’. Two of the issues related to deposits being required

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\(^{40}\) ‘SEDEX Members Ethical Trade Audit’ (SMETA) where SEDEX stands for ‘Supplier Ethical Data Exchange’
for uniforms; one related to the deposits being required for access cards; and one related to keeping
original work permit documentation. We are following up with our suppliers to resolve these issues.
(Diageo plc 2014c:56)

Heineken indicate that “significant suppliers are assessed/audited on compliance with the Supplier
Code on forced or compulsory labour topic by EcoVadis41” (2013b). SABMiller has no disclosure on this
parameter (2014c:20).

Parameter 22: Human Rights Lawsuits

According to the Business & Human Rights Resource Centre, SABMiller has one human rights lawsuit
related to their subsidiary Tanzania Breweries. In 2010, semi-nomadic Maasai pastoralists filed a claim
alleging that “the companies forcefully evicted the plaintiffs from their ancestral land, and acquired it
without the plaintiffs’ prior consent” (Business & Human Rights Resource Centre 2013). The case was
dismissed in January 2013 by the judge, but new proceedings were filed at the end of June 2013
leaving the case ongoing. Neither Heineken nor Diageo has any human rights lawsuits according to the
Business & Human Rights Resource Centre database (n.d.).

6.5 Tax Avoidance Aspects (Category E)

This section analyses the different tax avoidance parameters. My main findings are that, in terms of
regional income tax disclosure, the picture is clear-cut: Diageo is best, SABMiller second and Heineken
last – whether deliberate or not. For group-level tax performance measured by the effective tax rate,
SABMiller contributes most, Heineken second and Diageo last. However, on the regional level when
interpreting disclosure and performance together, there are no clear ‘avoiders’ and ‘contributors’.
Heineken has the highest average performance in terms of tax-revenue-ratio (TRR) but disclose for
the lowest portion of local subsidiaries. Diageo has the highest level of disclosure, but one of its three
subsidiaries has a low TRR which may potentially indicate (some level of) tax avoidance. SABMiller’s
local disclosure is somewhere in between and its performance range from ‘low’ to levels higher than
both of Heineken’s local operations.

Another important finding is that group-level effective tax rate (ETR) may be a poor indication of
regional tax avoidance behaviour. For instance, SABMiller with the highest group ETR of 29.4%
performs vastly different in Ghana (0.2%) than they do in Tanzania (8.5%) when comparing tax-
revenue-ratios. In analysing tax avoidance for specific low-income countries or regions, this thereby

41 EcoVadis is an external organisation providing supplier sustainability ratings (EcoVadis n.d.)
questions any approach that focus entirely on group-level data rather than looking at the regional aspects (see chapter 3 and 4).

My findings show no connection between either number of tax havens or number of tax disputes in explaining the companies’ level of tax avoidance. For example, SABMiller with 112 tax haven subsidiaries globally has a notably better group-ETR than Heineken with only four tax haven subsidiaries which is contrary to the arguments presented by Maffini (2009) as I described in section 2.2.2. With number of tax disputes, a trend is equally non-existent.

Parameter 23: Existing Regional Formal Tax Reporting
Before looking into the different tax avoidance aspects, this parameter describes the existing formal tax reporting of the three companies – that is, what they choose to actively and deliberately communicate themselves via channels other than their financial documents. As tax avoidance has been a hot topic for some years, there is a possibility that some companies may already be revealing regional or company-specific corporate income tax information in an easy-to-read format42. However, that is not the case with any of the three companies in question.

In 2014, SABMiller published a publication named ‘Our approach to tax’ (2014b). The report states that the company paid taxes on profit equal to $1.6 billion globally in 2014 and additional $188 million in ‘withholding and other remittance taxes’ – this could already be found in their annual report from the same year. The main purpose of the publication however, is to present a figure that SABMiller refer to as their ‘total tax contribution’ of no less than $10.8 billion. This figure is broken down on regions indicating that 23% of this in Africa equal to approximately $2.5 billion. However, the majority of the total figure is made up of excise duties (57% of total), VAT (17% of total) and employees’ taxes (7% of total). Thus, instead of addressing the issue of tax avoidance in this publication, SABMiller present figures they describe as “the cash taxes directly generated by our economic activity in each country and are thus a fair reflection of our tax footprint and what we contribute to government tax revenues.” (2014b:4, emphasis added). In reality, 81% (57+17+7) of this figure is the tax contributions of employees and consumers through VAT, excise duties and employees’ income taxes. I therefore consider this publication more a distortion than a legitimate attempt to shed light on important tax avoidance issue.

Diageo has a lower level of regional formal tax reporting. On a webpage named ‘Local wealth creation’ the company states that “In Kenya, Ghana and Nigeria, we contributed 6%, 3% and 0.7% respectively

42 See e.g. ‘Payments to Governments’ (Statoil 2014)
of the government’s total tax receipts.” (2013b). This figure likely also includes VAT and duties, making Diageo’s reporting no better than that of SABMiller.

Heineken has no regional formal tax reporting, but on a webpage named “Creating economic and social impact” under the header “Tax” they simply state their effective tax rate and global corporate income tax (2013c). They also state that they “are closely following the discussions about tax transparency and country-by-country reporting.” (ibid).

**Parameter 24: Tax-Revenue-Ratio (Average)**

When it comes to my main tax avoidance parameter, tax-revenue-ratio (TRR), all three MNCs have two to three subsidiaries with average ratios of 6-8%, which I will categorise as ‘high’. My reason for this categorization is that these ratios are above the TRRs of all three multinational companies on the group-level; higher than those of global beer producers Carlsberg and Anheuser-Busch; and higher than local beer and alcohol producer Namibia Breweries (see Appendix 5).

Diageo is the only MNC for which local income tax payments can be found for all three of their Sub-Saharan African operations (see Appendix 5). SABMiller is second in disclosure with corporate income tax for 8 of 14 local operations, and Heineken is last with only 3 of 12 (see Appendix 5).

