WHOSE FORTUNE IS AT THE BOTTOM OF THE PYRAMID?

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INTRODUCTION

Development became one of the most relevant themes for discussion, research and event intervention and has been incorporated into multiple social actors’ agenda such as governments, civil society and most recently corporations.

Different actors, however, have different opinions related to the construct of development, creating a dispute over those varied meanings. In this article we aim to investigate this dispute between two approaches to development by analyzing the distinctive strengths and limits of fair trade - known as an alternative for those who are social excluded and unvoiced to access commercial chains and effectively take part in the economic dynamics of global markets; and of the active engagement of private sector at the “bottom of the pyramid” (BOP), disseminated as a critical element in creating an inclusive globalization.

Some initiatives of fair trade – also known as “ethical and solidary commerce” – have been multiplied throughout Brazil, especially during the last few years. They do not constitute philanthropy neither represent a market segmentation approach, therefore, are not restricted to points of sales or to privileged and engaged consumers (FACES DO BRASIL, 2005).

More fair and equalitarian commercial relationships can be used as effective instruments to move forward the local and sustainable development of the territories where solidary commercial exchanges happen (Johnson, 2004). However, this new type of relationship has to overcome the tension between market logics (instrumental) and the solidary character – which implies co-responsibility between the several actors in the productive chain, allowing the construction of what França Filho (2002) defined as a space of social life between the market and the State, where it is possible to reduce poverty, generate income and distribute wealth.

The advisement and dialogue between these organizations promoting fair trade and the communities interested in participating on the initiatives, allow the small producers to get in touch with the buyers in a more horizontal and fair way, diminishing the information asymmetry, besides capacitating them in technical aspects, enabling their development in several areas (environment, management, price formation, partnerships etc.) necessary to compete in the market. They also dispute political spaces and democratize the concept of fair trade.

As Martins and Unterstell (2004) remark, the fair trade system originated in the 1960s when American and European organizations, linked to grassroots movements, started to sell

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1 It can be interpreted as a form of empowerment of the labourers, producers and farmers whom are in disadvantage or have been excluded from the traditional commerce system. (FRANÇA, 2002). For further information, see: http://www.facesdobrasil.org.br
the products made by small producers – who were suffering from poverty and commercial isolation due to political regimes and restrictions in market access - in local markets. These groups slowly collected new supporters and, still during the 1960s, initiated to articulate and to discuss how to increase the potential of alternative forms of commerce in order to help those small producers in the developing and less developed countries to escape from the unfair and precarious conditions faced by them. The result was a slow but continuous process of harmonization and construction of concepts, principles and instruments of cooperation among this group of organizations and practitioners which prevails until today. An important milestone in this cooperation group formed by different organizations is the alternative commerce that appeared in its first forms of collaboration in the final 1980s (Martins & Unterstell, 2004).

On the other hand, there is an movement gaining ground within the corporate world to enact a vision of development based on the “fortune at the bottom of the pyramid”. The basic idea of “the bottom of the pyramid” (BOP) approach, disseminated by C.K. Prahalad and Stuart Hart (2002) in “The Fortune at the Bottom of the Pyramid”, is that the distribution of wealth and the capacity to generate income in the World can be captured in the form of an economic pyramid. At the top of the pyramid are the wealthy, with numerous opportunities for generating high levels of income. More than 4 billion people live at the bottom, on less than $2 per day, mainly at underdeveloped countries. They are the subject matter of large private sector firms that in thesis can create “inclusive globalization”, transforming the poor into “consumers”.

There are multiple market-based social innovations spread throughout Brazil as in other developing countries. It is remarkable the development of micro-credit initiatives and the more recent struggle towards the creation of a favorable environment to the implementation of a Brazilian system of fair trade, spread in an extensive array of diverse social networks. Prahalad and Hart studied some of these well-known initiatives and, at the same time, compared them to a new generation of so-called best corporate practices that reach scale, deliver impact to the base of the pyramid, and generate profits at the same time. The result of this comparison according to the authors is that creating capacity to consume is a consequence of accessing the BOP consumer differently: private companies cutting costs drastically, creating new products and services that suit the poor, and getting closer to local BOP to understand what is suitable or not (what can be found in literature as “ethnographical marketing”). This is a market-driven sight of development.

The main objective of this paper is to critically explore the dimensions of Fair Trade theory in opposition to BOP theory in order to understand similarities and differences of those views of development. In order to achieve this objective, we will confront different Brazilian experiences: APAEB, which is a cooperative where Fair Trade is the driving ideology; and Casas Bahia, the main example of BOP initiatives. From this comparison, we will demonstrate that – unlike Fair Trade experiences – BOP experiences exploit social capital instead of constructing it, which undermines actual developmental efforts to alleviate poverty.

SOCIAL CAPITAL AS THE KEY CONCEPT
To develop the analysis of those different cases, it is central to this article the concept of social capital.

In spite of its large utilization, social capital is a construct that incorporates a large variation of uses and meanings, which would imply the adolescence of its development. The idea that the quality of social relations has important implications for the well-being of individuals, communities and societies has a long history, however the view that this idea is a potentially productive resource for particular outcomes is recent. The first work of James Coleman (1988) and the recent works of Robert Putnam (1993, 1995) were responsible to the popularization of the term.

James Coleman (1988) examined how social capital in tightly bonded communities helped support family expectations for their children’s education and thereby reduce high school dropout rates. Putnam (1993, 2000) has been studying how networks of community engagement can engender norms of reciprocity and trusting dispositions which, in turn, may generate greater social collaboration and more effective democratic institutions. We can fix an idea that social capital is a concept that relates social relations and the well-being of communities.

What is Social Capital?

Robert Putnam (1995: 67) understands social capital as “features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit”.

Social capital requires a relational focus. Relationships are the basis for commitment, trust, information exchange, and resources. These relationships facilitate cooperation and resource exchange and create organizational value (Tsai and Ghoshal, 1998).

