



Royal Tropical Institute

**Challenges and opportunities
for the business sector
in the fight against poverty**

The case of Brazil's Amazon River estuary

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Abstract

This paper explores the actions and strategies of three companies, and the dilemmas and bottlenecks they faced in their attempts to contribute to sustainability and poverty alleviation through business operations in the Amazon River Estuary. The results of the paper are based on three case studies¹ carried out by the Royal Tropical Institute (KIT) using a quick-scan approach, as part of KIT's research into corporate social responsibility from the perspective of social and gender equity.

The responsibility of business to address sustainable development is increasingly in the spotlight. It is regarded by many as an essential element in the search for effective solutions to pervasive social and environmental concerns and the challenges of globalisation. Corporate social responsibility (CSR) is the common umbrella term for business activities that take sustainable development into account - the various social and environmental responsibilities they adopt and how they manage them. CSR has developed into a global strategy that guides the ethics and values of many companies. Such companies also often subscribe to initiatives such as the Millennium Development Goals (MDGs), an aspirational framework which, while drawn up by governments, aims at uniting the efforts of governments, civil society and business to eliminate poverty, achieve social justice and find solutions to the current human and environmental crisis.

The need for CSR arises from the current business paradigm which is dominated by a drive for short-term profit and high levels of competitiveness. Low-income social groups continue to be excluded from the marketplace and its social and economic potential. But competition alone can no longer be used as a licence to ignore environmental devastation and social injustice. Business ventures that erode social and environmental capital put their social license to operate² at risk and undermine their own future.

Recognising not only the responsibility but also the necessity, from a business perspective, of operating in a sustainable society, a growing number of companies are engaging in CSR and are testing new sustainability-based³ business models. Brazilian companies are among them. By adopting CSR policies, these companies are increasingly building their profile around their performance as measured against human rights and environmental standards. They are also finding that implementing CSR makes financial sense.

This paper demonstrates, using empirical evidence, how companies can develop business relationships with excluded groups in order to contribute to poverty alleviation and support people's right to a sustainable livelihood. The paper looks at the strengths and weaknesses of current approaches, documents the questions raised by companies, local governments and civil society and proposes further research to develop strategies and cooperation mechanisms to overcome the weaknesses and address the questions.

This paper begins with an analysis of sustainability and CSR using two distinct frameworks, providing the theoretical basis for the subsequent empirical case studies. Brazil was selected as the region for enquiry because of its unique position as an emerging economy with still-high levels of inequality and poverty, but which is developing new political, social, and economic strategies to generate more equitable development based. While they are still in the minority, Brazil has several pioneering national and international companies that are exploring change in corporate practice, seeking to contribute to the sustainability of the country, narrowing the income gap and competing in global markets.

¹ The information contained in the case studies is the result of observation, informal interviews, information available in their web-sites and unpublished documents

² Social license to operate refers to the tacit agreement of stakeholders in society that a specific business operation is legitimate and acceptable.

³ Many new business models are based on the notion of Triple Bottom Line (people, planet, profit)

The case studies presented in this paper concern three such companies - two Brazilian and one Brazilian/American - with operations in the Estuary of the Amazon River. The three companies all participate in the global market. They are all committed to the MDGs and/or the CSR agenda. They are all seeking to develop strategies that promote social inclusion, environmental responsibility and the development of human capacities while remaining profitable in the increasingly competitive global market in which they operate. They are all searching to develop partnerships with other social actors in order to address the challenges they face and bridge the gaps between the global market and local communities.

Keywords: corporate social responsibility, inclusive business, sustainability

1 Introduction

The current global trends of deepening poverty and increasing environmental degradation resulting from dominant business models should be the concern of all sectors of society. The complexity of sustainable development has demonstrated that governments alone do not have the capacity to solve these challenges: all social actors need to engage, take responsibility, and contribute to finding effective solutions. Consumer and civil society pressure as well as initiatives such as the Millennium Development Goals (MDGs) explicitly stress the need to develop new partnerships between governments, the business sector and civil society organisations to deal with the current human and environmental crisis, eliminate poverty, and achieve social justice.

As companies have begun to engage with their sustainability impacts, a new theory and practice has developed: corporate social responsibility (CSR). So far, companies have had variable success in implementing CSR and moving towards sustainability: some have demonstrated real results but for others, CSR practices remain questionable or tokenistic. As a relatively new field, the literature on CSR is also still developing.

The objective of this paper is to make an empirical study of three companies operating in the Brazil's Amazon River estuary. The study looks at how they are responding to sustainability challenges by adopting CSR policies and developing partnerships with government and civil society sectors. To complement the empirical data, two dominant CSR theories are critiqued. We then apply the analysis to each of the three companies to see how they engage in pro-poor strategies and what challenges they face when implementing them. Based on the conclusions, we make recommendations about how companies and development agencies can bridge the gaps between the two approaches and how cooperation can be established in such a way that companies can achieve their profit-making targets and development actors can make sure that social protection mechanisms exist that protect the interests of vulnerable groups. This paper also aims to outline areas for further research.

Data for this paper were collected during informal interviews with company staff and/or visits to communities where they operate. A quick-scan approach was used to gain insight into the strengths and weaknesses of the companies' relationships with communities, to look at the challenges and to define potential partnerships to address these challenges among businesses, public sector and civil society actors. The quick scan was executed in the Amazon Estuary in October 2006, followed by visits in 2007.

Other data were gathered through observations during field visits, publicly available information and sometimes unpublished documents. As further research with these partners is likely, the companies were informed of the paper and a final draft was forwarded to them for feedback. Two of them responded positively to the approach and the issues raised, and have engaged in a new process that they hope will help to answer some of the questions raised in this paper. We are still waiting for comments from the third company.

Research location

The Brazilian Amazon is a useful site of study because of the environmental importance of the Amazon and the global consequences of its rapid destruction. Brazil's emerging economy, with its high levels of inequality and poverty, present a major challenge to those operating in the area. At the same time, social and environmental pressures in Brazil are giving rise to new political, social and economic strategies. Companies and related institutions are searching to build a new economy – the so-called *Novo Mercado* – to help generate more equitable development in Brazil. Despite the need for urgent action that the environmental and political situation in Brazil requires, only a few companies operating in the Amazon are concerned with sustainability and social responsibility. Just a handful of organisations put CSR principles at the core of their business values. Building partnerships with these companies in order to share knowledge and expertise and learn from their practice will ultimately build

the capacity of other organisations and sectors of society to address the environmental and social justice problems in the region.

The next section of this report presents a theoretical discussion of sustainability and CSR approaches. Section 3 presents the Brazilian context and Section 4 outlines the challenges of CSR in the Amazon Estuary. Section 5 introduces the three case studies and analyses the companies' strategies and activities, and the dilemmas and challenges they faced when implementing CSR policies. Having presented the empirical data, the paper concludes by returning to the CSR theory and presenting an analytical synopsis of the principal issues faced by the companies and the communities. The final section provides recommendations for further research.

2 Sustainability: the global challenge

“Sustainability is the principle of ensuring that our actions today do not limit the range of economic, social and environmental options open to future generations”

John Elkington, 1998

Deepening poverty, increased income disparity, increasing social conflicts, environmental degradation and climate change are some of the effects emerging from the complex interaction of economic policies, current business models, rapid economic growth and technological progress of the 21st century.

