Msc. Globalisation and Latin American Development 2007-2008

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Dissertation

The Impact of Socially Responsible Investment On Economic Development in Brazil

Hypothesis and Introduction

Investment funds that focus on environmental, social performance, as well as underlying financial analysis, are making an impact on the progress of economic development in Brazil. Whilst the size of socially responsible investment (SRI) funds is still relatively small in terms of capital under management as a percentage of the total amount of funds under management in Brazil, the growth of socially responsible investment has been heralded as a shift towards the creation of a model of economic development which is more sustainable through inclusion of extra-financial factors. Furthermore, socially responsible investment has a role to play in the proliferation, education and deepening of the social and environmental sustainability agenda across the corporate landscape.

Brazil is worthy of detailed analysis of the spread of corporate sustainability for two reasons. Firstly, environmental and social problems are acute and require deep structural reorganisation if they are to be effectively confronted. Secondly, the Brazilian corporation, due to historical legacy, exerts a profound influence over society. Thus, if the aspiration is to achieve meaningful sustainable development, the corporation must be a committed partner.

I will explore the role played by socially responsible investment in deepening sustainability in Brazil through analysis of the ABN AMRO Banco Real *Fundo Ethical* SRI Fund. The *Fundo Ethical* is Latin America's first socially responsible investment fund and only socially responsible investment fund to use its own assessment methods. I will analyse the role played by the *Fundo Ethical* in the process of deepening the corporate response to measurement of their social and environmental impact. By way of this analysis I will demonstrate the extent to which socially responsible investment impacts on economic development in Brazil.

To evaluate how these processes are taking place and the extent of their scope, Chapter 1 will review the evolution of the corporate response to social and environmental responsibility. Through charting the historical progression of sustainability, as it moves from local, civil society concern to global corporate movement, I will demonstrate how corporations have responded to ever louder calls for consideration and taking account that their negative impact on society and the environment. Understanding both the shift in mentality from unconsidered externality to fully incorporated cost to business operations, and the means by which these shifts are achieved, will provide the critical tools needed to assess the depth of corporate commitment to achieving meaningful contributions to economic development that is socially and environmentally sustainable. Chapter 2 will then explore the corporate response to these social and environmental challenges. It will outline key concepts with regard to the corporate response. Building on the understanding the evolution of the sustainability agenda, I will explore the macroeconomic environment that has placed large corporations at the centre of economic development. I will also detail the role of the corporation in the social and environmental crises that are effecting Brazil. In Chapter 3 I will assess the *Fundo Ethical* from a historic, methodological, and assessment perspective. I will explore the motivations behind this socially responsible investment fund, the methods it uses to select included companies, and the composition and performance of the fund itself. Chapter 4 will consider the impact of the *Fundo Ethical* on economic development and using the frameworks developed in Chapters 1 and 2. I will also evaluate the extent to which socially responsible investment in Brazil can help solve the country's social and ecological crises. Finally, Chapter 5 will assess policy recommendations that arise from analysis of the fund.

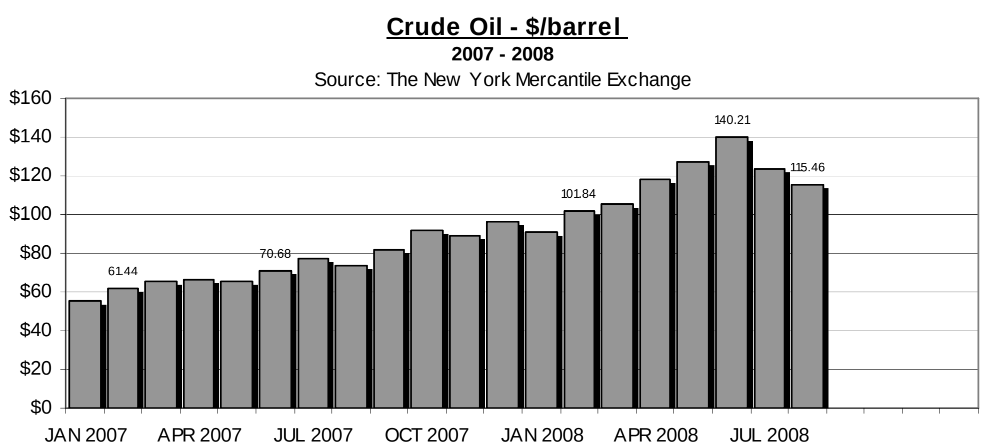
CHAPTER 1

The four-fold crisis

The beginning of 2008 brought with it a series of interlinked shocks to the global economic order suggesting that the business-as-usual period of sustained global growth was coming to an end. It became increasingly apparent that this set of problems would not result in a small period of readjustment as had occurred on previous occasions. Rather, the essential processes of the global economy appeared to be in overreach and the outlook could at best be classed uncertain.

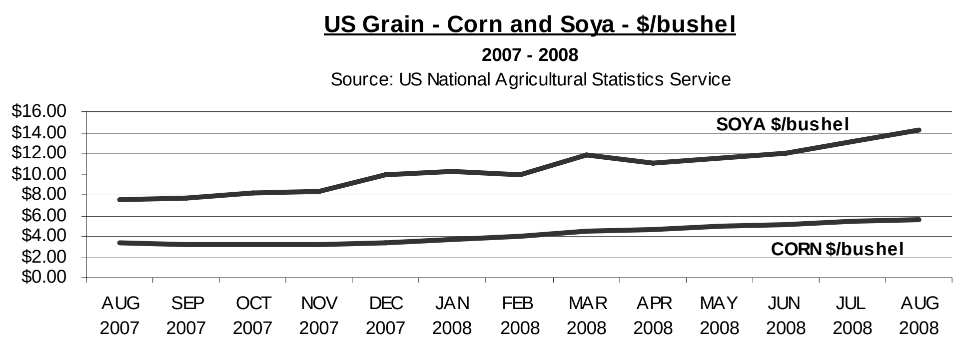
Oil, the global economy's principal supply of energy, breached $100 per barrel for the first time in February 2008 as it surged ever upwards, before setting a record 100% year on year increase in May at $125 (see figure 1)

Figure 1



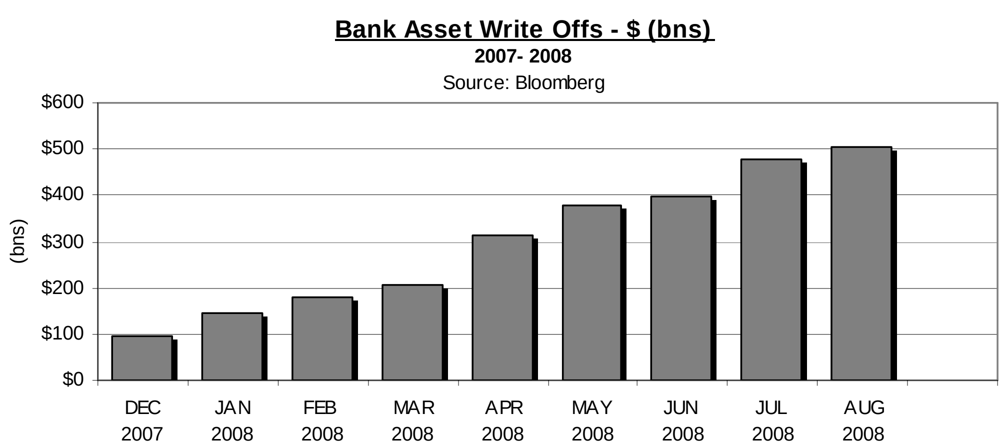
Food prices soared, stoked by rising energy prices, together creating a global inflationary crisis (see figure 2). The global food supply system was exposed as woefully inadequate in feeding the world's rising population, with blame being assigned to as diverse a cast as the newly carnivorous Chinese middle class to the heavily subsidised US farmers who, encouraged by high energy prices, had opted to switch to producing corn for fuel.