The relational component of social capital refers to the trust associated with the relationships in a network. If the relationships are positive and help create trust, the people involved are more likely to work together towards a common goal. Actors in a network obtain the characteristic of trustworthiness by association with trusted others and by their behavior over time. Through relationships, people fulfill needs of approval, socialization, recognition, and identity (Nahapiet and Ghoshal, 1998).

Social support at the community level is a product of social capital. The provision of such social support will be extensive in communities characterized by high levels of social capital, which in turn will be more likely in communities with longstanding linkages among community members and external ties to outside groups and individuals (Backman and Smith, 2000).

Building Social Capital
Literature describes social capital as an appropriable resource (Coleman, 1988), a resource that can be exchanged or combined (Bourdieu, 1996). Social capital complements other resources (Adler and Kwon, 2002) and is cumulative (Putnam, 1993).

The creation of social capital is the result of the existence of three different conditions that were described by Adler and Kwon (2002): ability, which refers to an individual’s or organization’s skill at conducting social capital–building activities such as relationship building and networking; motivation, which refers to self-interest that drives investment in social capital as a way to obtain a goal; and opportunity for linkage to many other groups that can provide information, access, and resources.

**Destruction of Social Capital**

Literature suggests that commerce is a great source of social capital creation due to the properties of civilization inherent in it. As Adler and Kwon (2002: 28) recalled, philosophers of the 18th century believe that commerce – at least the “doux commerce” – “is a pacific system, operating to cordialise mankind, by rendering nations, as well as individuals, useful to each other (. . .) The invention of commerce (. . .) is the greatest approach toward universal civilization that has yet been made by any means not immediately flowing from moral principles." It is remarkably connected to the main idea of the creation of social capital through infusing a community with normative standards.

On the other hand, there is a new literature that alerts of the perils of over commercialization in communities – especially involving nonprofit organizations - in the destruction of social capital.

Backman and Smith (2000) argue that commercialization may weaken social networks; making the network of relationships less stable and reducing the level of voluntary participation. Commercialization may undermine community capacity building. New alliances between nonprofits and for-profits may be unproductive because the for-profit businesses may be poorly integrated in the community: they may be owned by out-of-area business people who have little contact or enduring interest in the local community or the nonprofit agency may be unstable, with high staff turnover and poor morale.

**METHODOLOGY AND HYPOTHESES**

We developed an exploratory survey of the qualitative type, using a strategy of reviewing the literature on Fair Trade, BOP, and Social Capital in combination with an analysis of two cases in Brazil.

Thus, this article is the result of a meta-triangulation of two different second approach cases. This meta-triangulation has a descriptive focus and the case studies embodied an exploratory research over the available bibliography and second hand data.

**The choice for the cases**
The APAEB case study benefits from “Q&A interviews” publicized by Kellogg Foundation, involving conversations with key informants, also from FAO database about “sisal” and publications produced by APAEB itself, most of them available online (www.apaeb.org.br). The Casas Bahia case study was accessed mainly through specialized press, which complements Prahalad & Hart’s (2002) case study at “The Fortune at the Bottom of the Pyramid”, which is the main source of information. In order to find empirical evidence about the impact of Casas Bahia’s credit system at BOP context, we have analyzed several databases, such as IBGE demographic data and the field research done by Instituto Braudel de Economia Mundial in four “favelas” (shanty towns) of São Paulo.

The justification to choose APAEB and Casas Bahia as objects of case study is based on the necessity of describing and analyzing experiences that – far from representing the big diversity of experiences that incites the practices considered as fair trade widespread throughout the country or BOP initiatives – could provide relevant elements for our analysis. The social and institutional actors of the initiative were considered taking into account their amplitude and economic, social, environmental and institutional potential, as well as the different current bonds for social transformation. We have also privileged those cases due to the geographical and historical linkage established between the populations of the different territories treat as BOP (Casas Bahia) or actors of Fair Trade (APAEB).

Hypotheses

In order to analyze our cases, we will follow the hypotheses and propositions inspired by Backman and Smith (2000) to understand if those different commercial relations build or destroy social capital.

*H1: Commercialization within a community that reduces the scope or intensity of its social networks will reduce the capacity to contribute to community social capital.*

*H2: Commercialization that leads to long-term reductions in the stability of a community’s network of relationships will reduce capacity to contribute to community social capital.*

*H3: Commercialization within a community that leads to reductions in voluntary participation will reduce the organization’s capacity to contribute to community social capital.*

PRESENTATION OF THE CASES

APAEB AND THE FAIR TRADE

Historically, the drought is the major problem faced by small farmers from Valente - located on the “Sisal belt”, a semi-arid region over the dry lands of Bahia, northeastern
state of Brazil – closely connected to hunger. Dry land means too little corn and beans to feed a family and too little cattle as well. Due to the lack of specific knowledge, small farmers face technical inefficiency to grow crops in those arid lands. When they succeed in producing any surplus, the sertanejo (dweller of these dry lands called Sertão in Brazilian Portuguese) cannot manage to sell it at a fair price in the local commerce. This situation let the families without income and food, perpetuating a privation cycle that generates land abandonment and migration to urban areas, which happens for the last 50 years.

In Valente, the farmers recognized this descendant spiral and united to detain it. APAEB, abbreviation for Association of Small Farmers, is the organization they founded in 1980, as a direct response to excessive taxation that Bahia State had applied over agricultural products. APAEB acted in six municipalities but in 1990 they were decentralized as autonomous units. In 1993, APAEB Valente was made official as a non profit organization to foster regional sustainable development.

“The dominant thought was ‘there is no solution’. But a group decided to join together, look around and saw that the solution was just there, close to us. Small producers, most of whom had little formal education, had trouble visualizing what an association could do for them as they were used to politicians who had often neglected their needs once elected. We faced huge challenges but collective willingness was the response to many of the past and present questions”. (APAEB, 20 anos - Reinventando o Sertão, 2000). So, the original objectives of APAEB were: (i) to foster the organization of small farmers; (ii) to supply its members with basic goods directly from production sources, commercializing them at lower prices; and (iii) to work for the valorization of farming production chains.