When it comes to actual corporate income tax contributions, the results vary substantially. Of Heineken’s three local operations with available tax information, one (Champion Breweries) was not acquired until 2011, and is therefore excluded from the analysis (see section 4.2.1). The two remaining operations (Bralirwa in Rwanda and Nigerian Breweries) both have high tax-revenue-ratios of **7.3 to 7.5%** (see Appendix 5).

Two of Diageo’s three local operations also had high TRRs with **6.1%** for Guinness Nigeria and impressive **8.8%** for East African Breweries (see Appendix 5). However, Guinness Ghana Breweries had a TRR of only **1.7%** and should therefore be the subject of further tax avoidance scrutiny.

Of SABMiller’s eight local operations, one (International Breweries in Nigeria) was not acquired until 2012 and is therefore excluded from the analysis. Two operations (Delta Corporation in Zimbabwe and Sechaba Breweries in Botswana) are not majorly owned by SABMiller and are therefore also excluded. These three operations still have TRRs of 3.9 to 5.3%, and would therefore still not be deemed worthy of further scrutiny as they are around the average global level described above. Of the remaining five operations, the known tax avoidance case of Accra Breweries (Action Aid 2010) has a low tax-revenue-ratio of only **0.2%**. This figure is measured over eight consecutive years, and is therefore larger in scope than Action Aid’s original research. One operation (Zambia Breweries) has
an average level TRR of **4.8%** and the three last (Cervejas de Mocambique, National Breweries in Zambia and Tanzania Breweries) have high TRRs with **6.2%, 8.0% and 8.5%** respectively.

In conclusion, the tax-revenue-ratio therefore shows significant differences in potential tax avoidance on the national level and make it evident that **the potential level of tax avoidance in one jurisdiction may not be equal to that in another, even for the same multinational group**. Heineken with the lowest level of disclosure may be avoiding taxes in other jurisdictions, as may also be the case with SABMiller – this remains unknown. Diageo’s operations in Ghana should be the subject of further scrutiny in order to conclude whether or not this subsidiary is avoiding taxes or not – this additional scrutiny is however beyond the scope of this thesis.

**Parameter 25: Number of Tax Disputes**

According to my research, Diageo has been involved in three tax-related cases over the past years – only **one** of these were a case of tax avoidance (The Guardian 2009). SABMiller has also been involved in one tax dispute involving tax avoidance, which is the earlier mentioned case of Accra Breweries in Ghana (Action Aid 2010). Heineken has not been involved in any tax disputes.

**Parameter 26: Number of Tax Haven Subsidiaries**

Diageo tops the list in number of tax havens with a total of **133** subsidiaries in tax haven jurisdictions (Ball 2013). SABMiller follows closely with **112** subsidiaries in tax havens (ibid) whereas Heineken only has **4** tax haven subsidiaries in total (Ethical Consumer n.d.; Heineken Holding N.V. 2010:153–55). One of Heineken’s four tax haven subsidiaries is a brewery located on the Bahamas, but this operation has actual production and may therefore not be categorised as a tax haven, depending on one’s definition (see section 2.2.2).

**Parameter 27: Global Effective Tax Rate (ETR)**

When it comes to the companies’ overall, global effective tax rate, SABMiller pays the highest level of taxes with an average ETR of 29.4% over the past 14 years (see Appendix 6). Heineken is second with 23.4% and Diageo last with 21.4% (see Appendix 6). For comparison, the ETR for the other two major global beer manufacturers, Carlsberg and Anheuser-Busch, were 23.6% and 17.7% respectively. This indicate that even when comparing with company groups with no operations in Sub-Saharan Africa, the ETRs of Diageo, Heineken and SABMiller are not notably lower – in fact more so the contrary.

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43 The other cases concerned 1) tax evasion in Korea (Sim 2015) and 2) a VAT dispute in Turkey (Wilson 2011)

June 29, 2015
As explained in section 4.2.1 all ETRs should be interpreted with caution as they may contain deliberately given tax incentives and as they also reflect different statutory corporate income tax levels in the individual parent companies’ home country.

6.6 Summary and Discussion of Tax Avoidance & CSR Findings

This section visually presents and summarizes the findings from the previous sections followed by a discussion of the findings in comparison to those of earlier studies. I discuss whether there are any clear connections or trends when comparing the companies’ tax avoidance and CSR.

6.6.1 Global Disclosure and Achievements

Globally, SABMiller has the highest level of tax contributions measured by the group-level ETR, but the lowest level of CSR disclosure and performance (see Table 2). Diageo and Heineken have the highest levels of CSR disclosure and performance44, but the lowest levels of tax contributions. These findings are in contrast to the findings of earlier studies such as those by Lanis & Richardson (2012, 2015) that I described in chapter 3, who argue the opposite. More so, it seems to support the findings of Davis et al in arguing that there is “no evidence that firms with higher quality CSR reports or higher CSR indexes (...) pay more in corporate taxes” (2013:22), as I described in chapter 3. Table 2 gives a visual summary of the three companies’ global CSR and tax avoidance disclosure and performance based on the parameters analysed and explained in the previous sections.

44 I encourage anyone to interpret the CSR parameters differently, but as of now, I do not see a significant difference between Diageo and Heineken on the overall CSR level to conclude that one company is better than the other is. This interpretation depends on one’s individual weighting of each parameter and/or category.
## Table 2 – Global Achievements and Disclosure of Tax Avoidance and CSR