As well as reaping significant environmental effects, globalisation also transformed the economic paradigm for the business sector. For the benefit of a few organisations, globalisation initially meant that enterprises could seek short-term economic gains through rapid economic growth and high levels of competitiveness. However, competition cannot be a license for business to ignore environmental devastation and social justice issues. The benefits of spiralling economic growth with disregard for the environment are now reversing and changing the business paradigm again: businesses need stable markets for their own success, which depend on many factors such as consumer preferences, trust, environmental issues, health issues, the availability of raw materials such as oil, and other issues which haven't been taken into account much by companies. Accordingly, businesses are adopting corporate social responsibility (CSR) policies for their own benefit as well as that of the context in which they operate.

CSR is closely linked to principles of sustainable development. The concept refers to organisations' (especially companies'), social and environmental responsibilities and generally assumes a voluntary approach beyond legal requirements. CSR is an emerging phenomenon in the global, and Brazilian, business sector. For Porter and Kramer (2006, p1), CSR has emerged as an inescapable priority for business leaders in every country'. CSR is seen simultaneously as a moral obligation, a matter of long-term sustainability, reputation and a licence to operate⁴ (Porter and Kramer, 2006). Ivar Kolstad from the CHR Michelsen Institute, goes on to question the fundamental principle of free market capitalism, as expressed in Milton Friedman's view that business should only be concerned with the returns for its shareholders, by arguing that company profit maximization is a non starter from an ethical point of view as self-interest is not ethically defensible. In particular, self-interest can not be the only guide for corporate conduct given the current situation of deepening poverty, climate change and conflict. He argues that “CSR policies have to be used to further other ends than profit maximization” (Kolstad, 2006). And, that companies implementing corporate responsibility just to promote profits are “just being profit minded, not responsible” (*ibid*). However, the interesting issue here is how to bring social issues and business objectives together in one approach called CSR? And to study the linkages between development agencies and companies, in which the balance between the two objectives is being sought for.

Others argue that the business sector, independent of the size of the enterprise, can not afford to sideline the social and environmental circumstances in which their activities are developing; not only for ethical reasons but also for risks related to competitiveness, reputation, and brand value. Increasingly, companies' own market value and access to markets and capital, depends on their reputation, as shaped by media profiles and the trust of the public, consumers and investors.

⁴ Licence to operate refers to the tacit agreement of stakeholders in the market and society that a specific business operation is legitimate and acceptable. A license to operate is related to companies' duty to take responsibility for its externalities and risk for its shareholders. It is considered fundamental to business' success and is both a significant factor in brand value and in the cost of capital. Some see the licence to operate as a framework for sustainable performance, which includes areas such as labour standards, company governance, social responsibility and environmental issues in the location where the company is making their profits.

John Elkington, in his seminal book *Cannibal with Forks (1997)*, predicted that companies would have to find a new business model that embraces, in their actions and investments, the triple bottom line of sustainability: People, Planet and Profit. More and more companies are facing demands from stock markets' sustainability indexes⁵, investors, NGOs, consumers and employees to transparently report on their sustainability performance. This is increasingly pushing companies to construct their identity based on their performance against human rights and environmental standards. Sustainability reporting has emerged largely as a voluntary activity that intends to provide an objective account of economic, social and environmental performance of an organisation at the same level of companies' traditional financial reports.

Critics, however, argue that CSR policies and sustainability reporting are insincere and are used as an instrument to deliver value to shareholders, or as a response to public pressure when asked to be accountable for the impact of their operations. They argue the voluntary approach of CSR allows companies to determine their own standard of behaviour and compliance. The lack of accountability mechanisms allows companies to interpret their responsibilities from the perspective of risk management and self-interest. Firms can choose to avoid addressing the social and environmental consequences of the operations that are not an immediate threat to their financial bottom line (Glover, 2007).

This is criticised as an insincere effort to address their responsibilities as social actors. Others are critical of companies using flagship projects for public relation purposes in their sustainability reports; this is seen as a tokenistic approach to sustainable development and a way to avoid measuring the real impact of the company's routine operations (Glover, 2007).

Despite its critics, CSR policies offer an opportunity to hold companies to account and to work in partnership with sincere companies to develop strategies to address the impact of economic growth. The development of public-private partnerships is encouraged by the argument that companies' dynamism, capabilities, and resources make them important players in achieving sustainable development (Glover, 2007). The potential role of CSR policies is increasingly recognized by international development agencies, where CSR is considered a valuable instrument for business sector engagement in sustainable development that encourages best practice and good corporate citizenship. There are a plethora of emerging international initiatives, such Millennium Development Goals (MDGs) and the Global Compact (GC), which represent the UN's call for a bigger private sector engagement as part of the solutions to the challenges posed by the impact of globalisation.

Although the change in business attitude is still in its early stages, its evolution has evolved from philanthropy and is now evidenced, for example, by the growth in the number of companies that use the GRI's Sustainability Reporting Guidelines and have signed up to the UN's Global Compact principles⁶ (now nearly 3000 companies from industrialised as well as developing countries).

The business sector increasingly knows it has a responsibility to be part of the solution to sustainable development. The more critical questions seem to lie in '*how to: how to contribute, how to engage? how to measure the social and environmental impacts of the operations and at the same time continue to have a strong position in the market?*' How to fully integrate CSR strategies throughout the company? How to change the organisational culture into a "responsible" one, getting away from the one-off projects?

In this paper, we will compare the applicability of two distinct CSR theories as an analytical framework for assessing the social and environmental effects of the companies in our case studies. The theories are Prahalad and Hart's *The Fortune at the Bottom of the Pyramid*, a market lead approach currently

⁵ For example, the Dow Jones Sustainability Index and FTSE4Good Index

⁶ Launched in 1999, the UN-Global Compact seeks to promote responsible corporate citizenship through its ten universal principles covering areas such as human rights, labour standards, environment and anti-corruption.

gaining momentum in the business sector; and Porter and Kramer's *The Link Between Competitive Advantage and Corporate Social Responsibility*, which proposes an approach that looks at companies value chain social impact from the perspective of their competitive advantage.

C. K. Prahalad and Stuart Hart, in their first article on the Fortune at the Bottom of the Pyramid⁷, proposed the market place should be used as a mechanism for companies to engage with the poor, and thereby contribute to narrowing the gap between rich and poor and lift people out of poverty. They argue that groups at the bottom of the pyramid (*aspiring poor*) are excluded from the potential benefits of globalisation and are living in poverty. Prahalad and Hart propose that the aspiring poor – some four billion people - embody a large potential market, which offers enormous business opportunities as well as challenges to companies.

Importantly, Prahalad and Hart's argue that investing in market activities at the bottom of the pyramid based on an approach of inclusive capitalism and partnership will lift billions of people out of poverty. Key drivers in the envisaged change process are: creating buying power (e.g. access to credit, increasing earnings); shaping aspirations (e.g. sustainable product innovations); improving access (e.g. products and markets) and tailoring local solutions. Their thesis is increasingly gaining currency in the business sector.

The Bottom of the Pyramid approach is principally market oriented and focuses more on companies' growth than on understanding the impact of companies operations on society. The concept approaches those living in poverty as objects rather than actors. This framework is not concerned with the impact that companies operations have on their stakeholders. Poor people just become consumers and their potential as producers is not necessarily enhanced by increased consumption, which would likely pose a threat to their livelihoods. Trading with socially and economically excluded groups in this manner requires companies to undergo profound changes in the way they operate. A major shift in companies' business paradigm would be required to include the bottom of the pyramid in their operations. For example, radical innovations in technologies, products, distribution strategies, and new business models would be required.