Figure 2



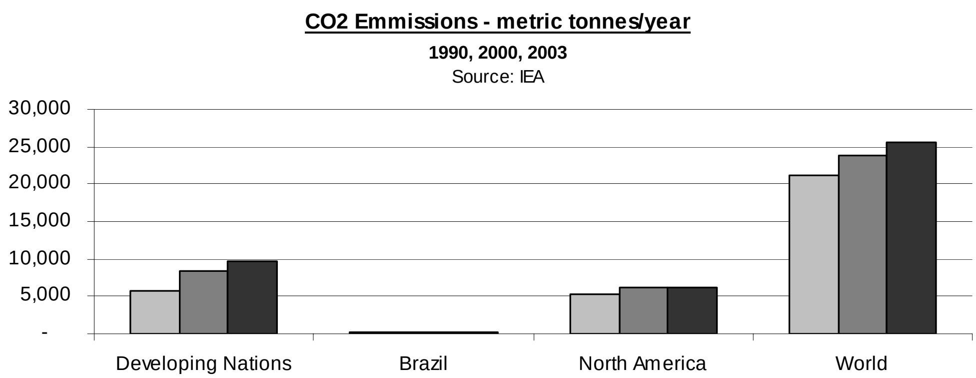
The global financial system imploded with the write off of unfathomable quantities of dollars by the world's leading financial institutions see (figure 3). Financial markets across the world had entered a downward spiral of volatility and insecurity. The contagion being attributed to losses attached to reckless risk management in the rapacious trading of obscure securities often related to the failing US housing sector.

Figure 3



All the while, the planet's climactic balance continued to deteriorate apace. Atmospheric levels of CO_2 continued to rise rapidly towards catastrophic levels (see figure 4). Unrelenting species extinction, escalating biomass loss and the irreversible trend of degradation and exhaustion of the planet's environmental services were progressing unchecked.

Figure 4



The four spheres of fuel, food, finance and climate are the essential tools with which human welfare has been achieved and maintained. And yet, all of them have arguably reached their most precarious state in living memory all at once. This four-fold crisis must mean that our systems are imperfect, currently in overreach and unsustainable, and in urgent need of re-evaluation if we wish to provide sustained levels of welfare for the planet's population.

How have we got here? How to move forward? This chapter aims to provide a contextual framework for understanding the ecological and social deficiencies of economic development and the articulation of the response to these flaws. Firstly, it will detail the extent to which the planet, through its environmental systems and services, is a key component in human welfare creation. Secondly, it will analyse what this means for an economic development model based solely on economic growth and consumption. Finally, it will consider how ecological and social considerations have converged with a conventional economic development model rooted in a philosophy of limitless growth. It will examine the evolution of sustainable development as a concept that attempts to offer a holistic version of economic development that is bound to social and environmental realities.

Environmental systems and services

Human welfare has been achieved through a mixture of application of human and physical materials and ingenuity. Economic orthodoxy in its simplest form has followed this notion, espoused in the doctrine of David Ricardo, that increased production is the most efficient route to producing more welfare[1]. In recent times, demand for energy and materials harvested from the planet to power prosperity growth have been recognised as scarce and limited. The immediate effect of the limits to these inputs is that prosperity in itself has become an expensive commodity. Beyond exploitation of finite commodities such as energy and materials extracted from the earth, there exist a range of other environmental services that input into human welfare. Freshwater, breathable air and habitable climates are also finite resources. These ostensibly ‘common’ goods – essentially public resources, are being degraded by humans achieving welfare through the processes we use for accumulation. If we take into account the degradation of these resources, we will cease to be able to achieve human welfare in its current incarnation long before we run out of the finite resources used to create energy

Ecological systems, when rated as assets as opposed to common goods, are in irreparable decline. As the above figure is clarified in the WWF living Planet Report 2006: ‘A moderate business-as-usual scenario based on our projections of slow steady growth of economies and populations, suggests that by 2050, humanity’s

[1] P.78. Galbraith, John, (1999), The Affluent Society, 5th ed, London

demand on nature will be twice the biosphere's (the Earth's systems) productive capacity'[2].

Supply and demand has dictated that fuel, food, metals and minerals could be priced according to their relative scarcity or abundance. These are traded goods because they are certainly not limitless and also require varying degrees of processing, adding value to the elemental product. The natural environment of ecological systems was a 'superabundant' resource and was not considered a capital stock[3]. Now it is no longer recognized as a 'free good' and it is 'more and more a limiting factor in development'[4].

In a 1997 article for the scientific journal *Nature,* Costanza et al. defined these ecosystem services and placed a value on them: 'Ecosystem services consist of flows of materials, energy and information from natural capital stocks which combine with manufactured and human capital services to produce human welfare' which, 'if actually paid for, in terms of their value contribution to the global economy, the global price system would be very different'[5].

It might appear that this is a pricing problem. However, if we look at the fourfold crisis, it becomes clear that whilst pricing is a key element it is not a total solution. It may, for example, make people want to use less fuel if oil is more expensive. But not everyone will go out tomorrow and buy a car that doesn't run on gas, or turn off their heating.

The global infrastructure that delivers welfare is based on consumption of finite resources and depletion of ecosystem services. Total systems change requires

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[2] P.2 WWF Living Planet Report 2006
[3] P.1005 Goodland and Daly, Environmental Sustainability: Universal and Non-Negotiable, Ecological Applications, Vol. 6, No. 4, (Nov., 1996), pp. 1002-1017
[4] P.1006 ibid
[5] P.254 & P.259, Costanza, Roberto et al. (1997), The Value of the World's Ecosystem Services and Natural Capital, Nature, Vol. 387, 15 May 1997

long-term infrastructure planning that is beyond the capacity of being delivered by a market alone.

Of equal importance, the urgency of the planetary problems we face, living in a state of macroeconomic overshoot, really does *finally* mean that time is of the essence if we are to adjust and create a 'sustainable society that we may actually want to live in as oppose to one that we would be willing to settle for'[6].

Limits and inadequacies of growth

Equipped with an overview of the role of ecosystem services in the production of welfare, I will now establish how our model for creating welfare through accumulation, in an environment where resources are considered 'free goods', must now be considered unsustainable.

We have reached this period of overshoot and it appears that we lack the tools to halt the process of treating the planet as a business 'in liquidation'. This section will argue that our systems are based on a growth-consumption paradigm that evolved at a time when nature was 'superabundant'. Welfare is materially created through the 'production of goods and services that cannot be decoupled from their biophysical realities'. These 'biophysical realities' are in constant degradation because it is not possible to substitute human made capital for natural capital because the former is made out of the latter'[7].

It is easy to understand how the growth-consumption paradigm did fit the time of its inception. As Daly wrote in 1970: '… Economic growth is the most universally accepted goal in the world. Capitalists, communists, fascists and socialists all want economic growth and strive to maximize it. The system that grows fastest is

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[6] P.275, Meadows, Randers and Meadows (2004), Tools for Transition to Sustainability in Meadows, Randers and Meadows (2004), Limits to Growth: The Thirty Year Update, Chealseagreen Publishing, USA

[7] P.5, Daly Herman, in Investing in Natural Capital – The Ecological Economics Approach to Sustainability, Jansson, Hammer, Folke, Costanza (eds.), (1994), Island Press, Washington DC

considered best. The appeals of growth are that it is the basis of national power and that it is an alternative to sharing as a means of combating poverty'[8].