<table>
<thead>
<tr>
<th>Category and Parameter</th>
<th>Scope</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Supply Chain &amp; Local Community</td>
<td></td>
<td>Heineken</td>
</tr>
<tr>
<td>2. Local hiring: senior management (%)</td>
<td>Global</td>
<td>57.1%</td>
</tr>
<tr>
<td>3. Donations (% of operating profit)</td>
<td>Global</td>
<td>0.7%</td>
</tr>
<tr>
<td>B. Environment</td>
<td></td>
<td>Diageo</td>
</tr>
<tr>
<td>4. Water efficiency (per unit produced)$^T$</td>
<td>Global</td>
<td>3.9$^T$</td>
</tr>
<tr>
<td>5. Waste recycling</td>
<td>Global</td>
<td>96.8%</td>
</tr>
<tr>
<td>6. Recycled input material for packaging</td>
<td>Global</td>
<td>Not disclosed</td>
</tr>
<tr>
<td>7. CO$_2$ emission in production (per unit)$^T$</td>
<td>Global</td>
<td>7.2$^T$</td>
</tr>
<tr>
<td>8. CO$_2$ emission from packaging, co-products &amp; waste</td>
<td>Global</td>
<td>3,238</td>
</tr>
<tr>
<td>9. CO$_2$ emission from distribution and transportation</td>
<td>Global</td>
<td>Anecdotal</td>
</tr>
<tr>
<td>10. Renewable energy (% of total energy and of electricity</td>
<td>Energy</td>
<td>1.4%</td>
</tr>
<tr>
<td>11. Biodiversity</td>
<td>Level of disclosure</td>
<td>Anecdotal</td>
</tr>
<tr>
<td>12. Compliance with regulation (number of incidents and</td>
<td>Level of disclosure</td>
<td>Number of incidents only</td>
</tr>
<tr>
<td>13. Temporary workers</td>
<td>Global</td>
<td>10.7%</td>
</tr>
<tr>
<td>14. Collective bargaining (% covered)</td>
<td>Global</td>
<td>62.7%</td>
</tr>
<tr>
<td>15. Gender equality (% women in workforce and senior</td>
<td>Global</td>
<td>19.9% / 15.4%</td>
</tr>
<tr>
<td>16. Wage equality</td>
<td>Level of disclosure</td>
<td>Disclosed</td>
</tr>
<tr>
<td>17. Freedom of association &amp; collective bargaining</td>
<td>Level of disclosure</td>
<td>Operational level</td>
</tr>
<tr>
<td>18. Discrimination (# incidents reported)</td>
<td>Global</td>
<td>20</td>
</tr>
<tr>
<td>19. Child labour</td>
<td>Level of disclosure</td>
<td>Operational level</td>
</tr>
<tr>
<td>20. Forced and compulsory labour</td>
<td>Level of disclosure</td>
<td>Commitment</td>
</tr>
<tr>
<td>21. Lawsuits (human rights related)</td>
<td>Global</td>
<td>0</td>
</tr>
<tr>
<td>22. Tax disputes (number of)</td>
<td>Global</td>
<td>0</td>
</tr>
<tr>
<td>23. Tax havens (number of)</td>
<td>Global</td>
<td>1</td>
</tr>
<tr>
<td>24. Overall effective tax rate (group ETR)</td>
<td>Global</td>
<td>23.4%</td>
</tr>
</tbody>
</table>

$^T$These figures must be interpreted with caution as there is a substantial difference in the products each company produces and emissions/water use per unit may therefore vary simply as a result thereof. See ‘Parameter 4: Water Efficiency’ for details: Best performance/Highest disclosure; Worst performance/No disclosure; Equally good performance/disclosure.
6.6.2 Regional Disclosure and Achievements

Regionally, in comparing disclosure for CSR with tax avoidance parameters, there are not any specific trends either (see Table 3). Heineken and Diageo are still notably better than SABMiller in the CSR parameters, but not notably better in the tax avoidance parameters where Heineken has the lowest level of disclosure of all three. Diageo has the highest disclosure in terms of regional tax payments with three out of three subsidiaries, but is second in regional CSR disclosure after Heineken (three non-disclosures versus one). In terms of regional performance, Diageo and Heineken are best in terms of CSR with high performances e.g. in local sourcing and gender equality. Heineken is best in terms of tax performance with TRRs of 7.3-7.5%. However, considering Heineken’s lower level of regional tax avoidance disclosure of only 25%, the combined tax avoidance result is ambiguous leaving out the possibility of pointing out any clear trends between regional CSR and regional tax avoidance.

Table 3 – Regional Achievements and Disclosure of Tax Avoidance and CSR

<table>
<thead>
<tr>
<th>Category and Parameter</th>
<th>Scope</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Heineken</td>
</tr>
<tr>
<td><strong>A. Supply Chain &amp; Local Community</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Local sourcing of materials (%)</td>
<td>Regional</td>
<td>48%^</td>
</tr>
<tr>
<td>2. Local hiring: senior management (%)</td>
<td>Regional</td>
<td>48%^</td>
</tr>
<tr>
<td>3. Donations (% of operating profit)</td>
<td>Regional</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>B. Environment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Water efficiency (per unit produced)^T</td>
<td>Regional/national</td>
<td>5.0-8.3^T (national)</td>
</tr>
<tr>
<td>5. Waste recycling</td>
<td>Regional/national</td>
<td>90.7-92% (national)</td>
</tr>
<tr>
<td>7. CO₂ emission in production (per unit)^T</td>
<td>National</td>
<td>5.8 - 53.0^T</td>
</tr>
<tr>
<td><strong>C. Labour Rights</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Temporary workers</td>
<td>Regional</td>
<td>Not disclosed</td>
</tr>
<tr>
<td>16. Gender equality</td>
<td>Regional</td>
<td>11.2%^</td>
</tr>
<tr>
<td><strong>D. Human Rights</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>E. Tax Avoidance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23. Existing deliberate and formal regional income tax reporting</td>
<td>Regional</td>
<td>None</td>
</tr>
<tr>
<td>24. Income tax disclosure^^</td>
<td>Regional</td>
<td>25% (3/12)</td>
</tr>
<tr>
<td>24. Level of local income tax contributions – Tax-revenue-ratio^^</td>
<td>National</td>
<td>7.3 – 7.5% (high)</td>
</tr>
</tbody>
</table>

^Africa and the Middle East   **Africa, Eastern Europe and Turkey   ^Africa   ^^Sub-Saharan Africa

^T These figures must be interpreted with caution as there is a substantial difference in the products each company produce and emissions/water use per unit may therefore vary simply as a result hereof. See ‘Parameter 4: Water Efficiency’ for details. Best performance/Highest disclosure; Worst performance/No disclosure; Equally good performance/disclosure.
Comparing the global CSR (Table 2) and the regional tax avoidance (Table 3), my main observation is that there is no clear-cut trend either. One may observe that SABMiller generally has the lowest level of CSR disclosure and performance and that they also have the only subsidiary with a documented tax avoidance. However, that is not a clear trend or connection, considering that the same corporation has an even higher number of subsidiaries with a documented high level of local income tax contributions. With significantly different levels of disclosure in regional tax contributions between the groups as well as significant variations in actual tax-revenue-ratios even within each company group, my conclusion is that the regional data does not support that there should be a clear link between these multinational corporation’s overall CSR disclosure and/or performance, and their regional level of tax avoidance.