Under this scenario, companies' existing power would undoubtedly increase. The impact of this increased power can worsen the current situation of inequality and powerlessness existing at the bottom of the pyramid. One has to ask: *Are companies prepared to change drastically in order to include and to benefit the bottom of the pyramid? Are companies prepared to develop gender sensitive approaches in the development of the bottom of the pyramid markets? Are companies ready to make – short-term - trade-offs between the social and profit objectives? If so, what form would those trade-off take and who will benefit most? What would be implications of this trade-off for women and for men? Will companies be prepared to share power and responsibilities on a more equal basis?*

In contrast to Prahalad and Hart's theories, and bringing us to our second CSR theory we are critiquing, is Porter and Kramer's 2006 thesis *The Link Between Competitive Advantage and Corporate Social Responsibility*. Their theory proposes that CSR must be rooted in the interdependent relationship between companies and society, rather than in the tensions between them. To identify these points of intersection (and its positive and negative effects), they suggest an approach that integrates social considerations into core operations and strategy. Their approach includes:

- *The value chain's social impact (inside-out linkages)*. This means mapping the social impact of the company's activities on the value chain. Mapping would identify the positive or negative social impacts of the companies operations on their stakeholders, while taking into account that these impacts can vary with location or change over time e.g. impact on women as compared to men, or anticipating social effects of tomorrow. Such analysis provides space to address questions such as:

⁷ Prahalad published a book developing further the initial thesis of this article.

Do companies' CSR policies and strategies address gender equity and equal opportunities? Do companies consider women and men as separate stakeholders? What are the implications of the company's strategies on women as compared to men?

- *Social dimension of competitive context (outside-in linkages)*. Mapping the external social factors affecting the company's ability to operate; quantity and quality of available business inputs (e.g. human resources, infrastructure, transport); rules, policies and incentives that govern competition; size and sophistication of local demand (e.g. product standards, consumer rights); local availability of supporting industries (e.g. service providers).
- *Making choices*. Selecting and ranking social issues that create shared value and benefit for society and business, based on the above categories for each of the business units.
- *Creating a corporate social agenda*. From mitigating harm to advancing social conditions by reinforcing corporate strategy. Seeking to create opportunities to achieve social and economic benefits simultaneously and make a real difference to society.
- *Integrating inside-out and outside-in*. Addressing social issues by integrating the inside-out and outside-in linkages can achieve greater impact when fully integrated into the day to day operations of the company.

Porter's and Kramer approach offers a framework for an in-depth analysis of the interdependence between companies and society and for exploring companies' challenges and opportunities in relation to poverty alleviation. Their framework also offers the possibility of developing a gender analysis, socio-economic and environmental⁸ indicators to measure the company's impact on stakeholder and vice-versa; and a process to identify and integrate strategies into companies' operations. The sophisticated analysis offered by Porter and Kramer is differentiated by Prahalad and Hart's proposal, which is singularly focused on increasing market involvement of the poor as consumers, and does not offer significant space to understand the impact of companies operations on society.

Brazil is an emerging economy that faces tremendous poverty and environmental challenges. To understand how companies are responding to these challenges, the next section uses these two dominant frameworks to analyse how these companies are integrating CSR into their business. For context, we begin with an introduction to CSR in the region, and then move to the case studies, which provide further insight into how the business sector is using CSR policies as a competitive edge to enter the global markets, and as a solution to socio-economic inequalities.

⁸ Although the approach does not explicitly mention environmental issues, this could easily be integrated.

3 Brazil's challenge in the Estuary of the Amazon River

Brazil is an emerging economy characterised by high levels of poverty, and high levels of inequality. The richest 10% of the population accounts for 57.8% of the national income while the poorest 20% benefit from only 2.6% of the national income.

Overall, Brazil's Human Development Index is 0.792 (ranking 69 out of 177 countries). The North and North East are the poorest regions in the country with HDI below 0.57 (HDR-2006). The Estuary of the Brazilian Amazon River presents an extreme case, not only of deep poverty but also of increasing devastation of the world's largest tropical forest. Pará and Amapá the states of the Estuary are among the poorest in Northern Brazil, some of their towns and rural areas are among those where the HDI can be as low as 0.45. This contrasts to Southern states, where the average HDI is 0.78.

Local governments in the Amazon Estuary increasingly show less capacity to invest in social programmes, in spite of the federal poverty programme "Fome Zero". Even if they do invest, their services often lack quality and effectiveness. The region has suffered so many years of neglect from the federal government that these programmes are only scratching the surface of existing socio-economic problems. Corruption is high, education is low and governance is almost non-existent, making the strategy of devolution of responsibilities on investment and service provision to the local government a lost opportunity.

4 CSR in Brazil and the Estuary of the Amazon River

Brazil's social and environmental pressures are giving rise to new political, social, and economic strategies. Different social and political actors seem to agree that the business sector is important to the country's struggle against poverty, and corruption.

In the late 1990's, various organisations linked to the business sector started to focus on private sector ethics and social responsibility as a way of finding a competitive edge in the global market and to generate more equitable development in Brazil. Searching for a new business model to tackle the deficiencies of the economic the concept the so called *Novo Mercado* was launched, in 2001, by the São Paulo Stock Exchange - BOVESPA. In an interview, José Luiz Osório, the former chair of Brazil Securities and Exchange Commission (CVM), explained *"In the case of Brazil, there is no alternative path other than best practice in corporate governance...it is precisely because of our current deficiencies that we need more transparency, more credibility, more accountability"*. BOVESPA, the main exchange in Latin America, was also the first stock exchange to sign to the UN Global Compact.

The *Novo Mercado* is a "listing segment designed for shares issued by companies that voluntarily undertake to abide by corporate governance and transparency requirements" (BOVESPA). Companies listed in the *Novo Mercado* have to abide by additional obligations called *"good practices of corporate governance"*, which have incremental levels of voluntary disclosure. This requirement is more robust than current legislation in Brazil. Corporate governance is considered as the right path for raising capital and to compete in the global market. Natura, the subject of one of our case studies, was amongst the initial handful of companies to first list in the *Novo Mercado*.

BOVESPA also launched a corporate sustainability index in December 2005 to identify companies with economic, financial, social and environmental excellence. Although voluntary, companies have shown considerable interest in being listed on the index (UNDP-KPMG, 2006). BOVESPA sees citizen's social and political inclusion as essential for a sustainable society and states. And, it is committed to human rights, labour standards, environment and anti-corruption; the four areas of the principles of the UN Global Compact.

Brazil now has a number of pioneering national and international companies that are changing corporate practice to contribute to the sustainability of the country, and to narrow the income gap, whilst also competing in global markets. However, there are only a few companies that are trying to contribute to the solution of the specific problems of the Estuary of the Amazon River. Those that do are facing dilemmas and challenges of various kinds but seem to be determined to find solutions. Among these are our three company case studies: Natura, Agropalma and Sambazon.

Finally, for all those operating in the region, the "Amazon's culture" seems to be a considerable challenge. Culture can be an excuse to establish criteria to define the boundaries between inclusion and exclusion. It can also be a way of legitimising hierarchies. The complexity of the current reality in the region and its many social, environmental and economic variables and interconnections cannot be addressed by any sector of society on its own. Partnerships to share knowledge and coordinate action are considered essential for facing up to the problems endured by the region.

As we have seen, Brazil and particularly in the north, is facing pressing socio-economic and environmental issues, with some sectors of society actively searching to find solutions. In the next section, we present three case studies that describe how companies are seeking to contribute and be part of the solution to these socio-economic and environmental challenges. Natura and Agropalma are Brazilian companies and are listed in the *Novo Mercado*. The third case study, Sambazon, is a fairly new, Brazilian-American based company with operations in the Amapá state.

5 Case studies

The following three case studies describe some actions, dilemmas and challenges of the three companies (Natura, Agropalma and Sambazon – all of whom position CSR as core to their operations) as they operate in fragile socio-economic and environmental conditions in the Pará and Amapá states.