As a process, it was about accumulation over distribution. It worked as well in command and control economies of the East as it did for the meritocratic democracies of the West. Mckibben quotes Nikita Khrushchev whom, as leader of the Soviet Union declared that 'growth of industrial and agricultural production is the battering ram with which we shall smash the capitalist system'[9]. There was little chance at the time that voices such as Daly's would be heard when he laid out his *impossibility theorem*, stating: 'A US style high mass consumption economy for a world of 4 billion people is impossible, and even if by some miracle it could be achieved, it would certainly be short lived. Even less realistic is the prospect of an ever growing standard of consumption for an ever growing population'[10].

In our current era of global markets dominating political and social spheres, the re-appropriation of ecological services as a *limited* resource faces a number of key difficulties. For whilst we may now be closer to considering Daly's *impossibility theorem* as correct, the capacity to deny an ever growing global population of consumers from welfare which they achieve primarily through consumption (a process committed to resource depletion) is rapidly diminishing. This is primarily due to the force exerted upon individuals of a system based on accumulation and delivered almost exclusively by the touted efficiency of competitive markets.

The next section will address the search for the articulation of a model for welfare creation that acknowledges the limits to the consumption-growth model and attempts to point the global economic order towards a new welfare paradigm.

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[8] P.8, Daly Herman (1992), Steady State Economics, Earthscan, London
[9] P.8 Mikibben, Bill (2007), Deep Economy: The Wealth of Communities and the Durable Future, New York
[10] P.149, Daly (1992)

Evolution of Sustainable Development

The first crystallisation, at an institutional level, of a move away from growth came with the publication in 1987 of the United Nations (UN) World Commission on Environment and Development (WCED) entitled *Our Common Future*[11]. It put forward a definition for 'sustainable development' as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs.[12]' Whilst this may appear to be a step change, and it was the first mainstream, institutional attempt to articulate an alternative to economic development based solely on growth, it remained incomplete, not least for its vagueness. Furthermore, *Our Common Future* maintained that more, rapid growth was required, principally to alleviate poverty and meet essential human needs. Meanwhile, elsewhere it did indeed acknowledge that 'perceived needs are socially and culturally determined'[13]. In one sense, the contradictions highlight the problems of finding a real, practical solution at a global level when we have reached current levels of welfare through economic growth.

The economic-growth-consumption model for attaining welfare was not easily shifted. Growth did indeed provide welfare but, as critics had been pointing out, this was not akin to development because costs, including societal costs, were hidden. Addressing a US audience in 1974, Latin American Structuralist Raul Prebisch dryly argued the case against this all-pervading welfare paradigm: 'The introduction of the consumptive society means that we are "benefiting" from all the "delights" of your patterns of consumption such as pollution, irresponsible use of non-renewable

[11] 1987 Report of the World Commission on Environment and Development: Our Common Future chaired by Brundtland, Gro Harlem 1987 (source: http://www.un-documents.net/ocf-cf.htm)
[12] ibidem, Chapter 2 (source: http://www.un-documents.net/ocf-02.htm)
[13] ibidem

resources, growing congestion in the cities, and erosion of some human values that we would like to preserve'[14].

Elsewhere, Celso Furtado, another Latin American, in his 1974 essay *The Myth of Economic Development and the Future of the Third World*, took on the Ricardian orthodoxy in stating that 'the fundamental issue that mankind has never wanted to confront concerns the fact that the process of civilization, such as we practice it, is essentially predatory in nature'[15].

Trying to break this model required trying to articulate a more scientific approach to growth that moved away from the subjective realm of 'needs'. Daly categorised 'growth' being a *quantitative* measure. He defined growth as 'the rate of flow of matter and energy through the economy, and the stock of human bodies and artefacts.' 'Development', in contrast, referred to 'the qualitative improvement in the structure, design and composition of physical stocks and flows, which result from greater knowledge, both of technique and purpose'[16]. It was this type of separation of growth from qualitative welfare that, combined with visibly deepening social inequality across the globe, begun the move to consider development outside of the boundaries of GDP expansion. Qualitative measures of human welfare were elaborated. In 1990 The UNDP launched the Human Development Index (HDI), which included life expectancy, literary levels, education attainment *and* GDP. Its development was an institutional acknowledgement that welfare is achieved through means other than accumulation.

As these issues became recognized at an institutional level, the importance placed upon social goods required the growth of delivery mechanisms. Civil society

[14] P.40 Prebisch Raul, (1987) Third world Viewpoint in Daulen & Tipton jr. (eds), The Dilemma Facing Humanity, Columbus, Ohio, Battelle Memorial Institute, 1974. Quoted from p.166 Daly (1992)

[15] P.20 Furtado, Celso (1974), El Mito del Desarrollo Economico y el Futuro del Tercer Mundo, Ediciones Periferia SRL, Argentina (own translated from Spanish)

[16] P.5 Daly in Jansson, Hammer, Folke, Costanza (eds.), (1994)

organisations came to the fore as providers of social goods, particularly in developing countries where governments lacked institutional capacity. This led to an explosion of third sector involvement in the design and delivery of public policy. It also opened the door to the private sector, which had already supplanted governments as providers of welfare in the eyes of consumers, to consider its impacts on society. In many instances the non-profit and third sector came together, bypassing the State, as both realised the mutual benefits of partnership. However, the corporation, born out of the growth-consumption paradigm, was still wedded to principles of competition and accumulation. Elrich, in quoting Kuhn from 1962, tries to respond to the question that the shift has not occurred: 'paradigm shifts are rarely accepted by the middle-aged rank and file in any discipline and new ideas normally take over only as older scholars retire'[17]. The problem lay with the 'middle-aged rank and file' who in this case were the mature corporations, who were in effective control of management of the four processes and who were still actively engaged in the Ricardian endeavour of accrual of 'more' as a means of providing welfare.

By 2005, UN definitions were less optimistic about the chances of more growth delivering welfare: 'Gains (in welfare) have been achieved, however, at growing costs in the form of many ecosystem services, increased risks of nonlinear changes in ecosystems, the exacerbation of poverty for some people, and growing inequities and disparities across groups of people'[18]. The planet was acknowledged to be in decline and growth was no longer the solution. And yet, as we entered 2008, the essential systems of food, fuel, finance and the global climate were all teetering on the brink of collapse.

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[17] P.41 Elrich, Paul, in Jansson, Hammer, Folke, Costanza (eds.), (1994)
[18] P. 1, Millennium Ecosystem Assessment, 2005. *Ecosystems and Human Well-being: Synthesis*. Island Press, Washington, DC.

Chapter 2

Introduction

Equipped with an understanding of the environmental crisis at hand, the limits inherent in the consumption-growth paradigm and the concretization of social and scientific concerns into the formulation of a challenge to the ever-pervading welfare creation orthodoxy, this chapter will seek to examine how corporations have organised their own response. This understanding of the evolution and structure of corporate citizenship, alongside the previous chapter's assessment of the scale and evolution of the socio-environmental challenges faced, will provide the framework for our analysis of the ABN AMRO *Fundo Ethical*.

This chapter will first outline why the corporation has needed to engage with sustainability and social responsibility. It will then consider the ways in which the corporation has adapted to this newfound responsibility. It will explore the methods by which the private sector, as a provider of welfare, now engages with stakeholders as well as analysing and distributing information regarding its own social and environmental performance. The chapter will then move on to explore where social responsible investing (SRI) fits in this responsible corporate landscape of engagement and analysis. Finally, it will ask how private sector social and environmental sustainability fits into the economic development path of a late-industrializing country such as Brazil.