In summary, any clear trends or connections between CSR and tax avoidance behaviour for the three MNCs remain vague. The strongest connection seem to be on the global level, for which a connection between tax and CSR seem opposite that of earlier studies – high tax equals low CSR and vice versa. However, this may largely be explained by the difference in statutory tax rates between the companies’ country of origin, more so than tax avoidance behaviour (as I have discussed earlier) and has little value in explaining the regional behaviour of the companies.
7 Analysis II: Developmental Implications of Tax-CSR Framework

This chapter looks at my fourth working question. I analyse and discuss which developmental implications the above tax-CSR framework may have by demonstrating which developmental outputs the concrete tax payments of the analysed corporate cases could have.\footnote{As I mentioned earlier, the developmental implications of the CSR parameters will not be analysed in this thesis (see footnote 12), but could definitely be more in focus in later studies for additional comparison.}

The first section calculates and compares the monetary value of the companies’ total corporate income tax (CIT) contributions. I present the accumulated CIT contributions of each multinational group in Sub-Saharan Africa and compare the CIT payments of each subsidiary to the size of the government coffers in their country of operation. The second section reflects on the extent of social provisions that the subsidiaries’ CIT payments could (hypothetically) pay for and compares the overall size of the tax payments to flows of official development assistance (ODA).

I argue that the tax payments of almost all the subsidiaries analysed across the three company groups (aside from Guinness Ghana Breweries and Sechaba Breweries) have important developmental implications for the countries in which they operate, simply by virtue of the tax payments’ relative size compared to the total government expenditure. The avoidance of such taxes could therefore have severe adverse social effects. A greater inclusion of tax parameters into the existing CSR frameworks could thus help prevent such effects by acknowledging tax payments as part of companies’ overall CSR performance.

7.1 Documented Income Tax of the MNCs in Sub-Saharan Africa

In total, Heineken has the highest documented tax contributions in Sub-Saharan Africa – in absolute figures – with corporate income tax payments of USD 513 million since 2002. This is despite Heineken having the lowest number of subsidiaries with publicly disclosed tax information, and despite being a smaller player on the continent than SABMiller. Proportionately speaking, Heineken’s subsidiary Bralirwa and SABMiller’s subsidiary Tanzania Breweries have the highest social outputs on the national level, as their 7-11 years of corporate income tax payments are the highest relative to the size of one year’s national government expenditure (or budget) equal to 2.64% and 1.89% respectively.\footnote{See Bird’s argument about earmarking in section 2.3.3.}

\footnote{These are rough estimates based on data from available annual reports. For the future, a more precise assessment would 1) compare an equal number of firm-year tax payments and 2) distinguish more clearly between government budgets and realised expenditures. For now however, these estimates function well to put the regional income tax contributions into some worthy perspective.}
7.1.1 Diageo

Through its three subsidiaries, Diageo has contributed more than $467 million (as percentage of their ownership share in their subsidiaries) to local government revenue in its Sub-Saharan African countries of operations since the year 2000 (see Table 4 below). The following paragraphs put this figure into a national perspective.

In East Africa, the sum of the latest 11 years of corporate income taxes paid by Diageo’s subsidiary East African Breweries are equivalent to 1.1% of the Kenyan government’s entire spending for the 2013/14-year budget (KES 17,971 million / 1.64 trillion) (Institute of Economic Affairs 2014:1).

In Nigeria, Diageo has contributed a total of NGN 31,454 million (USD 227 million) over the past 14 years through Guinness Nigeria (relative to ownership share). This amount is equivalent to 0.7% of the total Nigerian 2014 Budget Proposal (NGN 31,545 million / 4,643 billion) (Federal Republic of Nigeria 2013).

In Ghana, Diageo contributed a total of GHS 19.1 million (USD 13 million) over the past 15 years through Guinness Ghana Breweries (relative to ownership share). This amount is equivalent to 0.06% of the total government expenditure in 2013 (GHS 19.1 million / 29,706 million) (Ministry of Finance 2014:31).

For Diageo, the company’s local income tax contributions relative to the size of the total government budgets (or expenditures) for the economies in which they operate, are of important relative size in both Nigeria and Kenya. In Ghana, Diageo’s CIT contributions remain somewhat negligible.

<table>
<thead>
<tr>
<th>DIAGEO Subsidiaries</th>
<th>Taxes paid (local currency)</th>
<th>Taxes paid (USD, millions)</th>
<th>Years included</th>
<th>Taxes as % of ownership share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD, millions</td>
<td>Local currency, millions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>East African Breweries</td>
<td>35,941 (KES, millions)</td>
<td>456</td>
<td>2004-2014</td>
<td>228 (KES 17,971)</td>
</tr>
<tr>
<td>Guinness Ghana Breweries</td>
<td>36,782 (GHS, ‘000)</td>
<td>25</td>
<td>2000-2014</td>
<td>13 (GHS 19.1)</td>
</tr>
<tr>
<td>Guinness Nigeria plc</td>
<td>57,949 (NGN, millions)</td>
<td>417</td>
<td>2000-2013</td>
<td>227 (NGN 31,545)</td>
</tr>
<tr>
<td><strong>IN TOTAL</strong></td>
<td>-</td>
<td><strong>899</strong></td>
<td>-</td>
<td><strong>467</strong></td>
</tr>
</tbody>
</table>

Currency conversions are rough nominal estimates based on annual, mid-range exchange rates calculated on a year on year basis.
7.1.2 Heineken

Heineken has contributed more than **$513 million** (as percentage of their ownership share in the subsidiaries) to local government revenue in its Sub-Saharan African countries of operations since 2002 through its two subsidiaries\(^{48}\) (see Table 5 below).