First steps
APAEB Valente organized a small Grocery Store, a space where the associates could place their agricultural products (flour, beans and others) for sale and at the same time could buy industrialized products at accessible prices (sugar, rice, oil, and others basic indispensable goods). Besides this activity, the group of 70 farmers that assumed the first actions intensified its reflections - at the time with the orientation of the Movement of Communitarian Organization (MOC) and after that with its own team - and incorporated other questions to the debate process: the problem of sisal - main economic activity of the agriculturists - the drought and unemployment. To address these problems, some initiatives emerged such as the attempt to involve more small farmers and the prioritization of the sisal challenge, especially the question of price variation in accordance with purchasers’ interests (intermediaries). A survey about the sisal’s value chain (producers’ remuneration and intermediaries’ profits) livened up the debate and helped to mobilize the agriculturists.

Sisal productive chain
Sisal (Agave sisalana) plantation, originally from Mexico, was introduced in Bahia in the beginning of the twentieth century, but only expanded to an important farming level in the end of the 30s, thanks to the actions of Bahia’s Government as an alternative for the semi

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2 According to the “Map of Hunger” (IPEA 1993), 65.1% of the population in these municipalities were classified as being in the so called “State of Poverty”, meaning that they could not obtain the minimum daily intake of calories and proteins indispensable to human life.
arid region’s development. This expansion fastened in areas of cattle and subsistence cultures, configuring the now called Sisal belt of Bahia, due to its high resistance to cycles of drought (HISSES, 1999; CNA, 2004); Sisal leaves are used to produce a fiber used in rope manufacture, carpets, bags, art and even beyond these applications, being used nowadays by the automotive industry (PROSSIGA, 2004; CAMPBELL, 2004).

The demand for the sisal fiber grew during the period between the Second World War until the 70's, prior to the upsurge of synthetic fibers as an economically viable alternative to natural fibers in the world marketplace. When sisal fiber was the main option to produce ropes and cordages it could reach prices as high as US$ 1,000 per ton; but with the competition with the synthetics, its quotation went down to levels as low as US 100,00 per metric ton within a few years.

In a land where nothing blooms easily, sisal continued to be a major product for small farmers, however now, not only they have to bear the low prices and deal with middlemen but also have to work day after day with women and children, hardly reaching the minimum official monthly wage income.

Sisal fiber production chain involves (1) harvesting; (2) cutting of leaves in the sisal field; (3) transportation by donkey from the field to the shredder (called "paraibana"), (4) shredding (elimination of the pulp or what involves the fiber, by mechanic scraping in the "paraibana"), (5) washing (in the Brazilian producing regions, this stage is not fulfilled, due to the scarcity of water or financial resources to accomplish this stage of the process), (6)drying, (7) beating (consists of removing the dust that involves the fiber of Sisal; use to do that in churns) and (8) packing.

The main shredder used by northeasters agriculturists, the so-called "paraibana", presents low operational capacity besides wasting in average 20-30% of leaves and provoking accidents that result in serious mutilations of fingers, hands and arms. This happens because the machine rotates in high speed, compelling the operator to approach his hands to the gears to introduce leaves of the sisal and to pull processed fibers. Due to precocious retirements of the mutilated ones - 2000 agricultural workers had lost part of the arms when shredding sisal fibers in the region of Valente (in Bahia State, there are 30,000 workers at all) - the majority of the population of Valente and of the Sisal’s region depends on social welfare resources (INSS). Many of the sisal workers, disabled to exert another activity, had received as indemnity from the patrons the instrument of mutilation itself, reproducing in the following generations the same tragedy.

In remuneration terms, the sisal worker receives R$ 2,40 per ton of harvested leaf, what confirms the generalized situation of overload and exploration in this work. To earn what would be equivalent to the Brazilian minimum wage level, this worker must harvest, monthly, more than 100 tons of leaves. When the workers submit themselves to the risks of

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3 Bahia concentrates, approximately, 80% of the fiber production and 95% of the national exports (MDIC, 2005). The Sisal belt is the greater producer, concentrating 90% of Bahia’s fiber production. The estimative is that 800 to 900 thousand people or 100 to 120 thousand families in Bahia have sisal as their main source of income.
accidents with the "paraibana", they lose their hands but "gain their freedom", as the minimum wage of the retirement is two times bigger than the income of sisal work.

The sisal industry in Bahia absorbs about 700-1000 workers. Beyond this great contingent of people directly involved in the production chain, there are other dependent groups such as: sisal fields owners, intermediaries, paraibana’s owners, churns owners, farmers who explore the sisal, farmers’ administrators; and other productive agents tied with the improvement, industrialization and exportation.

According to FAPESB (2002), the sisal fields’ owners participate indirectly in the productive process: intermediaries relate directly to the agriculturist, establishing work relationships with them, and at the same time exempting sisal field owners of formal working commitments. Therefore, only two percent of the workers are registered in the formal labor market – which guarantees the worker access to the public welfare system.

In general, intermediaries are "owners of the paraibanas", being also small producers of sisal. Resources for workers’ payment and for the acquisition of paraibana’s oil are advanced to the intermediate by the owners of churns/exporters. Intermediaries are in charge of mobilizing, hiring and firing the workers, whose remuneration is determined by the amount of production. Bahia has about 3,000 “paraibana” owners, about 50 churns and 9 industries (for the fiber processing to international market).

In respect to the appropriation of the income generated at the sector, one evidence is that the exporters (owners of the churns that benefit the sisal fiber) withhold 40.6% of the gross revenue; the “paraibana” owners absorb 25.2%, the sisal field owners appropriate 23.8%, while a group of 6 workers, together, keep only 10.4% of the total revenues. Therefore, social relations established in the sisal sector promote strong concentration of the generated income, in detriment, mainly, of the small direct producer.