As already mentioned, data to build the case studies to follow, were mainly gathered during visits to communities where the companies operate or intent to operate like in the case of Natura and Sambazon, observations, publicly available information, unpublished documents and informal interviews. The interviews were held with the companies' manager(s) and other staff as well as with some community leaders and beneficiaries

5.1 Natura

Company	Company profile	Case study analyses
Natura	<ul style="list-style-type: none"> • Brazilian company, now an international company • Stock market company • Produces cosmetics. • Well established. • Has legacy of strong CSR policies • Door-to-door sales involves 750k saleswomen in Brazil and Latin American countries 	<ul style="list-style-type: none"> • Company's relationship with producers. • Producers are part of extensive production chain of biodiversity exploitation that provides raw material which is used as base for to consumer good.

This case study explores the impact of Natura's **business relationship with the producers** from a village nearby Belém do Pará.

Natura is a cosmetics company known in Brazil for its leading role in championing social responsibility. The company's ecological and social ethics are considered by the company both the right way to operate responsibly and an essential component to the company's brand.

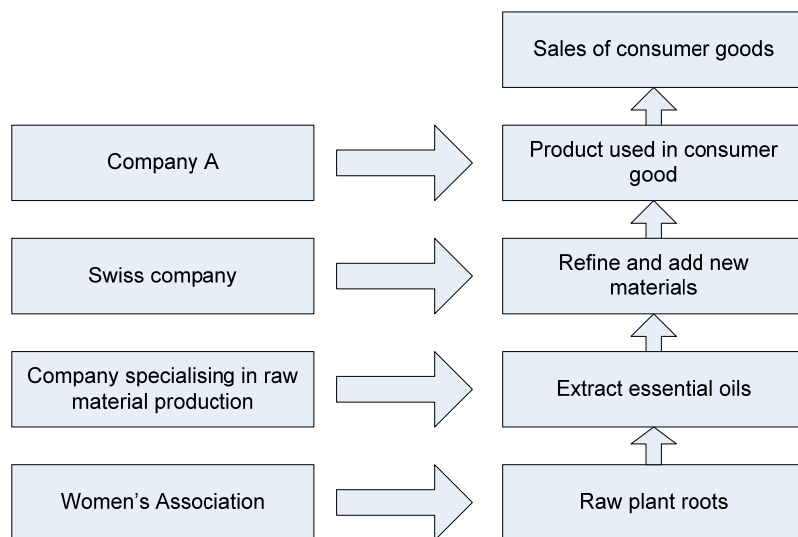
Natura has a track record of over 36 years in its consumer goods market. It is a fast growing company, trading currently at more than US\$ 1 billion a year, and is listed in BOVESPA. The company retails in various Latin American countries, in a European country, and currently is pursuing ambitious international expansion plans. Recognising the interdependence between the company and society, it is Natura's philosophy that a company is a set of relationships and that a company needs to take care of these relationships and improve them via respect, transparency and by sharing values and passions. Natura states its commitment to sustainability and the creation of a development model that combines economic prosperity, social justice and environmental conservation⁹. The company is continuously looking to innovate, learn and improve its social and environmental performance, guided by the principles of sustainable development. As part of its CSR policies, the company is trying to source around 10% of raw materials from rural community groups in a sustainable way. This could be dismissed as a tokenistic activity, as the 90% is still sourced from larger producers. However, dealing with small producers seems to be a demanding activity for the company. The company is developing sustainable livelihood indicators to measure its impact on the communities where they have a business relationship.

Natura's has been exploring the potential of the Amazon's biodiversity as a source of raw materials to develop new cosmetic products. In partnership with other companies, such as Givaudan-Roure

⁹ Natura's Annual Report 2004

Corporation¹⁰ and Beraca-Brasmazon¹¹ Priprioca (*Cyperus articulatus*) was identified as a raw material to be used in the production of perfumes. An essential oil is extracted from the priprioca's roots by Beraca-Brasmazon, and then used by Givaudan to prepare the priprioca fragrance (adding 50 new ingredients). The priprioca fragrance is then used by Natura as a base for a number of its perfumes and the cosmetic line EKOS. Priprioca is sourced from community organisations. The Association of Women of the Islands of Belém (MMIB- Movimento de Mulheres das Ilhas de Belém) is one of Natura's suppliers of priprioca. MMIB is a community based organisation with over 100 members located in the Cotijuba Island, in Belém, in the state of Pará.

Figure 1. Natura's production chain for sourcing its raw materials



The women's association was formed in 1998 (with the support from a local NGO), in response to the lack of voice at the male dominated rural producers association. Early in 2003, the women's association was officially registered. Their main activities are geared towards access to education for its members and their children, income generation activities, and the development of their cultural identity.

Natura first made contact with the women's association (MMIB), in 2002, through a teacher at the Rural Federal University - UFRA¹². Following negotiations, the women's association and Natura signed a contract in 2003 for the production and purchase of priprioca. This agreement negatively impacted in the relationship that MMIB had with the NGO¹³ supporting the formation and consolidation of the group. The NGO did not agree with the terms of the contract between the two parties, and considered the price offered by Natura too low. The Company asked MMIB to identify 10 members that could produce the plant roots for the company. In exchange, the group would receive technical support and commitment that Natura would purchase priprioca on a regular basis for some (unspecified) years.

¹⁰ Givaudan-Roure Corporation is a well known Swiss public company of fragrances and flavours, established in 1820, committed to corporate Responsibility and Sustainability.

¹¹ Beraca-Brasmazon, Produces and distributes the **Rain Forest Specialties** line of products composed by Fixed Oils, Essencial Oils, Butters, clays and other amazonian specialties produced in the Amazon factory and refined in its factory in São Paulo.

¹² The women's association had working relations with the Federal University.

¹³ The NGO thought that the price offered was too low

Meetings are held each year to plan each harvest and to negotiate the price and discuss quality issues, the harvesting process, and delivery. Natura staff, MMIB leaders, the 10 producers involved in the production of the plant root, and staff from the other two companies participate in the negotiation and planning meetings. The inclusion of representatives from all parties involved in the process is part of Natura's transparency policy. Their aim is to transparently negotiate price, establish clear responsibilities, and to reinforce the interdependencies that all would be affected if one of the organisations involved does not respond as agreed.

A women's association leader acknowledged that there may be an small element of exploitation in the final price paid¹⁴. However, for her and the group, this is balanced out by the many *perceived* benefits of the partnership. The trading relationship with Natura has meant that those 10 members have been able to improve their living conditions (improvements to housing, access to education, etc). The women's association has been able to build their own site with the payments received from selling their stories and photos to the companies for the marketing of products as part of Natura's intellectual property rights policy. Antonia da Silva, the founding leader of the group, claims that the benefits of the relationship with Natura are not only economic. The lives of the whole group are changing; they are increasingly aware of the value of the Amazon forest and its biodiversity. This was changed by the knowledge being shared by the company. Antonia also thinks the group has been able to consolidate and achieve more in a shorter time due to the three companies' support for their activities.

An impact assessment study carried out by Instituto Peabiru¹⁵ for Natura concluded that in general the impact of the relation was positive in income terms. However the small scale of the operation was creating intra-community inequality and the group empowerment process was weak e.g. the group did not have the capacity to coordinate their activities with the rest of the community, to demand services from the government, or to respond to external threats, such as the impact of increasing migration on the deforestation of the island (the island population increased by 250% between 2001 and 2005). The group lacked knowledge of intellectual property rights and the environment, they lacked property titles and were continuing to use less effective traditional agricultural practices persistently. Shortly after, Natura sponsored the Instituto Peabiru to support the group with a leadership development project to empower women and youths to participate in the development of public policies. The impact of this training on women's self-esteem and awareness can be noted by the women's association leaders. Among possible indicators is the reduction of cases of gender based violence. Violence against women is widespread in the area and MMIB is planning to make the theme a focus of action in the near future.