**In Rwanda**, Heineken contributed a total of RWF 24,671 million (USD 40 million) over the past seven years through Bralirwa (relative to ownership share). This amount is equivalent to **2.64%** of the total 2011/12-year budget of Rwanda (RWF 24,671 million / 932,973 million) (Ministry of Finance and Economic Planning (Rwanda) 2015).

**In Nigeria**, Heineken contributed a total of NGN 67,988 million (USD 473 million) over the past 12 years through Nigerian Breweries (relative to ownership share). This amount is equivalent to **1.46%** of the total Nigerian 2014 Budget Proposal (NGN 67,988 million / 4,643 billion) (Federal Republic of Nigeria 2013).

For Heineken, the company’s local income tax contributions, relative to the size of the total government budgets for the economies in which they operate, are of important relative size in both Nigeria and Rwanda.

<table>
<thead>
<tr>
<th>HEINEKEN Subsidiaries</th>
<th>Taxes paid (local currency)</th>
<th>Taxes paid (USD, millions)</th>
<th>Years included</th>
<th>Taxes as % of ownership share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bralirwa (Rwanda)</td>
<td>32,894 (RWF, millions)</td>
<td>54</td>
<td>2008-2014</td>
<td>40 RWF 24,671</td>
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<tr>
<td>Nigerian Breweries</td>
<td>125,208 (NGN, millions)</td>
<td>871</td>
<td>2002-2013</td>
<td>473 NGN 67,988</td>
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<tr>
<td><strong>IN TOTAL</strong></td>
<td>-</td>
<td><strong>925</strong></td>
<td>-</td>
<td><strong>513</strong></td>
</tr>
</tbody>
</table>

Currency conversions are rough nominal estimates based on annual, mid-range exchange rates calculated on a year on year basis.

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\(^{48}\) Subsidiaries for which financial data is available, and which have been majorly owned for 5 years or more
7.1.3 SABMiller

SABMiller has contributed more than $390 million (as percentage of their ownership share in the subsidiaries) to local government revenue in its Sub-Saharan African countries of operations since the turn of the millennium through six of its local operations (see Table 6 on the next page).

In Mozambique, SABMiller contributed a total of MZN 2,478 million (USD 86 million) over the past eight years through Cervejas de Mocambique (relative to ownership share). This amount is equivalent to 1.8% of the total government expenditure of Mozambique in 2012 (MZN 2,478 million / 137.3 billion) (The World Bank 2014:71).

In Zimbabwe, the group contributed a total of USD 41 million over the past five years through Delta Corporation (relative to ownership share). This amount is equivalent to 1.05% of the country’s total government expenditure in 2014 (USD 41 million / 3.91 billion) (The World Bank 2015).

In Botswana, SABMiller contributed a total of BWP 87.2 million (USD 15 million) over the past 13 years through Sechaba Breweries (relative to ownership share). This amount is equivalent to 0.22% of the total 2011/12-year budget (BWP 87.2 million / 39,688 million) (Ministry of Finance & Development Planning Botswana 2013:32).

In Tanzania, the company contributed a total of TZS 228,081 million (USD 163 million) over the course of 11 years through Tanzania Breweries (relative to ownership share). This amount is equivalent to 1.89% of total government expenditure in 2014 (USD 163 million / 8,626 million) (Central Intelligence Agency 2015a).

In Zambia, SABMiller contributed a total of ZMK 377 billion (USD 85 million) over the course of 11-15 years through National Breweries and Zambian Breweries (relative to ownership share). This amount is equivalent to 1.26% of the total government expenditure in 2014 (USD 85 million / 6,751 million) (Central Intelligence Agency 2015b).

For SABMiller, the company’s local income tax contributions, relative to the size of the total government budgets or expenditures for the economies in which they operate, are of important relative size in all of its countries of operation aside from Botswana.
Table 6 – SABMiller’s Documented Income Tax Contributions in Sub-Saharan Africa

<table>
<thead>
<tr>
<th>SABMiller Subsidiary</th>
<th>Taxes paid (local currency)</th>
<th>Taxes paid (USD, millions)</th>
<th>Years included</th>
<th>Taxes as % of ownership share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD, millions</td>
<td>Local currency, millions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cervejas de Mocambique</td>
<td>3,130 (MZN, millions)</td>
<td>109</td>
<td>2007-2014</td>
<td>86</td>
</tr>
<tr>
<td>Delta Corporation^</td>
<td>-</td>
<td>108</td>
<td>2010-2014</td>
<td>41</td>
</tr>
<tr>
<td>National Breweries</td>
<td>179,949 (ZMK, millions)</td>
<td>40</td>
<td>2000-2014</td>
<td>28</td>
</tr>
<tr>
<td>Sechaba Breweries</td>
<td>519 (BWP, millions)</td>
<td>88</td>
<td>2000-2012</td>
<td>15</td>
</tr>
<tr>
<td>Tanzania Breweries</td>
<td>396,386 (TZS, millions)</td>
<td>283</td>
<td>2001-2013*</td>
<td>163</td>
</tr>
<tr>
<td>Zambian Breweries</td>
<td>287,724 (ZMK, millions)</td>
<td>66</td>
<td>2003-2013</td>
<td>57</td>
</tr>
<tr>
<td>IN TOTAL</td>
<td>-</td>
<td>694</td>
<td>-</td>
<td>390</td>
</tr>
</tbody>
</table>

Currency conversions are rough nominal estimates based on annual, mid-range exchange rates calculated on a year on year basis. *Data for 2005-2006 not included ^Annual Report in USD

In summary, Heineken has the highest documented total income tax contributions in Sub-Saharan Africa with USD 513 million since 2002. Diageo comes second with USD 467 million and SABMiller comes last with USD 390 million.