This situation is aggravated by the low diversification of productive activities. One of the consequences is the existence of child labor at the sisal fields, something that reflects a strategy adopted by families to increase their low income. Even with the efforts already developed by the Program for the Eradication of Infantile Work (PETI) in the Sisal belt, this kind of work is still considered high - according to the National Confederation of the Bishops of Brazil (CNBB), about 9,000 children make 12 working hours a day, gaining R$ 2.50 per week.

The scarce capitalization of the sisal farms, added to the lack of financial resources, credit facilities and other incentives from the government, together with the low prices paid to producers, creates a vulnerable condition to face the commercial, industrial and exporting oligopolies, culminating, along the time, with the impediment to technological modernization of this culture. According to Misael Lopes da Cunha, current president of APAEB, “there was no credit facility for the farmers. When an agriculturist went to a bank, the reply was ‘it is not possible to make this loan’ “In these circumstances, even small investments – like basic systems to store rain for the periods of drought - were beyond the possibilities of local agriculturists.
**APAEB energizes the sisal chain**

The choice of sisal as an important tool for the development strategy, in spite of its decadence at that time, was because it was and still is the main local alternative to buy first need goods and because sisal has the symbolic weight of “resistance”, and so does the “sertanejo” that resists living in harmony with the semi arid.

The survey on the value added in each stage of the sisal productive chain was marked by resistance: the access to elementary information about the chain was made difficult by dominant players. The asymmetry of information between the actors was clear - and probably was also the source of power asymmetry.

At this moment, members of APAEB decided to implement a communitarian factory, called Communitarian Churn, the cradle of all industrialization process that resulted in the carpet plant and other enterprises that exist today. After the construction, the first challenges emerged: a) the producers did not have conscience about product quality; many producers, also, in the eagerness to gain a little more used humid product to increase the weight; b) the APAEB did not manage the distribution of the fiber and then was obliged to transfer the raw material to intermediaries; c) APAEB faced the lobby of big local purchasers who had blocked its sales, boycotting the factories that had businesses with Apaeb; d) large scale was a must do to project economic viability and also put more pressure over product quality.

Local politicians were also making a huge campaign against APAEB, using explicit intimidation, aiming that this would make the agriculturists move away from the cooperative. Governmental bodies such as export agencies were only interested at great purchasers and industrials; therefore APAEB faced lots of impediments to materialize its first export sale (5 years after the beginning of the registration process).

The association started buying sisal from the producers (about 1.000 families) and selling it in blocks, dismantling the traditional intermediary net and provoking a 40% price increase. In distant cities, the traditional sisal chain remained, with lower prices than the APAEB charged ones, damaging the small producers. But intermediaries in the surrounding cities were forced to keep their prices at the level of those practiced by APAEB, which assumed a regulating paper in the market. (Almeida, 2000, p.17).

But that was not enough. Without processing the fiber, the great submission of the primary producer to the intermediary still persisted. After carrying out a market research, the option of a sisal carpet industry was preferred so in 1995 the Sisal Factory was inaugurated, allowing APAEB to pay better prices for the sisal fiber to both member and non-member farmers. Furthermore, the Sisal Factory generated many more direct job opportunities. The plant, according to APAEB, "only employs the people of the land, so they do not need to leave in search of the false illusion of a better life in the bigger cities"(APAEB, 20 years – Reinventing the Semi Arid, 2000). Investments summed more than seven million dollars (Almeida, 2000, p.22) and were financed by national and foreign partners such as the Belgium Government and NGOs – mainly from the largest fibers importer countries of the world, such as Netherlands, Germany and United States.
APAEB accumulated experience in factory management and was strong enough to overcome the deep resistance to the cooperative idea and to the Communitarian Churn project. Since 1997, factory revenues grew more than 400 percent (Schwab Foundation, 2002) through sales made largely to European countries and to some other Brazilian states.

The Factory is APAEB’s backbone: offers 500 direct jobs, produces today about 900.000 metric tons of carpets per year and its revenues are about US$ 4.5 million.

In 1996, when the factory was implemented, sisal price was R$ 150 or equivalent to US$ 140. In 2004, sisal ton price was R$ 1.200 or equivalent to US$ 440. The communitarian churn buys nearly all the sisal produced in the area and sells around 5,500 metric tons of sisal a year.

The increased price and the assured demand affected more than 3,000 small sisal producers, as each producer works with other 7 people, whose income is based on value per ton. Once Apaeb is the major buyer in the City, the influence of its better price goes beyond its specific market and its specific target public. More recently, the artcraft activity in natural fibers grew (of sisal, caroá and ariri), occupying about 140 women in three municipalities. This reflects on better standards of life in Valente and surrounding cities population. Although the sisal initiative has positive outcomes, Sisal activities are not exactly local development itself, but catalysts of it, as detailed below.

“The semi-arid has everything we need. Whatever it lacks, we'll invent."

This set of solutions for sisal activity animated debates about today’s use of the notion of sustainability in the semi arid. Albeit sisal remains the central economic activity for small farmers, it represents only one part of the whole unit of familiar production. Understanding that, gradually APAEB Valente has been stimulating the diversification of activities, through other economic projects such as dairy and tannery, based on goat breeding. Sustainability affects broader dimensions of the relationship between sertanejos and their territories and resources. Thus, new reflections bets on diversification and lessons from sisal activities were incorporated into a broader program for semi arid local development entitled “Coexisting with the semi arid”.

The program was sketched by APAEB’s member, considering the following as important principles:

- Rational exploration of the farms, pursuing environment preservation – meaning the introduction of other activities than sisal, according to land potential and owners’ interests;
- Collection and storage of rain water, indispensable element for the coexistence with the semi arid; complemented by APAEB ground water drilling machine.
- Special attention to animal health, food production and storage (protein banks, ensilage, plantation of dryness resistant plants, etc.);
- Qualification of agricultural producers for this new perspective of work, materialized through a set of activities, such as the meetings, assemblies, field work, courses, specific training, evaluation meeting and through the Familiar Agriculture School (EFA) - its main objective is to prepare the children of small producers for the
coexistence with the semi arid using a methodology in which the student’s families become an extension of the School.