Maria and Sonia, two of the producers, tell that the quality of life is better since they started to harvest the *pripioca* plant as they have been able to afford more and to improve the houses, buy furniture, and provide education for the children. The *pripioca* is harvested only once a year, the rest of the year Maria and Sonia plant vegetables as they have always done. This activity provides the regular income needed for the day to day expenses. Maria and Sonia also identified as a positive result the fact that their husbands have now joined the organisation and are actively participating in all activities including workshops run by the women's association on gender, citizenship, rights, etc.

Natura is working with the MMIB on the organic certification of the plant product (paid by the company). Both are also working on an environmental assessment of the nearby secondary forest¹⁶ to identify new potential biodiversity products. According to the technician the organic certification process may bring further changes as hygiene standards will have to improve.

¹⁴ Price was the argument of the local NGO for braking relations with MMIB.

¹⁵ Instituto Peabiru's mission is: "Generate value for the Amazonia biosocial diversity conservation". Peabiru works with the establishment of bridges between the private sector, non-profit organizations and traditional rural communities.

¹⁶ *Pripioca* is planted in small canter. It is not available in the wild.

For the representatives of the companies, working with the women's association has been challenging and rewarding¹⁷. They had to learn to motivate and work with communities that live in a subsistence and extractive economy. For the companies' representatives, the price negotiation process has been a new experience as previously they had only worked on traditional supply chains. The price negotiations meetings are used to foster transparent relationships and problems are openly discussed. The companies seem to realize that transforming biodiversity to an industrial scale and preserving the environment and including rural communities in their value chain, aren't necessarily contradictory, but that a win-win situation is possible. By working with the women's association, the company is trying to internalise transparency in its operation.

The business relationship between Natura and the women's association is an example of a positive but token CSR practice. The company is contributing to improve the quality of life of a small group of families while addressing environmental issues and market demands. Using Porter and Kramer's framework, we could say that the company's inside-out social impact has been positive, although very limited by the size of the group that benefits directly and especially confounded given the dimensions of rural poverty in the region. The provision of a market opportunity for rural women that previously were living on subsistence agriculture and their integration in the global markets can be perceived as a positive effect; the consequences of income inequality within the group and the community would be the negative collateral effect.

Other positive effects are also tainted by the inequitable sharing of trading relationship benefits, as experienced by those outside the trading group. The trading relationship and other company activities are improving the livelihood conditions and capabilities of a small group of women farmers and to some extent the rest of the community and the broader group through the cultural and educational activities; a small number of members of the group are developing their negotiation skills with the price negotiation process and production planning meetings. Unfortunately, those skills are not used by the group to negotiate in other spheres, suggesting lack of empowerment in the process.

Although the company deliberately sought to work with women farmers, this does not necessarily mean that gender relations (such as women's rights in the community and on issues such as land ownership), are fully considered. How can companies deal with these issues? How can company's internalise gender relations in their work? Other less positive effects are the uncertainty regarding the long-term sustainability of the relation (the product cycle life could be as short as 5 years), and the lack of a clear exit strategy from Natura.

The case also highlights the importance (for the community) of working partnerships between companies and the community organisation supplier of raw material and not as a consumer of the company products. When comparing the two CSR frameworks, it is evident that Prahalad and Hart's approach is not yet being adopted by the company, but rather an strategy of market inclusion as suppliers has been taken.

And Outside-in impact would be the new dilemma and challenge the company is currently facing in the relationship with the women's association and other neighbouring communities supplying *priprioca* to the company. Indigenous and traditional (old-settlers) communities in the Amazon have a right to claim the genetic patrimony of the Amazon products and the traditional knowledge associated with its use, as part of intellectual property rights. *Priprioca* is such product. According to recent Brazilian legislation, this means that Natura is obliged to acknowledge this right and to compensate the communities financially for the use of this patrimony¹⁸. In this relation, the company faces the following dilemmas: How to channel what could be vast amounts of money for the group without

¹⁷ Based on interviews conducted by the Institute Peabiru, 2006.

¹⁸ In fact Natura did signed an agreement with another community that supplies *priprioca* (where access to traditional knowledge and genetic information occurred – Boa Vista do Acará, in Acará, Pará. Access to traditional knowledge was also made in the Ver-o-Peso market, by recognizing the herbalist association (Ver-As-Ervas) with the knowledge rights.

having a negative impact on the social fabric of the community and the group?; How to avoid corruption so that the money does not end in the hands of only few? How to make sure it benefits the whole community no just the women’s association as the plant’s roots are a genetic patrimony to all in the area?

Through the women’s association, Natura has a business relationship with only a small group of women producers. This facilitates the management and the success of the operation, but also limits its potential to significantly contribute to poverty alleviation for the whole community. Can the company scale up this business strategy on its own? Or should alliances with civil society organisations be a better strategy? Natura is walking on a fine line: one wrong move and the community group relations could be harmed. Although the company has some social development expertise, it is not its core business. Unintended harm could be avoided by developing partnerships with other relevant actors in society. Learning from this experience should provide the company with valuable information for future operations.

Developing systems to monitor and measure the social impact on the communities of the company’s operation in a way that communities can report on their perceived impact, was identified by Natura’s staff, as an important area that needed work. It should be organisations with expertise on social issues to execute such studies. The results of these impact reports could then be used to develop business strategies and develop partnerships.

Further research on Natura’s activities could help develop and crystallize their knowledge and thus contribute to the wider debate on the role of business in poverty alleviation and the partnerships which are needed to achieve this.

Also further discussion and research is needed on the concept of win- win, or rather business expectations of CSR and the role of partnerships. The fact that businesses and linkages to local producers will change local community patterns is something that can be dealt with by civil society organisations. For example the fact that gender relations aren’t always taken into account, even though women’s groups are being supported, is something that companies can’t address on their own. But how to deal with this and how to formulate cooperation between the public and the private sector? What is the role of the company, what is the role of civil society and what about the communities? The above example and conclusions do recognise that cooperation is needed, but how?

5.2 Agropalma

Company	Company profile	Case study analyses
Agropalma	<ul style="list-style-type: none"> • Brazilian company. • Produces palm oil for cosmetics, food and production industry. • Seeking to expand production in response to increased market demand 	<ul style="list-style-type: none"> • Company’s relationships with three levels of government (municipal, state, federal) in implementing a Family Production Program for palm oil.

This case study illustrates the difficulties and dilemmas Agropalma faces by working in partnership with the **three levels of government** while trying to implement its CSR policies and contribute to poverty reduction.

Agropalma is a Brazilian company part of the Agropalma Group that controls the production chain of palm oil (for food, cosmetics and other production industries) trading in international and national

markets. Agropalma's sales account for 80% of the domestic production of palm oil with annual sales of US\$ 222 million for 2006, of which 10% were exported¹⁹ (source: Agropalma)

Agropalma's main operations are in four municipalities 150 km south of Belém²⁰, where the company has a processing plant and over 110 thousand hectares of land: divided into 80% of mandatory conservation area; and 30% for cultivating the dendezeiro²¹ palm (Vermeulen, 2006). After soybean, oil palm is the second biggest world oil market; around 28 million tons are produced annually. Global production double the last ten year and is expected to double during the next decade. Oil price is in its best moment considering the last 15 years (US\$ 840/ton). The increasing market demand of this versatile product, used for food and non-food industries, is becoming an environment issue as, in Colombia and Asia, people are cutting tropical forests to create extensive plantations.²²

Agropalma is a member of the Roundtable on Sustainable Palm Oil (RSPO) a leading initiative to promote sustainable production and use of palm oil, and is guided by the principles and criteria of this international alliance. This means that the company is committed to transparency, regulatory compliance, long term financial and economic sustainability, better production practice, social and environmental responsibility, and to the implementation and dissemination of social and environmental responsibilities as a business practice among its suppliers. Agropalma also states its commitment to the Millennium Development Goals.