7.2 Discussion: Comparing Tax to Aid and Social Expenditures

To put the above tax contributions into some relative, social perspective, this section gives a few (rough) estimates, as to what the above-calculated tax payments could potentially contribute to on the societal level and how the tax payments compare to other resource flows such as official development assistance (ODA). The purpose of this comparison is to give examples of the social output of the companies’ tax payments, and thus its importance within CSR.

First, the companies’ accumulated corporate income taxes of **USD 1.37 billion** can be compared to the aid flows in the same region. These tax payments are for example equivalent to the entire net disbursements of official development aid (ODA) to Mali (USD 1,369 million) or Ghana (USD 1,311 million) in 2013 (OECD 2014b).

In a more national perspective, Guinness Nigeria’s 14 years of income tax payments are equivalent to almost half of the country’s 2014-budget for ‘Agriculture and Rural Development’ (NGN 31,545 million / 66,645 million) (Federal Republic of Nigeria 2013). In the same sense, the 11 years of CITs paid by East African Breweries (KES 36 billion) are equivalent to the entire sum proposed in the 2015 Budget...
of Kenya allocated to ‘expansion of power transmission’ (KES 21.1 billion) as well as for the Rural Electrification Programme (KES 14.9 billion) in the same year (Rotich 2015:12). In Rwanda, the seven years of CITs paid by Bralirwa are equivalent to 39% of the entire country’s health budget in 2011/12 (Ministry of Finance and Economic Planning (Rwanda) 2015). In Mozambique, the eight years of CITs paid by Cervejas de Mocambique are equivalent to 9.3% of the entire country’s education expenditure for 2012 (The World Bank 2014:71)

The above comparisons are merely examples meant for a better comprehension of the potential social outputs of the companies’ tax payments. It is meant as a way of clarifying which social output the individual companies’ tax payments could potentially contribute to, and thus conversely to show which public services would not be provided had the respective company avoided such taxes all together.

As I described earlier (see section 3.2), it is not the purpose of this thesis to determine whether 1) particular CSR outputs or 2) the outputs created from the companies’ corporate income tax payments are most important or have the highest positive effect on society, but rather to emphasize that they are both important to analyse in combination. Furthermore, as I discussed in section 2.3, the importance of this lies not only in the monetary value of the tax payments, which has been the primary focus of the previous sections, but also in indirect effects of greater taxation and tax administration such as increased national autonomy, improved state building, higher government legitimacy through the utilization of tax payments etc.

With the above examples, I hope to have made clear that when a few years of corporate income tax payments of one company can be equivalent to a significant proportion of a country’s entire health, education or infrastructure expenditure for a whole year, then those tax payments may be of equal social importance as the companies CSR achievements.
8 Conclusions

This chapter presents my main conclusions divided on my four working questions followed by a few brief recommendations for CSR and tax avoidance practitioners.

1. How has the connection between CSR initiatives and tax avoidance been analysed in the existing literature and what has been the limitations by approaches hitherto?

In the existing literature, the connection between CSR and tax avoidance has mainly been analysed through quantitative, statistical studies, supplemented by a few case studies. Some authors argue that there is a connection between a corporation’s level of CSR disclosure and/or performance on the one hand and their level of tax avoidance behaviour on the other. However, the existing literature may contain several limitations when analysing the CSR-tax-nexus in a developing country context, and less than a handful of the existing studies have focused on developing countries. Most of the existing studies utilize parameters to measure corporate tax avoidance, which may give a poor indication of regional tax behaviour, such as effective tax rate, group-level tax disputes and number of tax haven subsidiaries. Some of the studies rely heavily on companies’ overall social performance and disclosure, and may thus overlook potential regional differences. Several of the existing studies do not seem to make an adequate distinction between disclosure and performance – both concerning CSR and tax avoidance making it difficult to assess which of the two the specific study is analysing. Lastly, most existing studies seem to focus heavily on whether there is a (universal) connection between tax avoidance and CSR rather than giving suggestions as to how this connection (or lack of) can be presented. I argue that there should perhaps be more focus on the individual parameters analysed, than the overall result itself. In essence, most of the existing studies therefore do not seem to adequately capture the complexity and dynamics of multinational corporations’ behaviour on the regional level.

2. How can a framework for a more in-depth and regionally specific analysis of CSR initiatives and tax avoidance be developed?

I suggest that a more regionally oriented tax-CSR-framework may for example focus on the regional tax performance of company subsidiaries rather than the overall tax payments of the multinational group and on the regional CSR achievements rather than the global ones. In doing so, existing tax avoidance parameters may not be ideal for analysing potential tax avoidance behaviour on the regional level and a new parameter such as a ‘tax-revenue-ratio’ may therefore be a better option for shedding light on multinational corporations’ tax behaviour regionally (and thus in developing countries specifically). Furthermore, a sector-specific selection of existing CSR parameters based on the Global Reporting Initiative or a similar, existing CSR reporting framework seem adequate in analysing the companies’ contemporary CSR achievements such as environmental and rights-based aspects.
Publicly available tax data also seem acceptable for such an analysis. In essence, any framework for analysing the tax-CSR-nexus regionally, may basically utilize the companies’ existing CSR reporting and simply adding the tax avoidance aspect to the analysis in any meaningful shape or form.

3. How can the above framework be utilized in analysing specific cases, and which connections between CSR initiatives and tax avoidance does it show?

The framework developed in this thesis was utilized to systematically analyse and compare three corporate cases in the beverage sector of Sub-Saharan Africa. On the global level, the case examples showed that the one MNC with the highest level of tax contributions (SABMiller), measured by the group-level effective tax rate (ETR), has the lowest level of CSR disclosure and performance. The two companies with the highest levels of CSR disclosure and performance (Diageo and Heineken), have the lowest levels of tax contributions. These findings are in contrast to the findings of earlier studies such as those by Lanis & Richardson (2012, 2015), who argue the opposite connection. Regionally however, there do not seem to be a clear-cut trend. With significantly different levels of disclosure in regional tax behaviour between the groups (25-100%) as well as significant variations in actual tax-revenue-ratios within each company group (8.3 percentage points within SABMiller for instance), the regional data does not seem to support that there should be a link between the overall CSR disclosure and/or performance of the multinational group and the level of tax avoidance for its subsidiaries. Lastly, in comparing regional CSR disclosure with regional tax avoidance parameters, there do not seem to be any specific trends either. Where Heineken and Diageo seem notably better with nine regional CSR disclosures each compared to SABMiller with only three (see Table 2), one may expect SABMiller to have a lower level of tax disclosure in order to support a possible connection, but that does not seem to be the case as they have a higher level of tax disclosures than Heineken.