- Goat and sisal consortium: sisal fields become pasturage, without damages to sisal production; there are The Goat Skin (created in 1999) and The Milk Production Centers (since 2000) that support farmers that want to diversify their farms; these Centers operate by providing technical assistance and sales of goat-made products to local and neighboring markets; Goats are very adapted to the regional climate; therefore consume less water and food than cattle;
- Environment recuperation and preservation actions, such as reforestation, natural resources conservation (as river springs in some localities), erosion control, garbage handling and so on;
- Solar energy utilization on household electrics, on electric fences for goats (70% economy in comparison to conventional fences) and to avoid deforestation of the scarce timber resources available to make fences;
- Microfinance policy applied through an autonomous cooperative of credit, called COOPERE (Cooperative of Rural Credit Valentaiense), which supports sisal production, goat breeding and other micro enterprises created by small farmers. With almost 1400 members that pay a small fee of adhesion today, COOPERE was the first cooperative of credit at the State of Bahia, and had inspired the creation of other 25 cooperatives;
- Technical Assistance: all above was made possible because of the efficient service of rural extension that embraces technical and educative dimensions, collaborating to the development of producers and their families' competencies at critical subjects and to their inclusion in a process of change.

APAEB has also built a big social club, aiming to reinforce social ties between its members, servants and others. Moreover the association is concerned with the democratization of information; therefore it maintains a communication system, including TV programs, communitarian radio, bulletins and website; beyond the School of Computing and Citizenship that attend on digital inclusion of local society, and the ‘Sertao.net’ Internet Service.

APAEB’s structure differs from the conventional NGO and from profit organizations. APAEB is administered by a 21-member council and every month a 400-member general assembly meets to discuss major decisions. For its members, APAEB is an association with economic projects where all of its annual revenue of R$12.5 million is entirely converted back into the community through salaries, fair prices of farming products and association's activities.

In its first years, foreign partners supported APAEB with expertise and grants but now only about four percent of APAEB’s revenues come from external sources (APAEB institutional presentation, 2005). The association’s goal is to support all of its programs standing only on its own factory. The Sisal Factory is responsible for 92 percent of APAEB’s revenues. The Grocery Store is the biggest supermarket of the city today and its revenues were US$1.6 million in 2004. The Store had strengthen APAEB identity in the region and also played a key role in raising the community's buying power by selling everyday commodities at fair prices, forcing competing stores to keep their prices low (LIMA, 2001). Farmers joining the association pay an adhesion fee of R$38 (not related to COOPERE
fee). The small amount is deposited into a communal credit fund that has been built up along the years and always invested into APAEB social and educational activities. The Goat Skin and Milk Production Centers sell goat-made products at local and neighboring markets: the first generates revenues of US$ 120,000 per year and the latter about US$ 210,000 annually. But they are very fresh initiatives and will probably contribute more substantially in the next years if the association invests in scale and quality.

The new social dynamics has stimulated the establishment of Forums of Citizenship and Municipal Development, which congregates entities of Valente to charge and monitor the acts of the municipality. It also favored APAEB members’ involvement with city councils, commitment to the Program of Eradication of Infantile Work, actions of environmental education and the accomplishment of various communitarians’ works.

The program “Coexisting with the semi arid” embodies many partner institutions and is overcoming, through practical action, the old mental framework that set up that climate conditions were responsible for the fate of poverty and economic lateness in the region. In great length, results are very good: APAEB’s actions created a new educational approach, income generation and sustainable natural resources use that became reference in the region. In the next chapter, the impacts are detailed.

Impacts
APAEB has received numerous national and international awards and public recognition for its work by renowned institutions such as Fundacao Getulio Vargas, the Swiss Schwab Foundation, the Ashoka McKinsey and the Banco do Nordeste (development bank for the northeastern Brazil). Many studies and reports were made in recent years attempting to economic and social results from APAEB’s works. All disclosed changes in life standards of the Valente families, as sketched in the following chart:

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Situation before 1991</th>
<th>Situation of beneficiaries after 2000</th>
</tr>
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<tbody>
<tr>
<td>Agriculture</td>
<td>Production loss</td>
<td>More than 70% of small producers had invested in the plantation of cultures resistant to drought: 238,141 green vegetables were planted.</td>
</tr>
<tr>
<td>Goat breeding</td>
<td>Drove loss:</td>
<td>Only 10.7% of members continued in the previous situation; 90% have 10 or more goats.</td>
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<td></td>
<td>47% had up to 10 goats;</td>
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<td></td>
<td>53% had more than 10 goats.</td>
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<tr>
<td>Reforestation</td>
<td>Inexistent</td>
<td>75% forested their properties: 200,000 planted trees</td>
</tr>
<tr>
<td>Water</td>
<td>Low storage capacity</td>
<td>Almost all families had increased the capacity of water storage in the property; more than 1900 systems installed</td>
</tr>
<tr>
<td>Habitation</td>
<td>Pauper habitation conditions</td>
<td>32% carried through improvements in the housings; 37.5% had bought furniture or stoves; 27.5% had acquired radio or TV.</td>
</tr>
<tr>
<td>Transportation</td>
<td>Many difficulties of locomotion</td>
<td>12% had acquired bicycles;</td>
</tr>
<tr>
<td>Land property</td>
<td>Desolating conditions</td>
<td>15% had acquired solar energy kits; 95% had improved fences; 30% had enlarged the family state; 35% acquired silos to store foods for the animals.</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-----------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Sisal income</td>
<td>Less than R$ 150 or US$ 140 per ton of harvested leaves</td>
<td>Around R$ 1.200 or US$ 440 per ton of harvested leaves</td>
</tr>
<tr>
<td>Goat milk income</td>
<td>No income</td>
<td>From 2000 to 2004, goat milk daily production increased from 93,5 l to 750 l and annual purchases enlarged from an average of 22 thousand liters to 250 thousand liters in the period 2000-2004. The average monthly income grew from R$ 198 to R$ 480 in the same period. From 2003 to 2004, goat milk price increased by 20%.</td>
</tr>
<tr>
<td>Goat skin income</td>
<td>Until Goat Center implementation, goat skin was valued at R$1,5 or US$0,78 per unit.</td>
<td>After the Goat Center was opened, skin unit price increased by five times (in Brazilian Reais) and the production increased from 7,704 in 2000 to 23,482 units in 2004.</td>
</tr>
<tr>
<td>Familiar income</td>
<td>30% had lesser or equal to R$80; 15% had between R$130,00-R$ 200,00; 2,5% had income superior to R$ 200,00</td>
<td>12,5% have monthly familiar income between 130,00 R$ and R$ 200,00; 26,4% have monthly familiar income from R$201- R$ 400 61,1% have monthly familiar income superior to R$ 400</td>
</tr>
<tr>
<td>Life expectation</td>
<td>56,7 years in Valente</td>
<td>64,4 years in Valente</td>
</tr>
<tr>
<td>Human development index</td>
<td>0,424 in Valente 0,398 in 11km far city (Retirolandia)</td>
<td>0,657 in Valente 0,625 in 11km far city (Retirolandia)</td>
</tr>
</tbody>
</table>