Why the need for 'responsible corporations'?

When Milton Friedman infamously argued that 'the social responsibility of business is to increase profits', he succinctly pointed out that any monies spent on a particular social interest at the expense of that given company's profits was a fraudulent act[19]. He reasoned that any apparition of corporate social responsibility was always motivated by self-interest and in this way was an exercise in deception. Written in 1970, as Friedman's pursuit of individual responsibility over universal principles stewarded by the state was gaining traction, the global economic order and welfare provided by prosperity was entering a period of huge expansion dominated by free markets.

In this newly interconnected world that bypassed state intervention in favour of self-regulation, there were 'few structural limits to the corporate community's emergent power to define its own world and us with it'[20]. As markets grew in size and choice for individuals and outgrew national productive boundaries, the goods and services consumed by individuals stretched 'far beyond the satisfaction of physical needs'[21]. Individuals (and societies) were defined by their consumer choices – a process wholly owned by markets and the private sector. It was the corporation and markets, freed from regulation and tariffs, which had usurped the state as the global purveyors of prosperity. Today, rather than nation states, it is the corporation

[19] Friedman, Milton (1970), the Social Responsibility of Business is to increase its profits, The New York Times Magazine, September 13
[20] P.4, Zadek, Simon (2007), The Civil Corporation, Earthscan, London
[21] P.5 Sklair, Lesley, (2001) The Transnatioanl Capitalist Class, Blackwell, Cornwall

that 'is increasingly moulding societal values and norms, and defining public policy and practices, as well as being the dominant route through which economic and financial wealth is created'[22]. Quantitative definitions of welfare, as exemplified through GDP growth levels (fig 3.1), were the benchmarks for healthy societies.

Comment [OU1]: When?

However, this 'globalizing project' was coming up against rising social inequality and an ecological crisis, both of which impact the sustainability of a system designed for an ever growing global marketplace. Two key challenges to the supremacy of the free market were emerging.

Comment [OU2]: When?

The first implied that the system embodied by the corporation was a key factor in environmental and social crises. This was a reputation issue and was evidenced in environmental disasters and corporate scandals such as the chemical explosion at Bhopal in India and the Enron financial collapse. Corporations and the 'culture-ideology of consumerism' were in danger of losing its centrality to individual conceptions of satisfaction acquired simply through accumulation[23]. The 'pernicious effects of growth' were being mainstreamed and articulated by civil society, encouraged firstly by the global expansion of communications and media infrastructure and secondly through their increased voice in democratic societies where State power was going through a period of decentralisation.

The second challenge to the corporation was more profound. If there was a limit to resources available for input into the system, it implied that there was a point at which making profit would become impossible. If the private sector wanted to continue to flourish and maintain its centrality to welfare, there was 'no alternative to corporate citizenship'.

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[22] P.29, Zadek (2007)
[23] 'Culture-ideology of consumerism' as defined by Sklair (2001)

The key for the corporation was for it to be acknowledged and accepted that there existed a 'business solution' to (environmental and social) sustainability[24]. Having usurped the state and created global free market architecture, the corporate world was well placed to adapt to this emerging consensus and provide solutions of their own - despite the well held assumption that growth was not the key. Lacking a credible alternative or delivery method, extreme solutions were discarded as 'alarmist and naïve'. For this reason, corporations entered unchallenged into this arena. As Zadek notes, 'few advocates of corporate citizenship have addressed the challenge of whether or how such approaches are likely to deliver adequate social and environmental gains to reverse the underlying pattern of growing levels of poverty, inequality and environmental insecurity'[25].

Whilst increasing in importance in scientific and civil society, sustainability issues were unable to gain serious traction when confronted with the political and economic clout of corporate influence. Engagement was dictated by the corporations, which, in responding to the changing operating environment, favoured incremental change. Corporations opted for a more 'moderate'approach to sustainable development than, as we have explored in Chapter 1, was required. The task was 'to turn corporate environmentalism (and corporate social responsibility) into an acceptable form of sustainable development, leaving space for the culture ideology of consumerism'[26].

Engagement and Reporting

The next section will explore two key facets of the evolution of the corporation to the challenges faced. The first details corporate engagement with civil society. This was not only aimed at inferring legitimacy upon business operations but

[24] P.150, Sklair (2001)
[25] P.30, Zadek (2007)
[26] P.216, Sklair (2001)

also designed to make corporations aware of whom and what they were impacting. The second interrelated aspect concerns how this engagement and impact assessment has resulted in corporations reporting on their social and environmental performance.

Historically, corporations had legitimized their actions through accountability to their financial stakeholders. To maintain this enduring legitimacy, in other words to uphold profitability, corporations had to become accountable for their social and environmental impact. Corporations faced challenges from civil society through NGO campaigns and media exposure. This highlighted the free access to knowledge and its proliferation in a borderless world where reputation mattered. In much the same way that the corporate world has aligned itself with politics to gain an advantage by being integral to policy decisions that may affect it, alignment with the NGO and civil society sector in a reputation and information based economic environment was a key goal of engagement.

In building relationships with civil society the corporate world could access ‘trust’ - a key commodity in the emerging economic operating environment. It could also incorporate systems that maintained this legitimacy in its business model. This strategic integration of practices that addresses social and environmental concerns ensured that corporations maintained the self-regulating structure of their markets. Civil society took on a ‘civil regulatory role’, which it gladly accepted given the apparent torpor inadequacy and public policy[27].

This integration of interests can be viewed in two ways. Dilution and co-opting of civil society to avoid true accountability leads us back to Friedman’s notion of the ‘cloak of social responsibility’[28]. However, this notion is outdated. Civil society has accepted that no business can be totally responsible. The challenge lies in making

[27] P. 37, Zadek (2007), ‘civil regulatory’ as opposed to mandatory State regulation.
[28] Friedman (1970)

this engagement significant. This is a process in definition and needs 'a more complex set of strategies and tactics on the part of NGOs if their effectiveness as a driver for progressive change is to be sustained'[29]. It remains to be seen whether civil society alone can drive this agenda alone.

The principle mechanism for demonstrating social and environmental accountability lies in reporting. 'Triple-bottom line reporting' is useful for describing how to measure sustainability in a business context to include economic, social and environmental performance[30]. Corporations are long used to financial reporting to permit financial stakeholders to assess the value of their assets. 'Triple-bottom line reporting' is an attempt to report to an enlarged group of stakeholders and 'move beyond cash flow accounting'[31].

Social and environmental reporting however is maintained within a self-regulatory space. As such its scope is informed by the degree to which each respective corporation values it. It is a voluntary initiative that enables corporations to operate in a 'beyond compliance' capacity should they feels it to be in their financial stakeholders best interests to do so[32]. This stance is welcomed by governments and consumer-citizens alike. Citizens enjoy cleaner air and purer water without the increased tax burden. Firms enjoy greater operational flexibility in designing their environmental programmes that the command and control era denied them. Their relationship with the regulators also becomes less adversarial.[33]'

In the new operating environment, it is clearly valued by many a corporation. So much so that as Zadek affirms: 'a *lingua franca* is beginning to converge around a

Comment [OU3]: What is? Engagement and reporting?