4. Which developmental implications do these findings have for economies in Sub-Saharan Africa?

The tax payments of almost all the subsidiaries analysed across the three company groups (aside from Guinness Ghana Breweries and Sechaba Breweries) seem to have important developmental implications for the countries in which they operate, simply by virtue of the tax payments’ relative size compared to the total government expenditure. The corporate income tax payments of the 11 subsidiaries analysed have contributed a total of USD 1.37 billion to the revenue bases of nine economies in Sub-Saharan Africa over the past 5-15 years. These tax payments are equal e.g. to the entire ODA inflows of Ghana in 2011. It should be emphasized that financial information remains inaccessible for additional 15 of the local subsidiaries (29 if one includes those of Castel Group) meaning that the total implications on government expenditure of the beverage sector in Sub-Saharan Africa is likely to be higher.
In conclusion, my findings emphasize the importance of including issues of corporate tax avoidance into existing CSR reporting frameworks in order to conduct a more thorough analysis of a corporation’s social performance. Furthermore, to recognize the dynamics and complexities in the connection between corporations’ CSR reporting and achievements on one side, and potential tax avoidance on the other, one should consider examining the regional tax data for the company’s subsidiaries and compare this to the specific CSR disclosure and performance for the same region. In doing so, I suggest the analysis should compare this data for companies operating in the same sector and region.

**Recommendations for CSR and Tax Avoidance Practitioners**

The above conclusions have implications for the future relation between tax avoidance and CSR. As my case analysis show, it may often be inadequate to consider only contemporary CSR parameters, without at the same time considering the corporations’ income tax contributions as equally important in bringing about the same level of societal change when determining the social performance of corporations. Both CSR practitioners and anti-tax avoidance advocates should make note of this.

I therefore strongly recommend, that the fields of CSR and tax avoidance should become increasingly connected, and for both practitioners and academics to consider the two aspects simultaneously. In my view, this is especially important concerning companies operating in the field between high and low-income countries. For any analysis of the tax-CSR-nexus, I have presented a practically applicable framework (including suggestions for tax avoidance parameters) that may be replicated elsewhere.
9 Suggestions for Further Research

In light of the above conclusions, this chapter acknowledges some of the limitations of my study by giving suggestions for further research.

Firstly, my study is based mainly on a small sample of cases in a specific sector and can therefore not be generalized. The framework developed in this thesis should be utilized to analyse other industries and sectors e.g. the telecommunication or textile sector of Sub-Saharan Africa or other developing countries or regions such as Latin America or Southeast Asia in order to compare the tax-CSR-nexus in other environments. This would give a deeper understanding of the tax-CSR-nexus.

Secondly, my analysis has been based on publicly traded companies only. It should be analysed further whether there are significant differences in the tax-CSR-nexus between private and publicly listed companies, as tax avoidance may be more prevalent for companies with a (legally) lower level of disclosure as they are subject to a substantially lower level of scrutiny by external organisations.

Thirdly, further analysis could consider the developmental and policy implications if the existing 7,662 entities currently reporting on contemporary CSR parameters to the Global Reporting Initiative (n.d.) – as well as similar CSR reporting mechanisms – were given the opportunity to also start reporting on their local tax contributions as an equal part of their sustainability reporting framework. May such a change affect how business leaders perceive tax avoidance (morally and otherwise)?

Fourthly, my analysis has been based entirely on large corporations, which may not represent the behaviour of smaller corporations. Further research should be conducted to cover small and medium-sized enterprises (SMEs). The extent of CSR reporting for smaller companies is currently (very) limited in comparison to that of MNCs, as small companies normally do not have the same resources to dedicate to a permanent CSR-department – and often also as a result of significantly lower reputational risks. Fewer SMEs may be in a position to shift profits, as these mechanisms require complex company structures, but this should be explored in more detail, as studies (my own included) often tend to focus on the largest multinational players.

Fifthly, my analysis has mainly focused on whether or not corporations are disclosing data, not on the intent of such disclosure. Further research could analyse whether corporations are disclosing data because they have to (legally), or because they choose to (voluntarily). The latter was for example (initially) the case with country-by-country tax disclosures of Norwegian oil-extraction company Statoil, though such reporting has now become a legal requirement (Statoil 2014). Essentially, there is a difference between 1) choosing to be transparent, putting time and efforts into developing e.g. an interactive, online database to show information to the public, or 2) being transparent in the sense...
that information about the company can be found elsewhere but is not directly on the corporation’s own website. In my analysis for example, Diageo is the most transparent company in terms of corporate income tax in Sub Saharan Africa, yet, none of this information is communicated on their own website.

Lastly, my analysis largely assumes that “more taxes equal more economic development and/or social provisions” and that corporations therefore act against the greater good of society if they avoid taxes. This may not always be clear-cut. For example, in 1998-2003 when Heineken was paying taxes in The Democratic Republic of Congo (DRC) through their subsidiary Bralima “rebels cashed in $5.50 per beer and additionally collected ‘provincial tax’ of 18%”. This led researchers to conclude that Heineken was structurally linked to armed rebels. (Report of the Lutundula Commission for the Congolese National Assembly quoted in Dünnbier 2013). As this brief example shows, paying corporate taxes is not fundamentally the ethically correct corporate behaviour, but also depends on the existing quality of governance. It may therefore be difficult to determine at which point the institutions and norms of a country is fit for proper use of public funds, to the extent that corporate tax payments are perceived positive and as having developmental implications equal to or greater than those of CSR. Further research should look into this.
Corporate Social Responsibility and Tax Avoidance in Sub-Saharan Africa - A Case Study of the Beverage Manufacturing Sector

References


OECD. 2014c. *The BEPS Project and Developing Countries: From Consultation to Participation*. Organisation for Economic Co-operation and Development (OECD).