More important conquests are mentioned in FERREIRA (2002), such as the reduction of migration field-city index, offering new perspectives of worthy local life for rural families; ingression of all the children in pertaining age to school through the process of studies and reflection with the families on the importance of the education of the children; and citizenship reinforcement, through the construction of a new mentality about the relationship between the community and the government.
CASAS BAHIA AND THE BOP

Casas Bahia

Casas Bahia, founded by a Jewish immigrant - Samuel Klein - in São Caetano do Sul (Brazil), started in the 1950s selling basic household items to thousands of people who were entering the cities in search of employment at industrial centers. Its name is a direct parallel to Bahia, a Northeastern state in Brazil, motherland of the overwhelming majority of the migrants that have been moving to the big cities of the wealthy southeast since the 1940’s to find jobs and better life conditions. Most of these people and their descendents live in slums and shanty towns (favelas).

Casas Bahia business history is connected to the economic scenario of the country. After the transition to democracy in 1985, Brazil experienced economic turmoil: high interest rates and uncontrolled inflation (239% annual rate, 1985). The PPP of the population eroded: it was impossible to plan home expenses.

Since those days, Casas Bahia has invested in a business strategy that combines massive advertising and a simplified credit system to attend low income clients. In the beginning, installments were fixed every month because inflation obliged the indexation of every hiring purchase.

In 1994, after Plano Real, inflation has been under control ever since. Between 1993 and 1999, the Brazilian per capita revenue grew 14.7%. Credit has been recovered, which fosters consume, even without the growth of nominal revenue.

Monetary stability represented a powerful leverage of revenues to companies that had been restructured, like Casas Bahia, which has opened 400 shops since 1994. Its market share was consolidated at 20% and its revenues reached 11,5 billion of Brazilian Reais in 2005.

Casas Bahia Credit System

Its credit policy is based on pre-fixed installment up to 18 months and in-house cash payment (which is a teaser to convince the consumer to buy another item) after the first credit of the client.

Credit allowance processes starts with an initial interview with the client. The data is registered in a database which is submitted to an SPC credit check. If Casas Bahia detects negative SPC score, the transaction cannot be completed until the customer resolves de the credit problem.

In case of positive score, there are two alternatives: if the merchandise costs less than R$600, no proof of income is required; a valid permanent address is sufficient; an express scoring system evaluates and determines a client’s creditworthiness. Clients rejected by the system are directed to a credit analyst for further evaluation.
The proprietary system’s score is based on total income, both formal and informal, occupation and presumed expenses. It gives a credit limit for each client and also evaluates potential new purchases, or cross-sale. Based on the same factors previously noted, in addition to payment history, the system automatically produces a new credit limit. When the customer comes into the store to pay a monthly installment, the salesperson sees that a new credit limit is available and has the opportunity to make a tailored cross-sale in the amount of the credit limit.

Sometimes the system refuses a new credit due to an analysis of a product not fitting to the consumer profile. In those cases, the credit analyst takes the risk based on the relation with the consumer. The analyst may even ignore the system’s recommendation. A fortuitous raise of default rates would be compensated through the raise of the sales. In recently opened shops, default rates usually double, dropping to the average of 8% after a couple of years. The company interprets these figures as a cost of acquiring new customers.

Casas Bahia has a team of “reminders”. The “reminders” call a client who is six days late in his/her payment. If there is no phone, they send a letter. If none of the messages works, the reminder visits the client to negotiate the payment. Just before Plano Real there was no credit history register: every client was treated just like a new one. After the implementation of an IT system in 1995, the waiting time of credit approval dropped and installment carnets were sent directly to the client’s home.

In a group of 100 clients, 70 have no way to prove their revenue. Most are informal street market sellers, domestic workers and construction workers whose revenue is below two minimum wages a month. They live in houses which accommodate up to seven people in high densely populated neighborhoods (37000 inhabitants per square kilometer). According to Booz Allen, Casas Bahia penetrates in 40% of low income homes.

Casas Bahia resembles a bank. The company has a network of 530 shops with an infrastructure to approve 80 thousand contracts a day. They have 14 million registered clients – 7.2 million are active, and 85% of the sales are financed.

In order to keep default low, Casas Bahia sellers are trained to “educate” the client to buy according to his/her monthly income.

The consumer credit has been guaranteed through self-financing since 1992, using resources from the company’s profit and credit within the industry. In November 2004, Casas Bahia convened Bradesco – largest Brazilian private bank – in a deal. Bradesco has started to finance 25% of the long term loans (R$ 400 million each month).