[29] P.37. Zadek (2007)
[30] Elkington, John, The Triple Bottom Line for 21st-Century Business, in Starkey and Welford eds. (2001), The Earthscan Reader in Business and Sustainable Development
[31] P.146, Zadek (2007)
[32] P.1, Prakash, Aseem (?),Greening the Firm: /The politics of corporate environmentalism – Prakash uses the theory of 'beyond compliance' to explain how self-regulation is 'the new reality in an era of declining (public) budgets'
[33] ibidem

small number of standards notably the Global Reporting Initiative's (GRI) so called G3 sustainability reporting guideline and Accountability's AA1000 Assurance Standard'[34]. The GRI is committed to involvement of stakeholders in selecting, proposing and improving 'metrics'. The criticisms that confront voluntary standards, as well as other forms of sustainability reporting are that they are merely devices to legitimize operations.

If we consider the fourfold crisis and stakeholder engagement and triple bottom line reporting, one could conclude that neither process has been sufficient in promoting and developing a sustainable society. However, this institutionalization will continue as sustainability is subsumed into the competitive corporate landscape. As Zadek reflects: 'it would not seem unlikely that, in coming years, leading global corporations will increasingly support global regulations that establish a floor for environmental and social standards, and in the process consolidate their collective competitive positions against smaller less powerful companies seeking to enter global markets'[35].

With an understanding of stakeholder engagement and 'triple bottom line' reporting, I will now outline how socially responsible investment (SRI) has emerged as a means by which the financial sector has responded to the restructured economic environment in which corporations operate.

Socially Responsible Investing

Socially Responsible Investing (SRI) uses the information from 'triple bottom line' reporting to inform investment decisions. Taking the form of a specific investment fund or as a screening procedure applied to investments, it was estimated that in 2003 SRI accounted for $2.16 trillion of investments in the US

[34] P.15, Zadek (2007)
[35] P.124 ibidem

alone[36]. Capital markets, characterised as short-term, speculative arenas are seen as the epitome of the free market system are on the constant look out for growth. SRI's inclusion of extra-financial factors into the decision making process of investment allocation, should in theory, ensure that investment flows to those companies that can demonstrate excellent performance in social and environmental performance, which is altogether a more long-term consideration.

Good performance means access to more capital. Similarly, the growth in SRI signals that investors are concerned with how corporations impact on society and the environment. However, given what has been evidenced about the selectivity of sustainability reporting, is it possible to state that SRI can meaningfully assist economic development? Or, is it merely a means by which corporations can attract more capital, acquire legitimacy for satisfying social and environmental concerns and avoid regulation through appropriation and proliferation of an agenda that espouses 'doing good, whilst doing well'? If SRI is seen as an extension of 'ethical' consumer considerations into capital markets[37], does this mean that investors have been assimilated into the culture-ideology of consumerism, which promotes a moderate, insufficient version of social and environmental sustainability?

Against this backdrop of the corporate response to sustainability, I will now on move to consider how late-industrializing Brazil, a country of deep social inequality and extensive environmental resources, can frame its development challenges within a context of meaningful social and environmental sustainability.

Economic Development in Brazil

Brazil, a late-industrializing nation of 180 million people, faces similar development challenges experienced by other countries in Latin America and certain

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[36] P. 51, Heal (2008)
[37] P.53 ibidem

countries of the developing world. These challenges are distinct to those experienced by northern nations, where economies and livelihoods are less physically linked to the natural environment and social equity is more evenly distributed[38]. Whilst one would therefore expect social and environmental sustainability to be a more pressing concern, the lack of delivery mechanisms and absence of institutional quality constraints calls for greater attention to be paid to the quality of development.

Latin American economies like Brazil's, that have often emerged against a backdrop of authoritarianism, are characterised by 'a legacy of highly concentrated assets, societies built on a caste structure, and states that were strong on the maintenance of such a scheme, but weak when it came to providing public goods such as health, education or a stable impartial legal system.'[39]

The challenge is to create a deeper more diverse economy that breaks down structured inequality in this setting of 'concentrated assets' where the traditional 'Brazilian business mindset' believes that 'the State alone should be concerned with the social agenda'[40].

Here however, the social agenda feeds directly into the economic agenda. For low levels of education, professional training and public healthcare directly affect economic deepening. The problem remains largely similar to that articulated in the Stern Report regarding climate change, which pits short-term economic gain over long term sustainability: 'some people prefer to place very low value on the future, or to put it another way, to place a very high value on near term opportunities for

[38] Equity defined as equal economic, social and political opportunities Ffrench
[39] P.1 Ffrench-davis and Machinea, (2007), Growth and Equity: In Search of the Empty Box, in Ffrench-Davis, Ricardo and Machinea, Jose Luis, Growth with Equity: In Search of the Empty Box in Ffrench-Davis, Ricardo and Machinea (eds.) (2007), Economic Growth with Equity: Challenges for Latin America, Palgrave Macmillan, Great Britain.
[40] P.19 Capellin, Paula and Guliani, Gian Mario, (2004), The Political Economy of Corporate Social Responsibility in Brazil: Social and Environmental Dimensions, Technology, Business and Society Programme Paper Number 14, UNRIS D, October, Geneva

consumption. It is a key feature of the challenge of climate change that we must think long-term to understand the issues and response to them'[41].

At a macro level, social and environmental sustainability is highly desirable as part of a package of building more equity in the economy. Inequality has driven the profusion of unsustainable business practices, as accountability frameworks are deficient. Building of civic responsibility that transcends the provision of social goods is the key challenge to reducing inequality.

Brazil's constitution of 1988 was feted for its regard for the natural environment and its standardisation of labour rights, extension of labour standards and creation of state agencies that could mediate between the private and public sectors[42]. Whilst important institutionally, enforcement has always been a key issue for a state in retreat and an economy ravaged by hyperinflation

More recently, against a more stable economic environment initiated with former President Cardoso's 'Real Plan', and favourable international economic conditions, inequality has begun to fall and State level reforms aimed at improving equity have been tentatively approached[43]. The rise of the social agenda is exemplified by welfare programmes, started by Cardoso and augmented by the Lula administration; the proliferation of information and disclosure relating to corporate activity; the flow of ideas across borders from a more socially and environmentally aware North to Brazil; as well as a maturing institutional setting, is improving the move to a more sustainable approach to development.

For a late-industrializing country, measures taken by the State enhance general perceptions about civic responsibility in an economy where assets are concentrated and business elites are resistant to change. These initiatives all go hand in hand with

[41] The Stern Report (2005), Postscript 3
[42] P.20 Capellin and Guliani (2004)
[43] P.144, Bauer, Werner (2008), The Brazilian Economy: Growth and Development, Lynne Rienner, London

deepening corporate and institutional awareness. For example, international visibility of the services to global human welfare that the Amazon region provides has given it a higher profile in the media. At the same time, the Lula administration has provided the environmental protection agency more resources to combat illegal logging. Rates of deforestation, reported monthly, enjoy a high profile in the national (and international) media, raising awareness and providing the kind of market signals to the corporate sector that move it away involvement in these types of practices.

On aggregate these shifts may appear incremental and insufficient in scale. However, the socioeconomic structure and history of Brazil mean that solutions to social and environmental sustainability begin with a need to address poverty and inequality. Social and environmental sustainability is one part of a consortium of means by which greater equity can be achieved.

With the environmental and social challenges to growth established, the evolution of sustainable development charted and the corporate response to the changing socioeconomic environment established, alongside the role of socially responsible investing and the economic development challenges facing Brazil, I will now proceed, in Chapter 3, to an analysis of the ABN AMRO *Fundo Ethical*. The preceding two chapters should complement the study of this particular SRI fund and enable the articulation in Chapter 4 of the funds' impact on economic development. This will inform the final chapter where I will briefly put forward policy recommendations for the implementation of an approach to economic development that addresses the crisis of social and environmental sustainability.