## Appendices

### Appendix 1 - Corporate Documents Assessed for Data Compilation

<table>
<thead>
<tr>
<th>Heineken</th>
<th>Diageo</th>
<th>SABMiller</th>
</tr>
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<tbody>
<tr>
<td><strong>Annual Reports:</strong></td>
<td><strong>Annual Reports:</strong></td>
<td><strong>Annual Reports:</strong></td>
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<td><strong>Sustainability Reports:</strong></td>
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<td>Heineken: Appendices – GRI Reference Table</td>
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<td><strong>Sustainability Reports:</strong></td>
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<td>Diageo plc 2010-2014</td>
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<td>Sierra Leone Breweries 2012-13</td>
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<td>Heineken: Ethiopia – Sustainability Factsheet 2012-2013</td>
<td><strong>Sustainability Reports:</strong></td>
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<td>Most reports can be accessed from Heineken’s own website <a href="http://www.theheinekencompany.com">www.theheinekencompany.com</a></td>
<td>Nile Breweries Ltd 2012</td>
<td>SABMiller plc 2008-2014</td>
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<td></td>
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<td>SABMiller: Sustainable Development Reporting Tool [Online]</td>
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<td>SABMiller: ‘Reporting in accordance with the GRI and progress in implementing the UN Global Compact Principles’</td>
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<td>Sechaba Breweries Holding Ltd 2012-2013</td>
</tr>
<tr>
<td></td>
<td><strong>Additional (for comparison purposes)</strong></td>
<td><strong>Most reports can be accessed from SABMiller’s own website <a href="http://www.sabmiller.com/investors/reports">www.sabmiller.com/investors/reports</a></strong></td>
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### Appendix 2 – Water Usage (hl water per hl beer or beverage)

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<td>4.1</td>
<td>4.2</td>
<td>4.3</td>
<td>4.5</td>
<td>4.8</td>
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<td>-</td>
</tr>
<tr>
<td>Ethiopia*</td>
<td>-</td>
<td>8.3</td>
<td>8.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nigerian Breweries*</td>
<td>-</td>
<td>5.0</td>
<td>5.6</td>
<td>5.2</td>
<td>5.7</td>
<td>6.8</td>
<td>6.8</td>
<td>-</td>
</tr>
<tr>
<td>Consolidated Breweries (Nigeria)*</td>
<td>-</td>
<td>-</td>
<td>9.4</td>
<td>7.3</td>
<td>8.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Bralima (DRC)**</td>
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<td>6.2</td>
<td>6.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>5.0</td>
<td>5.0</td>
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* per hl beer  ** per hl of all beverages  Sources: See Appendix 1 - Corporate Documents Assessed
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*Direct and indirect CO₂ emission (kg CO₂/hl)  ** CO₂e emissions from fossil fuel energy used on site
^Beer only  ^^All beverages  *Separate data for soft drinks  Sources: See Appendix 1
## Appendix 4 – Renewable Energy and Electricity (%)

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*wind, hydro, nuclear and bio-energy  

Sources: See Appendix 1 - Corporate Documents Assessed
### Appendix 5 – Tax-Revenue-Ratio (TRR)

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<th>Companies and Subsidiaries</th>
<th>Tax-Revenue-Ratio (TRR) (average)</th>
<th>Years measured</th>
<th>Ownership share</th>
<th>Year acquired</th>
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<td>N/A</td>
<td>N/A</td>
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<td>Accra Breweries</td>
<td>0.2%</td>
<td>8 69%</td>
<td>1997</td>
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<tr>
<td>Cervejas de Mocambique</td>
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<td>4.2%</td>
<td>5 23.1 - 40%</td>
<td>2004^</td>
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<tr>
<td>International Breweries Plc (Nigeria)^/^</td>
<td>5.3%</td>
<td>6 72%</td>
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<td>National Breweries Plc (Zambia)</td>
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<td>15 70%</td>
<td>2001^</td>
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<td>Sechaba Breweries (Botswana)^/^</td>
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<td>13 11 - 16.8%</td>
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<td>Tanzania Breweries</td>
<td>8.5%</td>
<td>11 50.5 - 58%</td>
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<td>Zambian Breweries Plc</td>
<td>4.8%</td>
<td>11 87%</td>
<td>1999</td>
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<td>Diageo plc</td>
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<td>10 N/A</td>
<td>N/A</td>
<td>N/A</td>
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<td>8.8%</td>
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<td>2004^</td>
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<td>Bra Lima (DR Congo)</td>
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<td>1987</td>
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<td>Brasserie du Congo (Congo Brazzaville)</td>
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<td>Champion Breweries (Nigeria)^/^</td>
<td>-9.7%</td>
<td>9 57%</td>
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<td>Harar Brewery Share Company* ^^</td>
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**For comparison**

| Namibia Breweries                           | 3.3%                              | 15 N/A         | N/A             | N/A           |
| Carlsberg Group (Denmark)                   | 2.2%                              | 11 N/A         | N/A             | N/A           |
| Anheuser-Busch Inbex SA (Belgium)            | 4.4%                              | 15 N/A         | N/A             | N/A           |

*Sources: See Appendix 1 or earlier

**Operations either acquired ‘in recent years’ (within the past 5 years) or for which the multinational group does not hold a majority of the shares (above 50%) are excluded from the tax-revenue-ratio summary (see chapter 4).
### Appendix 6 – Company Group-level Effective Tax Rate (ETR)

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<th>Year</th>
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<th>Diageo</th>
<th>SABMiller</th>
<th>Carlsberg^</th>
<th>Anheuser-Busch^</th>
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<td>33.0%</td>
<td>17.6%</td>
</tr>
</tbody>
</table>

*11-15 years avg.*  ^For comparison  Sources: See Appendix 1