**Interest Rates and the Company Policy**

After 1994, the Plano Real has facilitated the emergence of the loan industry and loans have been attracting lower income population. Interest rates are fixed by financial institutions that operate with commercial shops. According to the National Association of Finance, Management and Accountancy Executives, in 2005 great retail companies were operating
with an interest rate of 4.51% per month (69.78% annual rate.). Brazil has the second highest basic interest rate of the world.

Consequently, how to attract people to credit loans with such an absurd interest rate?

Indeed, Casas Bahia divides the payment of the good in monthly installments with the motto that “every installment fits in the size of your pocket”. If the payment is divided in 12 monthly installments, there is no adding to the final price. If the consumer opts to pay in 18 months, the interest rate is about 5% per month that will add 108% to the final price.

The executives of Casas Bahia deny that they apply hidden interests in the price of the products. They say that they transfer to the consumers all the effects of bargaining with industry suppliers. “The only risk we take is of default, which is around 8.5%, but it is part of the business”. Casas Bahia has a strong bargaining power with suppliers due to the fact that it is responsible for buying between 18 to 20% of white line products and electronics in Brazil. From every 100 cell phones sold in Brazil, 20 were sold by Casas Bahia.

Casas Bahia is not a public company. Thus, it is difficult to exactly know how the Klein family really manages their finances. There is no guarantee that they do not camouflage the interest in their prices or in the fixed installments. According to Revista EXAME MAIORES E MELHORES, Casas Bahia is the company with the greatest net floating capital; however, its results are always sensible to the inflation floatation.

Final Statements

Indeed, Casas Bahia is an example of a company that explores the characteristics of their consumers to their own use.

The proximity that sellers try to establish with the consumer is something that resembles the same kind of connectivity that fosters social capital. The activity of “teaching” the consumer and the work of the reminders reinforce the idea of strengthening social ties.

On the other hand, these activities inhibit people to establish new communitarian ties due to the fact that the main relationship is mainly a B2C type. Differently from small local shops, Casas Bahia retailers are based in middle class neighborhoods instead of near the residences of the majority of their consumers, who need to commute in order to consume.

Thus, it is questionable if Casas Bahia is really a company that fosters social capital at the Bottom of the Pyramid.

ANALYSIS

In this article, we concentrated our analysis in three main hypothesis about to the building or the destruction of social capital among commerce relations because this is still work in progress, as already mentioned in the Introduction: the first investigates if the commercialization weak social networks; the second approaches the commerce contributes
to make network of relationships less stable; and the last allows a reflection on community
capacity building through voluntary participation.

1st axis – Does the commercialization within a community reduce the scope or
intensity of its social networks?

Our analysis’ perspective prioritized the study of the articulation between the most
important social actors that participated in each experience and the bonds that were formed
between them.

On APAEB case, we identified the presence of small farmers of semi arid - both members
and non members, as the main public. The formal arrangement of social ties around sisal
activities served as a base from which this public, through APAEB, got involved in
different public and private, national and international organizations, formerly out of its
reach. This broader social network catalyzed the construction of a local development
program, serving the embeddings of semi arid identity, what means stronger ties among the
sertanejos (or small farmers from that region), and at the same time to get the various
actors entangled through solidarity bonds.

These solidarity relationships between the actors were manifested in the several steps of
APAEB’s enterprises implementation, especially in the moments of negotiation between
the producers and the APAEB as the economic power dimension emerge. In the referring
case, since its beginning APAEB attempted to clear the flow of information, allowing the
producers to get in touch with the market in a more horizontal and fair way, besides
capacitating them in the technical aspects and allowing their development in many areas
(environmental, management, price formation, partnerships etc.).

“The semi-arid has everything we need; whatever lacks, we will invent” became the motto
of APAEB and the renewed inspiration many growers needed to take their prosperity and
that of the region's economy into their own hands.

On Casas Bahia case, the target public is the client that inhabits highly-dense populated
neighborhoods in the biggest cities of Brazil and that get connected to the retailer through
the simplified credit system.

Despite the fact that these neighborhoods can potentially produce communitarian ties,
relations between its inhabitants and Casas Bahia are limited to money influx from the first
to the latter, and goods influx in the other way around. The retailer does not generate many
more ties beyond this business-to-community relationship and the sum of the various
bilateral relationship maintained by the Casas Bahia with its more than million customers
can be illustrated as power concentration movement in the retailer side as both money and
information stands on it. As remarked on the case description, the company hides interest
rates from customers, camouflaging products’ real prices.

2nd axis – Does commerce contribute to less stable relationship networks?

In contrary to APAEB’s complex commercialization network, Casas Bahia reinforces the
asymmetric distribution of wealth captured in the form of an economic pyramid, as its
business model drains resources from those that live at the bottom for a single company.
Therefore the so-called “inclusive globalization” is a mere link between two actors, where
one of them depends strongly on the other. In Casas Bahia case, this link is well symbolized by the credit-debt system: because the customer has to accomplish the referring bilateral relationship goals (paying debts regularly to get new credit), he struggles to generate income for this purpose and diminishes its participation in other activities such as communitarian ones. This can be understood as a cycle where the person works mainly for consumption or payment of debts; getting tied almost exclusively to the retailer. Despite the fact that this customer jumps to a higher level on the pyramid because of the increase of goods inventory it cumulates, he is not empowered through new opportunities of job, leisure or education. Also there is no counterpart on education for consume: it perpetuates the asymmetry of information inserted on the credit system and also the tolerance to low quality public services. The consumerism mitigates the pressure over the access to public goods and services, such as education, that remains restricted to high and medium class children (GUEDES & OLIVEIRA, 2006).

This cycle is reinforced by ethnographical techniques which emphasize that big companies must “map” community strategies for resources utilization (habits and expectations of consumption), appropriating themselves of communitarian symbols as if these were passwords to establish bilateral relations within that social network.