The increased global demand for palm oil and the potential to develop bio diesel, a new sub-product, from the residuals obtained in oil extraction is driving the company to increase its plantations by at least fifteen thousand hectares. This increase poses significant environmental sustainability and social responsibility challenges to Agropalma: *How should the company increase production without promoting mono-plantations or regional deforestation, whilst also upholding their commitments to the MDGs? How should Agropalma involve income-poor rural families, living in the adjacent areas where the company operates, without promoting deforestation? Will the production of palm oil affect the production of food for consumption? Will access to basic services improve?*

In 2002, Agropalma developed a Dendezeiro Family Production Program in partnership with three different government institutions: a municipal government; a state land institute; and a federal government bank. The Dendezeiro Family Production Program was initially available to 500 low-income families and community groups that lived in subsistence economies. The program worked by the different government institutions each providing specific services:

- The state land institute would legally allocate each family 10 to 12 hectares of mainly deforested land²³ which, between Dendezeiro plantations, farmers could cultivate for their subsistence farming.
- The federal bank would provide credit to the families to plant and maintain the palm trees, and ensure a monthly basic income during the three years before production. The conditions were 4% interest a year, to be repaid in seven years.
- The municipality would support the selection process of the families; provide infrastructure e.g. school, roads, and demarcation of the land.

¹⁹ Considering a US\$/Real rate of 1 real equals 2 US dollars, annual sales for 2006 -R\$ 444,91 million and exported US\$ 21,6 milhões (55% less than 2005). In 2007 exports will be even lower due to US\$/Real rate.

²⁰ In the municipalities of Acará, Moju, Tailândia and Tomé-Açú

²¹ Dendezeiro palm is West African in origin, and only grows in the tropics. The dendezeiro arrived in Brazil centuries ago with the slave trade. Indonesia and Malaysia are the world's main producers of this type of palm oil. In Latin America, Brazil, Ecuador, and Colombia are the main producers.

²² In Brazilian Amazonia dendezeiros are being planted in degraded pasture land (there are more than 5 million hectares appropriate for plantations, where only 100 k are used with dendezeiros.)

²³ This amount of land was considered the minimum to ensure plant cultivation is competitive. The quality of the land in the Amazon is very poor. The practice is to burn and clear 3 to 4 hectares, after 4 year of cultivation the land is too poor, and then a new area of forest is burned.

- Agropalma would provide technical equipment, training and support, and guaranteed to buy the families' products for 25 years. The company would hire a number of staff to support the families, provide equipment for personal protection, and transport for products such as fertilizers, equipment, and tools.

Agropalma was surprised to learn that just over 150 families agreed to join the scheme. This may be because the local population is used to surviving on limited income obtained from extractive activities such as logging, fishing, or their traditional subsistence agriculture that requires limited market engagement. Local farmers are not used to dealing with the demands of the market, and factors such as product quality and the reliability of the supply flow are not part of their traditional considerations. Changing this "subsistence culture" seems to be one of the main challenges for the company. Low levels of interest may also be attributed to local government institutions, which had neither the capacity to attract the intended 500 families, nor implement the program with such a large number. The program was thus scaled down to include 150 families, and be implemented in three phases to cover 50 families each year. The last 50 families will start production in 2007.

The first 50 families collected 2,000 tons of palm-oil fruits in 2005. The families' average income increased from R\$60 (US\$28.71) per month before the scheme to an average R\$750 (US\$358.93) per family with the first harvest. This income level is comparable to average earnings in the richer areas in the south of Brazil. After year seven, when the families have finished paying the loan, the income per family is expected to increase to about R\$ 24,000,00 per year (US\$11,488,00).

Agropalma has invested over US\$ 1 million in this scheme, which will provide 150 families with income comparable to the country's better off areas, and access to education, transport, and energy. This investment will also deliver much needed supplies of raw material to the company. Agropalma negotiated the integration of the communities into the government scheme "Luz no Campo" (Light for the Countryside) with the federal government, to provide the communities with 33.9 km of electricity network. This is a clear example of Porter and Kramer's *outside-in impact* and demonstrates the power that companies can have in negotiating services that are needed for the effectiveness of the company's supply chain, while also generating direct benefits for the communities where they operate. It is important to note that by involving small holders as fruit suppliers, Agropalma is consciously seeking new ways of expanding its plantation which is more inclusive but also avoids increasing land-ownership in an area where land invasion is a daily event.

Families participating in the scheme are finding a reason to be organised in associations by meeting monthly with the different institutions to discuss issues and negotiate solutions to the benefit of their communities. The associations are not only learning to manage their day to day activities but are also gaining bargaining power as they start to demand more services from the municipality and Agropalma.

The municipal government's inability to deliver the promised infrastructure, combined with families expecting the promised services, meant that Agropalma had to step in and build and maintain the school, build the roads, and provide a bus service to the community. This distorts the company's usual power relations with the community and gives Agropalma a situation of excessive power.

Agropalma is facing dilemmas on the demarcation between the company's, and the local government's, responsibilities and obligations towards the communities. Operating in a region where the presence and the capacity of the state (at all levels – municipal, state and federal) are weak or almost non-existent, Agropalma should be seeking solutions to questions such as: How to support local communities' lack of access to basic services like transport, health, and education without creating dependency and disempowering local communities and taking over the role of the state? How to empower local communities to claim those basic services from the state? How to strengthen the state to improve its social investment capacity? What obligations and claims does the company have *vis à vis* the government? This also raises questions such as: In this case, by blurring the role of the state

the company has increased power and how is Agropalma going to be accountable to the communities? Is it accountability even feasible? How are communities going to manage economic sustainability if the price of palm oil price goes down, or diseases occurs, etc.? How high are the risks for the families sustainable livelihoods when they engage in a the scheme with AgroPalma?

Furthermore, the company faces other social issues that impact their operations. For example, a high percentage of its over 2000 employees are single young men with low levels of education from another state (Maranhão), where poverty is worst than in the region. These young people are expending a high percentage of their income on prostitution and alcohol, increasing, among other problems, violence in the communities and sexually transmitted diseases. Dealing with these issues is yet another major challenge for their ethical and socially responsible policies and their contribution to the MDGs. Agropalma is now seeking to develop partnerships with NGOs realizing that their skills and knowledge are also needed. Peabiru a local NGO is now working with Agropalma on the development and application of bio-social indicators and the design of an action plan to tackle some of the issues mentioned.

A stable community with access to basic education and social services is an essential condition for Agropalma’s business success. This case study highlights the importance that the outside-in and inside-out linkages and interdependence have on the competitiveness of the business. It also shows how the boundaries between the private and public spheres become blurred due to the lack of the local government’s capacity to fulfil its obligations and the need of the company to expand its market. The small-scale farmers included in the company’s project seem to be holding the company to account for the government’s lack of compliance with its obligations as defined in the agreement. The company is responding to the community’s claims without holding the local government to account. Agropalma clearly needs to build alliances with other local actors operating in the area in order to support the local government to fulfil its own responsibilities. This project raises many other questions such as: *How does the project benefit women in these communities? Are women entitlements ensured? Do communities and women in particular, have a voice in the company's project? If increased income heightens inequalities within the communities, how will this affect the relation with the rest of the community? What other collateral effects will this bring, e.g. increased migration to the area? How to integrate poor neighbours that are not palm oil fruit producers? How to stop illegal hunting, timber extraction for charcoal production or hard wood trading in the large Agropalma conservation area? How to avoid land-less farmers to invade Agropalma conservation area as pressure goes up? How to transform neighbours into partners for development?*

The major question here is: What is the role of the company, government and NGO’s in these questions? More research should be done on these roles, based on all the above issues that have been raised. A new division of roles is the result of a new role for companies. CSR requires the involvement not only of businesses, but also other actors. Also farmers themselves should be included, who are often forgotten.