Chapter 3

Case Study: ABN AMRO *Fundo Ethical*

Introduction

'...The move to an eco-economy or ecological economy is taking place almost nowhere in the world today and every day we are further from it becoming a reality. All the destructive principals of our system are manifest in the monumental flow of goods and services and the ever-increasing global population. The obsession with limitless growth has caused the world to regress 100 years environmentally, and shown itself even capable of encouraging war to continue to acquire energy producing resources, even though they are finite and polluting'[44].

This quote did not emanate from an international NGO based on the shores of Lake Geneva, nor was it taken from the placard of an environmental campaigner protesting at the entrance to the lobby of the venue of a multinational's AGM.

In fact, it is from the opening piece ABN AMRO Asset Management Group's Economic and Strategic monthly summary for July from the '*eco-economy*' piece written every month by Hugo Penteado, Head of Strategy. It is sandwiched by sections outlining the group's projections for items such as inflation, GDP and interest rates and by their account of their monthly forecast of international economic conditions.

This chapter will examine ABN AMRO's *Fundo Ethical* to enable us to determine its impact on economic development chapters 4 and 5. Firstly, the motivation behind the creation of the fund will be explored. This ought to provide an understanding of where it fits into Brazilian economic development. We will then analyse the fund's methodology. In scrutinising its selection criteria, it should be possible to determine what aspects and areas of corporate behaviour are considered key to the fund. The analysis will then move on to consider the composition of the fund.

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[44] Penteado, Hugo, (2008), Eco-economia, Relatorio economico e estrategico resumido (source: http://www.aaam.com.br/index_internas.htm?sUrl=/fundo_ethical/conheca_fundos.shtm)

History

As an investment fund, the ABN Amro *Fundo Ethical* selects companies from the national stock exchange - the Bolsa de Valores de Sao Paulo (Bovespa), compiles them into a composite investment unit, assigning different weightings to different companies and sectors, and allows investors to invest in the composite unit made up of these publicly traded companies.

Investment funds come in a variety of shapes and sizes, designed to appeal to a varied audience of investors. An investor will choose investing in a fund to profit from the cumulative performance on the stock exchange of these companies. By investing in a particular fund, the investor is entrusting that fund's management team with making a gamut of decisions on his/her behalf. The fund will charge the investor a fee for access to their expertise and administrative functions, which will include a percentage of any gains made over a certain period.

Selecting investments based on screening of those engaged in seemingly harmful activities was a long established tradition. Many investors wished not to be associated with tobacco companies or arms firms for moral reasons, regardless of their profitability. In this sense, extra-financial motivation trends are not a recent phenomenon for the investment industry.

In northern economies, a significant number investors, reflecting growing societal concerns and preferences, had already signalled that they did consider environmental, social and governance (ESG) factors in their investment decisions.

The key notion being that a company that considers its socioenvironmental impact and can consistently report on its performance in these spheres, is a well structured and managed company, in tune with social preferences and addressing its own operational sustainability in light of possible biophysical constraints. By contrast, unwillingness or inability to report on socio-environmental impact signalled that there was be something amiss with the way the company conducted its operations and as such did not represent a shrewd investment.

The *Fundo Ethical*, Latin America's first socially responsible investment (SRI) fund, was launched in November 2001 and targeted these aforementioned investor sentiments. Investors could now do *well* and do *good* at the same time by investing in Brazilian companies. In his letter to investors, ABN Amro Banco Real's President, Fabio Barbosa laid out the benefits to investors: 'aside form the investment itself, in opting for this fund, one is, indirectly, encouraging companies to adopt and maintain socially responsible practices and to respect the environment'[45].

Having outlined the motivations behind the fund's creation, I will now explore the methodology employed by the fund in its selection process.

Selection Methodology

Four key elements to assess where corporations are included in the fund. The first is a screening mechanism that excludes corporations whose operations are considered to be harmful to society. This includes those involved in sectors such as tobacco, alcohol, arms, nuclear energy, pornography and gambling.
The second is by way of an analysis of a corporations own social and environmental reporting and information that is in the public domain. The third involves an analysis of answers to the evaluation questionnaire created by ABN Amro and third parties. The fund also puts corporations forward to a multi-sector advisory board for further approval[46].

The evaluation questionnaire and advisory board are crucial elements to the fund. For the construction of the questionnaire was a collaborative process involving third sector organisations and institutions that leant their expertise to its composition. A key partner was Instituto Ethos, a corporate social responsibility organisation founded in 1998 to assist corporations in Brazil with embedding sustainability into their operations. There are 64 questions to the form, with two thirds dedicated to social and environmental impacts (the final third addressing corporate governance) of corporations. The purpose of the form is to delve deeper than the social reporting of companies, which we have already noted can be hampered by selectivity and a tendency to solely consider the positive impact that a corporation may have on the community or the environment through programs or initiatives it is involved in. In

[45] Barbosa, Fabio, *Carta do Presidente*, (source: http://www.aaam.com.br/index_internas.htm?sUrl=/fundo_ethical/conheca_fundos.shtm)
[46] Fund methodology: (Source: http://www.aaam.com.br/index_internas.htm?sUrl=/fundo_ethical/conheca_fundos.shtm)

contrast, the questionnaire requires corporations to give an honest appraisal of their impact in detail.

Environmentally, a number of questions require quantitative answers enabling the fund's management team to benchmark performance of certain corporations operating in the same sector. The questions clearly probe further than a sustainability Report:

- *What is the average volume of waste produced a year?*
- *How much, as a percentage of annual turnover, water, energy and other finite resources are consumed per annum'*[47]

Equally, a corporation would reluctantly disclose to the public whether or how many times it had been fined for pollution or deforestation or whether they had reported an environmental accident or *clean up* incident in the last five years.[48]

The questions related to social impact are principally concerned with the corporation's internal code of conduct and considers issues such as commitments to diversity, training and employee benefits. Examples of questions that concern external social impact are:

- *What is the percentage of profit given to community programmes and charitable donations in the last two years?*
- *Does the company sponsor any community outreach programmes? What percentage of turnover has gifted to the recipient organisation(s) over the last two years?*[49]

The value of the historic data, collected since the fund' inception, is key in the benchmarking process. It also provide companies with a framework to inform their own sustainability policies which they know will assist them attracting investment.

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[47] P.21, ABN Amro Questionário De Levantamento De Informações (source: http://www.aaam.com.br/index_internas.htm?sUrl=/fundo_ethical/conheca_fundos.shtm
[48] P.19, ibidem
[49] P.26, ibidem

The advisory board consists of two internal advisors from ABN Amro and five external advisors whose professional experience in ESG spheres can assist with evaluation. The board meets bimonthly to evaluate operations of corporations in the fund or those put forward by the fund management team. Board members can also veto the inclusion of a corporation at which point a majority vote will decide its fate[50].

The purpose of the board is to confer transparency upon the whole selection process. Although the fund industry is regulated, financial investors need clear signals demonstrating that information is accurate.

Equipped with an understanding of how the fund selects its component corporations, I now aim to provide details of the fund's composition outline certain corporation's approach to the fund and sustainability.

Fund composition

The amount invested in the *Fundo Ethical* is R$ 463 190m (US$ 269 453m)[51]. In August 2007 the total Brazilian investment fund industry for all classes of fund was R$963 bn (US$560bn).[52] In terms of size and profile within the industry. This suggest that investors to the Fund are not mainstream investors after higher returns.