But as shown in the first hypothesis analysis, the entrance of these new actors does not encourage the community to enlarge its ties neither to reinforce the former relations. Casas Bahia camouflages itself using these communitarian symbols – the case shown that the company simplifies the credit approval attempting to reproduce the old door-to-door salesman approach, which used to recommend “suitable” products to his clients and facilitated payments. As Nobrega⁴ remarks, “Casas Bahia could have done in large scale what the neighborhood commerce did for many years, that is the relationship of trust on the client, payment in loco and many installments”.

At this point, it is possible to assume that the innate virtue of the neighboring commerce is the capacity of building compromises between the various local actors, strengthening trust ties between the inhabitants and stimulating that their connections go beyond commerce relationships. Nevertheless, these mediations have been substituted by corporate strategies of getting closer to local BOP consume to understand what is suitable or not, draining resources from more relevant expenses such as better education and better food for the children and also disfavoring the proliferation of local commerce initiatives.

3rd axis – Does the voluntary participation reduce in commerce within communities?

As Guedes and Oliveira, 2006 discloses, the consumption democratization is highly costly for BOP families rendering them as more and more indebted and economically vulnerable. As mentioned in the second axis analysis, the cycle of consumption and payment of debts, evident in Casas Bahia case, generates dependence from customers or workers to the retailer. Furthermore, some other factors reveal practical effects from that credit policy over

⁴ For Consumidor Moderno magazine (Do requinte à democratização do consume, 15/3/2005).
BOP families: high exposure of family income, installments conditions asymmetry of information, high indebt and prioritization of non basic items consumption.

When getting credit, retailers do not consider the available income but the gross income. As Brazilian families have excessive income exposure – 85% of the total income is compromised to essential expenses such as health, education, habitation, food and transport (IBGE, 2000); financial expenses or installments generate familiar budget unbalance, as the act of consuming durables discourages savings and also inducts the delay of other expenses payments, such as electricity and water taxes.

In the other hand, many BOP neighborhoods were consolidated after many years of occupation, stimulating new aspirations and innovative channels of distribution through a vibrant local commerce. According to Guedes and Oliveira (2006), “the dominant dream of the inhabitants of the suburbs or shanty towns is not the public or the white collar jobs. The great aspiration of the inhabitant of the slum is to have his own business and make it prosper to improve his life’s condition”. Despite the lack of microfinance availability and technical support, entrepreneurs of the peripheries can generate creative businesses that collaborate to more vibrant communities.

But the deficient institutional environment is worsened by credit-payment and the debt cycle of dependence – it finishes deforming in great measure the development as freedom proposed by Amartya Sen, that is, it conspires powerfully to weaken the potential of wealth generation in the locality. Indebted communities notice incapacity to manage local enterprises adequately, prevalence of greedy short-term thinking on decision process and the abuse of credit for consumption and informality, as Gianetti, 2006 remarks.

As mentioned in the second axis analysis, the consumerism affects also the civic engagement of the communities: the access to and the quality of public services and goods are not as much disputed neither assessed as those of durables goods sold by retailers.

In comparison, the community of small farmers from APAEB case was free from middlemen in the sisal chain and could expand its range of actions from one small economic enterprise to many creative businesses.

Part of Valente’s population already does not see public goods or services as a gift or a favor anymore, but as a right and starts to demand public policies that can take care of the basic necessities of the population. With a wider notoriety of the program, the leaderships were conquering wider political spaces being now recognized as important agents of local development (at the Forums of Citizenship and Municipal Development) and also created references, from concrete action, that can be appropriated as public policies by the government, redefining priorities and relations with the Semi Arid.

**FINAL CONSIDERATIONS**

The main objective of this paper was to critically explore the dimensions of Fair Trade theory in opposition to BOP theory. We confronted different Brazilian experiences: APAEB, which is a cooperative where Fair Trade is the driving ideology; and Casas Bahia, the main example of BOP initiatives. In the last paragraphs we have developed an
inconclusive analysis of the differences between the Fair Trade and the BOP approaches. Most of the results of our analysis are still due to further investigation.

Nevertheless, it is possible to point to some remarkable differences that help us to understand how these approaches lead to different perspectives of what is the fortune at the bottom of the pyramid and to whom it belongs.

Fair trade is an alternative to the social excluded and unvoiced people to access commercial chains and effectively take part in economic dynamics of global markets, representing an important support for the local development of trade and productive relationships based on the dimension of solidarity as raised by Karl Polanyi in *The Great Transformation*.

On the other hand, since 2002, when C.K. Prahalad and Stuart Hart (2002) approached the base of the pyramid (BOP) - the so-called four billion people that live with less than two dollars per day, mainly at underdeveloped countries - as the next market segment to be focused by international corporations, different actors started to develop a new paradigmatic framework for poverty alleviation. The active engagement of private sector at the bottom of the pyramid is seen as critical element in creating an inclusive capitalism, as private sector competition, unlike local village and shanty-town monopolies controlled by local slum lords, may convert poor as consumers (Hart and Prahalad, 2002). In BOP theory, poor are able to share the benefits of globalization accessing products and services that represent global quality standards. It is mainly a consumption alternative but it lacks focusing on other economic path, considered by local development. It is questionable if the people at the community are not changing the slum lord for the global lord.

Both approaches use in different manners the real wealth of community: social capital.

From the APAEB case it is possible to understand that the efforts to create commercialization are a good example of the “doux commerce” that thinkers like Thomas Paine in *Common Sense* (1776) celebrated as a key feature to construct community and democracy. The creation of the cooperative and the links with the community of Valente has made possible to combine empowerment and social innovation.

Casas Bahia is a very successful example of a company that used the knowledge they extracted from the community to create a business innovation that generates good profits. It is reasonable to argue that the model of business is inclusive because it provides access for goods and services that otherwise the poorer would not access. The sensible point here is how it happens. Casas Bahia uses connections and local knowledge to maximize their gains and not to foster social capital.

We conclude, therefore, that the answer to the question posted in the title of the paper is that the fortune social capital creates belongs to the community.

However, there is a new emergent paradox here: are BOP initiatives a good example of generating this fortune or looting it? Probably further investigation is needed to solve it.
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