5.3 Sambazon

Company	Company profile	Case study analyses
Sambazon	<ul style="list-style-type: none"> • US – Brazil company • Sources local Amazon açai fruit for health food products, sold worldwide • New company, experiencing rapid growth, forecasted to continue 	<ul style="list-style-type: none"> • Company's relationship with producers • Producers are small scale community based farmers and farming cooperatives

The final case study describes the challenges of a fairly new and successful company that has increasing market demand and is trying to establish partnerships with community-based farmer groups as a strategy to increase their supply of raw material, while including small-scale farmers in its value chain.

Sambazon is a fairly new USA based company that openly markets its sustainable management of Amazon biodiversity. The company started trading in 2000 and in 2006 built an industrial processing facility in the State of Amapá. Sambazon aims to work together with local communities, NGOs, governments and the private sector to achieve economic success through the development of a new business model based on sustainable development, fair trade principles, and organic sustainable family agriculture.

While travelling in Brazil, one of the company founders discovered the natural energy and nutritious benefits of a local açai fruit that is an essential ingredient in the local diet. Today, Sambazon's products are sold in virtually every health food store and juice bar in the US. The company has a line of products based on açai, such as frozen fruit pulp, smoothies, sorbets, and other dietary supplements sold throughout the world. Sambazon's markets are growing rapidly. In 2006, the company was trading 10 times more product than the previous year and the forecast for coming years continues to be one of further growth.

Sambazon is working with local NGOs to build the supply chain of organic and sustainable açai. The company has a network of over two hundred families directly or indirectly involved in supplying organically certified and fairly traded açai fruit. The company aims to purchase 70% of the açai fruit from cooperatives or associations of small farmers and 30% from bigger growers. Sambazon is still in the early days of achieving this aim..

The company intends to frequently visit the small farmer groups to strengthen the relationship and aims to provide support in the following ways:

- Development of management plans
- Organic certification of their land
- Proper management training by qualified personnel
- Assurance of fruit acceptance of 100% of their production
- Fair Trade pricing principles
- Non Timber Forest Products certification
- Adequate transport to their fruit if necessary
- Money advancement to cover for the initial investment on the harvest
- Technical information on the quality of their fruit

The president of one of a local community group (not currently a producer for the company) visited Sambazon to explore the possibility of them becoming one of the suppliers. The meeting was facilitated by a local NGO. Sambazon explained the basic support that the company could provide to the community group once an agreement was reached. The problems the company is facing with associations and cooperatives were also explained, as follows.

Sambazon experiences bottlenecks in the production chain: the limited supply of fruit holding back market growth. There are two main reasons. First, the açai fruit is highly perishable. Açai needs to be harvested, by hand, in the evening and should arrive in the factory within 12 hours if not cooled and a maximum of 72 hours if it is refrigerated. Any delays in the delivery negatively affect the quality of the product, quickly rendering it unusable for processing. Second, the small-scale farmers and cooperatives often lack the capacity to deal with the demanding trading relationships. Cultural practices, the lack of skills and experience to coordinate and handle harvesting and transport of large volumes of product, as well as the way the product is packed for long distant transport, were identified

as key issues. Such bottlenecks in supply are exacerbated by the rapid increase in international demand of the product. These are clear examples of the outside-in impacts identified by Porter and Kramer's framework.

For many thousand of years the indigenous groups and new settlers have harvested and transported açai in traditional baskets designed to hold small quantities. Changing to plastic baskets would be desirable in business terms as it would increase the efficiency of the process and diminish the amount of fruit lost due to packaging conditions during transportation of large quantities²⁴. However, the potential environmental implications of this change pose a dilemma and a challenge to Sambazon's sustainability values. Traditional cultural practices mean that broken baskets are disposed in the river or forest; plastic basket disposed in similar ways would clearly cause significant environmental pollution.

Sambazon is also exploring a partnership with Peabiru a local NGO to collect biodiversity and social indicators related to the supply of açai. Using the collected information as a benchmark would allow Sambazon to measure the impact of the trading relationship on the communities in the future. Today, after one year of work, the biosocial indicators' draft protocol is a piece of work that will help Sambazon to better understand its challenges and to design a strategy to tackle emerging issues.

Sambazon states that it is actively seeking to promote sustainability and to have a positive impact on the livelihoods of the Ribeirinhos (poor river-side settlers) and other economically excluded groups through the commercialization of the açai berry. The company was recently awarded a prestigious entrepreneurial award for their market driven strategy that benefits low income communities. While, the community association is seeking to be part of Sambazon's açai value chain as it provides an opportunity to access secure markets, and acquire technical and business skills. Furthermore, income benefits from trading açai are now higher than from forest clearing activities and logging.

Sambazon as the other companies is also struggling with dilemmas such as: How to respond to increasing market demand while including low-income communities in the chain? How to support communities to move from traditional subsistence culture to production for global markets?

Sambazon is currently not developing strategies to apply Prahalad and Hart poverty alleviation through consumption. Sambazon do not appear to consider men and women as separate stakeholders for the supply chain. However, the visit to the factory revealed that women were the majority of employees at the laboratories and at the processing plant. Analysis of Sambazon mainly suggests Porter and Kramer's Outside-in impact is most applicable. Infrastructure, e.g. access to electricity for running the plant, producers capacity to deliver, and culture seem to be the main impacts the outside situation has on the smooth running of this fairly new business. The company offers small producers a number of services, e.g. credit, technical support, regular visits, that aim to facilitate the participation of small-scale farmers, some of which are women, in their value chain as suppliers.

Açai is a main staple and vital for food safety. With exports there is a threat in the future that the product will be too expensive and will disappear from popular homes. This is an issue which is important for the communities, but is something that is contradictory to the aims of the company. What can Sambazon do to avoid this issue? It is an important aspect of CSR that increases in importance as food security is an escalating threat.

²⁴ Now plastic baskets are mandatory due to new state legislation in Pará state

6 Emerging issues and preliminary conclusions

The most useful theoretical framework for understanding the CSR approaches of the three companies in the relation with rural communities is ob Porter and Kramer's. In the instance of our three case studies, Porter and Kramer's framework of analysing the social impact of the value chain and inside-out and outside-in interdependence between the society and the company is a relevant instrument to understand how companies assess the impact of the CSR policies and strategies and manage relationships with suppliers. However, it's important to continue seeking different theories to deepen our understanding of the impacts of CSR approaches and strategies being used by companies.

None of the studied companies are approaching CSR through Prahalad and Hart focus on the poor as consumers who can be lifted out of poverty through consumption. It is a curious contradiction, as many companies in the global market place *do* perceive communities as potential markets. Whether Natura, Agropalma or Sambazon will change this perception in the future is uncertain, and new and innovative business models would be needed if this did change.

The idea of looking at the consumers at the bottom of the pyramid, from a development perspective, is a rather controversial theory. Increasingly companies are developing strategies to tap the markets at the bottom of the pyramid, that are not really geared to having a positive impact on poverty alleviation but rather on increasing companies profits. The result of these new marketing strategies seems to be the increasing debt capacity of families in products that at the end have a negative effect in the families' capacity to cover basic needs such as health, education and food.