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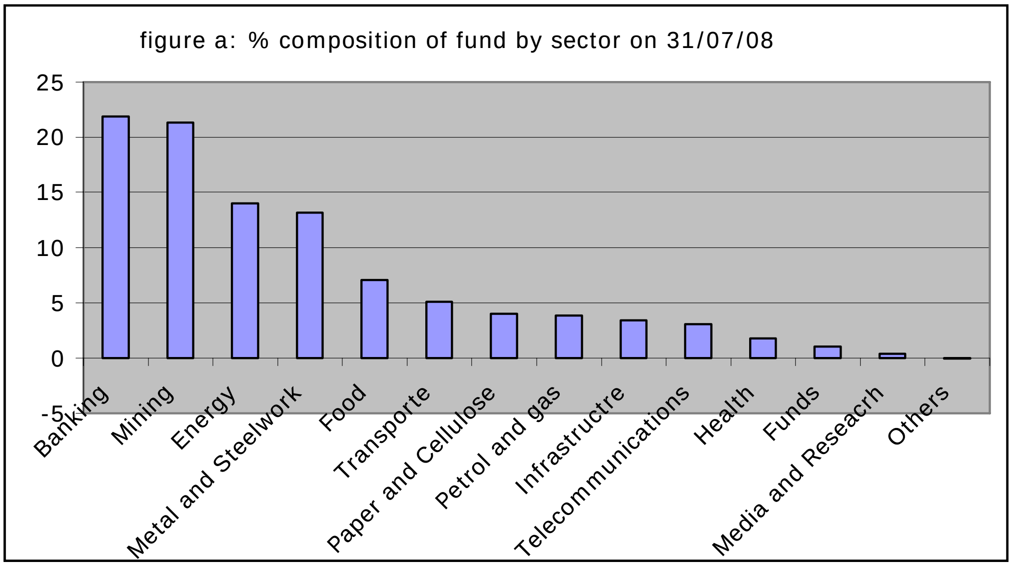
[50] ABN Amro Conselho Consultativo (source: http://www.aaam.com.br/index_internas.htm?sUrl=/fundo_ethical/conheca_fundos.shtm)

[51] correct on 31/07/08 source: http://www.aaam.com.br/produtos/pdf_fundos/esp_0203.pdf)

[52] Lage, Janaina and Billi, Marcelo (16/04/2007), Sustentabilidade pega (e paga) bem, Folha Online, http://www1.folha.uol.com.br/folha/especial/2007/maisdinheiro3/rf1604200703.shtml



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Whilst the fund is composed of stocks from all areas of the Bovespa, it is principally composed of stocks from banking, mining, energy and metal and steel industries (see figure a). These are indeed some of Brazil's largest corporations and their heavy weighting reflects the composition of Brazil's economy, dominated by natural resource extraction. Corporations working in this sector have a heavier impact on the environment and as such it is extremely important for their approach to corporate sustainability to be as deeply engrained in terms of Reporting and strategy as possible.

Corporations such as VALE, the mining and metals giant, are important, founding members of the fund. For VALE, one of the world's largest companies, may not attract a huge amount of investment from this particular fund, being involved in it commits it to reporting to the standard set by the *Fundo Ethical.*

All companies are bound by the same determination to maximise shareholder value through behaving sustainably. This is demonstrated in VALE"s own Sustainability Report (2006) in a note from the administrative council where it states: ' we know that continuous growth and the search for the maximum return to our shareholders

[53] (source: http://www.aaam.com.br/produtos/pdf_fundos/esp_0203.pdf)

is possible through behaving responsibly. This type of thinking has brought VALE to contribute effectively to the development of communities that we are present in, by way of a model that brings together dialogue, social investments and the management of impacts'[54].

CEMIG, an electrical energy provider is another powerhouse of Brazilian industry that is part of the Fund. An example of Cemig's environmental role can be found in Sustainable Asset Management's summary of the corporations stewardship role: 'CEMIG's biggest environmental challenge is not emissions but preservation of the rich Brazilian biodiversity. Through its own activities as well as in cooperation with universities, and through environmental education, the company drives research and projects to preserve and restore floral and faunal biodiversity'[55].

What links these companies is the manner in which their social and environmental goals are not just add-ons but are strategic cornerstones of their operations. Their actions in the social and environmental sphere dictate how they wish to be defined. For a company such as VALE, sustainability and growth are their twin objectives, which are simultaneously realizable.

The Fundo Ethical shares these objectives, which are not espoused by the Head of Strategy quoted at the start of this chapter. Its purpose is to generate maximum returns for its investors, albeit over a medium to long-term time frame.

Working together, the fund is able to help the companies involved to define their own operations and cement the ideology that doing well and doing good are *not* mutually exclusive.

I am now going to move to assess the impact of the fund on economic development in Brazil. I will ask whether SRI can shift development down a path that is socially and environmentally sustainable as outlined in the first two chapters.

[54] P.9 VALE Sustainability Report (own translation) source: http://www.vale.com/vale_us/media/CVRD_RA06%20ing.pdf

[55] Sustainable Asset Management CEMIG research 2008 (source: www.sam-group.com)

Chapter 4

Impact of the ABN Amro Fundo Ethical on Economic Development

Introduction

Having reviewed the motivations behind the fund's creation, its methodology and its composition, this chapter will to assess the extent to which the *Fundo Ethical* can impact on economic development in Brazil. This will be achieved by placing the review of the fund in the context of chapters 1 and 2, which explored the paths to be followed to achieve meaningful environmental and social sustainability. This should enable the final chapter to provide policy recommendations that addresses the role of SRI in the deepening of social and environmental sustainability in Brazil's economic development.

This chapter will consider the impact of the fund at a corporate level – has it influenced behaviour and to what extent? it will then consider the fund in the wider concept of sustainability and the capital markets to determine its role in the contribution of social and environmental sustainability to economic development.

Impact of *Fundo Ethical* on corporate landscape

In Brazil, the corporate landscape is dominated by large capital-intensive industries. The large firm starts with a healthy advantage over society and the State in terms of regulation. This 'lack of fairness' extends to control over 'stakeholders and includes having the squeeze on government (...) everyone is pushed around by business'[56]. Inclusion in the *Fundo Ethical* does not necessarily require corporations to go beyond the levels to which they already report and perform on a social and environmental basis.

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[56] P.235, Hopkins, Michael Hopkins, Michael (2007), Corporate Social Responsibility and International Development: Is Business the Solution?, Earthscan, London

The majority of corporations that feature in the fund are highly capitalized, globally competitive firms. As such, their social and environmental benchmarks are already integrated into strategic decision making.

For the large corporation, it makes business sense to provide staff with training, employee benefits and decent working conditions. On an external social level, it makes business sense to contribute to community outreach projects because it will minimize pressure from civil society and government for further regulation and allow the corporation the freedom to operate in an environment in which they choose. On an environmental level, establishing long-term goals for reducing waste, emissions and reliance on non-renewables makes business sense in terms of cost savings and long-term risk management.

In response, one could argue that if the firm were not to comply with these standards, community projects would receive less funding, working conditions would be worse and the biophysical environment would be in a worse condition. However, these corporations would not be the internationally competitive firms they are today if they did not comply with these standards. As we saw in both chapter one and two, the corporate response to the environmental and social needs to reach sustainability is insufficient. Corporations have organized their response to the crises faced by the growth-consumption model on by moving to a strategy of 'beyond compliance'[57].