Currently, small-scale farmers are essential to the three companies' value chain. Through this relationship, these farmers, living at the riverside and rural areas of the Amazon Estuary, are increasingly more connected to the global market and are slowly moving away from subsistence economies. This brings considerable, positive and negative, change for the communities. The assumption that economic development has been generally beneficial ignores the wealth of evidence documenting the polarizing outcomes of economic development interventions.

Agricultural products are bought as raw materials to be processed into final products that communities are not necessarily familiar with. Engaging in a trading relationship to only extract products risks a neo-colonial approach where suppliers do not understand the market they are serving. These communities also have the right to enjoy the social and economic benefits of being part of the global market. They are citizen not just suppliers. How to change this, and how to increase the small-scale producer's negotiating power in their business relationships with the private sector are still major challenges? How to also include the perspective of Prahalad and Hart, but in a way that really benefits vulnerable communities by increasing access to critical products a better prices?

The major themes emerging from Porter and Kramer's inside-out social impacts of the three companies include:

- *Market demand:* The companies' CSR policies and increasing global demand for the products seem to be the main driver for engaging with small-scale producers. The use of the biodiversity-rich Amazon provides a unique market opportunity but also a great sustainability challenge. Small-scale farmers provide the companies a strategy to reduce their impact on the Amazon while able to report on their contribution to poverty alleviation. The inclusion of these groups in the companies' value chains is also essential to the companies' ability to achieve economic growth while complying with their ethical commitments to forest and biodiversity conservation, and poverty alleviation. Some questions arising: *What kind of relationship are CSR policies and strategies creating? What is different from traditional supplier relationships? Are producers being used as just suppliers? What is in the relationship for producers? What is changing with this approach? Is there a way of balancing*

the companies' power? What is the impact of this market demand on bio-diversity? How can companies balance market opportunities with impact on bio-diversity and poverty alleviation?

- *Equality:* The trading relationship between company and communities bring income inequality to the communities where they operate. As we have demonstrated, Natura is only directly benefiting 10 women and their families in this specific community. Agropalma is directly benefiting 150 families. Income differences and access to other resources will bring inequality into the group and the community. Existing differences will widen and inequality will emerge or deepen. *How are these companies going to address this inequality being created? Are the groups going to become a social leader or be isolated from the rest of the community?*
- *Gender:* Natura had actively looked for women groups as suppliers. However, this does not mean that the company has a clear gender equality strategy for the project, nor does it ensure that women have decision-making power or access to assets and resources in the process. (For example, land property rights). Agropalma policies did not specifically target women; the family is used as the unit. In fact men are the main work force in collecting of the palm oil fruit, while women are expected to collect what is left on the ground. Domestic violence, prostitution and related health issues are a problem to the stability of the business operation. Sambazon neither seems to be targeting women as suppliers. However, women were the majority of its work force at the factory. *Do these companies have gender equity policies? Do they consider women and men as separate stakeholders? Do they have policies or strategies to address domestic violence, so prevalent in the area?*
- *Relevance:* Natura and Agropalma's project with local suppliers are currently benefiting a small number of people. Their efforts become more relevant if they are planning to learn from the experience and expand their activities at a later stage. By contrast, Sambazon is aiming for 60% of its raw material to come from small-scale producers. But, *Is systematic learning part of the way the companies operate? How do they internalise the learning? Is the learning being translated into company policies that are implemented?* The companies seem to be collecting bio-diversity and social indicators with the objective of measuring impact. *Would they be able to convert the findings into business strategies that benefit the producers?*
- *Capacity development:* The inclusion of small-scale farmers in the value chain is contributing to the development of human capacities and environmental awareness. The business relationship helps in the transfer of technical knowledge and business skills. But, *why these capacities are not being transferred to other spheres? E.g. in applying new knowledge to other agricultural products? Or to negotiate better health services or better migration policies? Why are these new capacities not empowering the communities? Are paternalistic approaches hindering empowerment? Are producers trapped in unequal business relations?*
- *Other benefits:* In the three case studies, small-scale producers benefit from the trading relationship by increased access to resources and assets e.g. land titles, credit, access to education, electricity, etc. These benefits are either provided by the company (e.g. Sambazon provide short term credit); negotiated by the company with other actors (e.g. Agropalma's agreement with the state government to provide electricity to the community); or, in the case of Natura, are donated to some educational activities of the group. These benefits also have a negative collateral e.g. *Are companies using top down and paternalistic interventions that would hinder empowerment processes? Are women and other excluded groups included in the decision-making processes? All these are questions which we need to be able to answer.*

The major themes emerging from Porter and Kramer's outside-in impacts of the three companies include:

- *Lack of enabling environment:* The lack of capacity of local government to provide basic services such as health, education, skills training, transport, electricity, etc to its rural communities is a major bottleneck for companies operating in international markets. Lack of qualified human resources, infrastructure and other business related services and weak or corrupt governments pushes companies to deliver those services to be able to operate. *Who has the obligation to deliver what? And who has the right to claim what?* The market demands of the company, and the urgency of what need to be delivered to the market, pushes companies to provide services that are commonly thought to be a government obligation. The private and public spheres obligations start to blend. Agropalma offers an example where a weak local government is unable to deliver and their lack of service delivery is compensated by the company. The pertinent question is: *Is the local government obliged to deliver, particular services to particular communities because the company needs that stability or because it is their duty to deliver those services to the communities? If the government is not present or very weak how is the company to be involved?*
- *Local livelihoods:* Inclusion of small-scale farmers brings challenges in terms of logistics, technology and also in terms of culture. The “Amazon Culture” or “subsistence culture” is considered by the companies as one of the major challenges. The rural communities have a different sense of priorities; their subsistence economy provides basic security and the lack of access to basic services (e.g. education, health, and information) is their reality. Moving out of this reality entails risk taking for small-scale producers. This is a concept not fully understood by many companies, who deal with fast moving and demanding global markets. In practice, these differences manifest themselves in small-scale farmers’ lack of skills and knowledge to deal with the demands of - international or national – markets that extend beyond their own direct experience. But: *Is culture a way of creating hierarchies between producers and the company? Or a way to define the boundaries between inclusion and exclusion? From a sustainable livelihoods perspective, what are the risks for local communities to become involved and how are they dealt with? To what extent are social and economic sustainability (e.g. secured access to markets) addressed?*
- *Partnership development:* The companies are all seeking to develop partnerships with local NGOs or government institutions. This strategy seeks support, services, and knowledge from these actors in order to strengthen the operationalisation of their CSR strategies or increase the impact of the business relationship with economically excluded groups. *Would NGOs or other institutions working with companies be able to be critical of the way they work? Are companies ready for trade-off between profits for inclusion and better social impact? Would trust become an issue affecting the relationship?*

Recommendations for further action and research and KIT’s role

The purpose of this working paper was to explore the actions, strategies, dilemmas and bottlenecks faced by three companies in their attempt to contribute to sustainability and poverty alleviation through their business operations. A number of questions were raised in the analysis of the companies’ relations with small-scale suppliers of raw materials. The questions refer to the complexity of development and the issues that should be looked at, beyond the companies’ direct interests. These are typical issues which should be addressed by KIT in further research aiming to deepen the understanding of the changing roles, responsibilities and relations (partnerships and alliances) of the different actors involved in the development process such as businesses, governments and civil society.

The paper shows that there are challenges but also opportunities to bridge the gap between global markets, global demands and local suppliers and consumers and sustainability issues. KIT can play a role in these with its approach to knowledge generation, learning and its expertise in social development, sustainable economic development (working closely with the private sector in the development of pro-poor strategies) and governance and citizenship issues.

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