Another key element of the problem of social and environmental *performance* as demonstrated by the *Fundo Ethical* is that by closing off funding opportunities for companies that cannot achieve these standards, competition is stifled. Those unable to attain this level of standards will not gain access to capital in the same way those who can cement their position in the upper echelons of sustainability performance. This dangerous scenario implies a further concentration of industry; exactly the opposite of what is required from an economic development perspective. In this case it may refer to domestic market competitors but it can equally apply to foreign run firms. This is type of problem is a recurring theme, as evidenced by Capellin and Guiliani who quoting a study by Roberts an Stauffer (2001) into Actuação Reposnsável, a corporate responsibility initiative proposed by the Brazilian Chemical Industry Association (ABIQUIM), noted:' the typical Brazilian firm that subscribes to

[57] P.1, Prakash (2000)

into Actuação Reposnsável environmental programmes is foreign owned, publicly held, with a professionally managed team that exports about $6m a year and has over 200 employees in comparison to non participants who are national, smaller and locally owned'[58].

Where the fund does improve on individual corporate sustainability annual reports is that it sets benchmarks and creates sets of usable historic data. For in as much as 'improved financial disclosure is a key prerequisite to financial market development', improved social and environmental reporting is a key to sustainable development[59]. development. This will move the industry away from individual corporations creating a sustainability report that is selective in what it portrays ands only describes all processes in a positive win-win light. Given our understanding of environmental services, the corporation must be valued as being in a constant process of depleting environmental services and impacting on societies. The ability to compare results between companies, with activities framed as impacts, would help the proliferation of standards and encourage standardized reporting set in objective, non-obfuscating language.

Indeed, as the industry matures international standards should start to create tiered categories of corporations meaning that uniform disclosure creates a more even playing field that is more adequate to face the challenges ahead. For a late-industrializing nation such as Brazil, more disclosure of information and its interpretation is a key part of creating the information architecture for facing up the challenge of achieving meaningful social ane environmental sustainability in Brazil's economic development that meets Brazil's specific challenges.

***Fundo Ethical* and Finance**

Since its inception, the fund has experienced a great deal of growth as has the Brazilin capital market. Whilst we know that the processes outlined above (relating to corporate social and environmental responsibility) are inadequately shaped to

[58] P.24 Capellin and Guiliani (2004)
[59] P.1 Starking, Kim B. and Alison Schulz (1999), Improved Financial Disclosure as a Prerequisite Financial Market Development in Starking and Schulz (eds.) (1999), Financial Disclosure: A First Step to Financial Market Development, Inter-American Development Bank Sustainable Development Department

provides a meaningful approach to sustainable development, part of their failings lie in the lack of articulation of a meaningful alternative. For policy makers the questions still remains unanswered as to how to channel investment –a private activity – towards the goal of achieving greater sustainability – a public good'[60]. As the response (*the alternative*) matures, it is essential that frameworks and structures be built up. This is even more so the case in Brazil whose capital market is relatively small and whose civil society is till relatively weak.

Providing the channels for financial flows to move into the kinds of investments that will improve economic development in Brazil is certainly something that the *Fundo Ethical* can and will contribute to in the future. For whilst it may be a financial product, ' it is hard to overstate the importance of investment to sustainable development. To the extent that current economic activity is unsustainable, it will take investment to replace it with more sustainable activities'[61]. So finance and frameworks are key. However with the industry being so client driven and corporations holding such sway over policymakers, can the right structures ever emerge?

The proliferation of the SRI industry in Brazil may still be small relative to the total managed fund industry but it is growing and the *Fundo Ethical* was a key driver in this process. As the market becomes more sophisticated so will the tools that define it to discerning investors. A fundamental process in shifting investment to a more qualitative form of economic development will be its differentiation from short-term investment strategies. In this way, 'growth with equity requires improving the productivity enhancement rather than financial rent seeking searching for capital gains'[62].

Far enough?

[60] P.174 Von Molke in Zarsky eds. (2005)
[61] P.174 Von Moltke, Konrad, The Environment and the Principle of Non-Discrimination in Investment Regimes: International and Domestic Institutions in Zarsky, Luyba (eds) (2005), International Investment for Sustainable Development, Earthscan, London
[62] P.192 Ffrench-Davis & Machinea (2007)

'The World in the end will become sustainable one way or another. We can select the timing and nature of that transition and the levels of sustainability to be sought, or we can let depletion and pollution dictate the abruptness of the final inevitable transition. The former will be painful, the latter deadly'[63].

Ultimately, SRI can make up part of a wider move towards embedding social and environmental sustainability into economic development. It is a key piece of the sustainability jigsaw that involves civil society and government frameworks for standardized regulation and incentivizing truly social investing meaning long-term that meets development needs.

However, should sustainability not mature fast enough to move from being a reactive tool of competition and differentiation into a response to the crises we face, it will lose its relevance and window of opportunity. We have reached a stage in the world economic development where ambivalence over business-as -usual scenario is turning to something else. When the questions asked are -'how did we get here? (When we have socially responsible development?)', and, 'what is the response going to be? (Civil society and corporations already work together and profess to have found solutions)', capital markets need to have a sufficient response ready and articulated.

[63] P. 14 Goodland, The Concept of Environmental Sustainability, Annual Review of Ecology and Systematics, Vol. 26, (1995), pp. 1-24

Chapter 5

Policy Recommendations

In light of the global nature of the social and environmental crises that are becoming ever more apparent and our inability to cope with their impact, it would appear that the current incarnation of sustainability is insufficient.

The corporate response to the crisis has sought to head off meaningful change and subsume the debate into its competitive framework. Tragically, the depletion of social goods inherent in 'ecosystem services', as defined by Costanza et al, has become a market driven endeavour[64]. It is this inadequacy, which is driving global poverty further upwards. At a social level, an accumulation-only inspired welfare model enshrined in the growth-consumption paradigm continues to drive the rise in global inequality.

With the current outlook at best conceived of as uncertain, it is safe to predict that a solution will not emerge from those drivers of the business –as-usual consensus. Rather, particularly as we face a global economic downturn, which may or may not marginalise the aforementioned voices, there is an opportunity for a more meaningful approach to economic development to emerge.

Unlike northern economies, Brazil is well aware of the fact that more of the same does not equate to better welfare. Repeatedly, corporate interests have derailed the process of economic development, excluding the majority of the population from any part in defining the future of the country.

The choice for those industries in Brazil such as socially responsible investing, which purport to be interested in the deepening of environmental and social sustainability, rests in how true a sense of sustainability they wish to adhere to. Can the *Fundo Ethical* see itself as a financial product or as a change agent?

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[64] P.254 Costanza, Roberto et al. (1997)

To move away from existence as a financial product to an agent for promoting qualitative sustainable economic development, SRI in Brazil must acknowledge the deficiencies inherent in the system it is rooted to.

Provision of social goods that will address inequality in Brazil cannot be delivered through a market-oriented system, which is designed to avoid regulation through tactics such as ‘over compliance’.

SRI can build on its platform as a medium to long-term investment option and its consideration of extra-financial information in decision-making processes. SRI should aim to build a class of social investors working alongside corporations, government and international institutions to create investment frameworks and develop a dense architecture of benchmarking tools.

Disclosure of information should be stratified so that social investing is open to all forms of corporate activity. This will unlock global investment opportunities and work to spread equity by fostering the right kind of opportunity at all levels of economic activity.

In much the same way that the corporate world approached civil society for expertise in addressing social and environmental challenges, as exemplified in ABN Amro’s construction of the evaluation questionnaire, civil society ought to approach the financial sector to devise the types of tools needed to channel investment into creating a socially and environmentally sustainable future. With the state is involved as a provider strong market signals to facilitate this conception of sharing of expertise, it is possible that, if maintained it will gain traction and begin to shift capital markets towards longer term investment horizons that have at their heart a true concept of sustainability.

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