



Natural
Resources
Institute

Ethical trade, people and forests

A manual

Written and researched by the NRET forestry team
(M. Blowfield, R. Burchell, C. Collinson, B. Maynard,
V. Nelson, A. Tallontire, J. Thornback)

Edited by Valerie Nelson



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This manual was written by the NRET forestry team (B Maynard, M Blowfield, R Burchell, C Collinson, V Nelson, A Tallontire, J Thornback) of the Natural Resources and Ethical Trade Programme (NRET), part of the Natural Resources Institute, University of Greenwich

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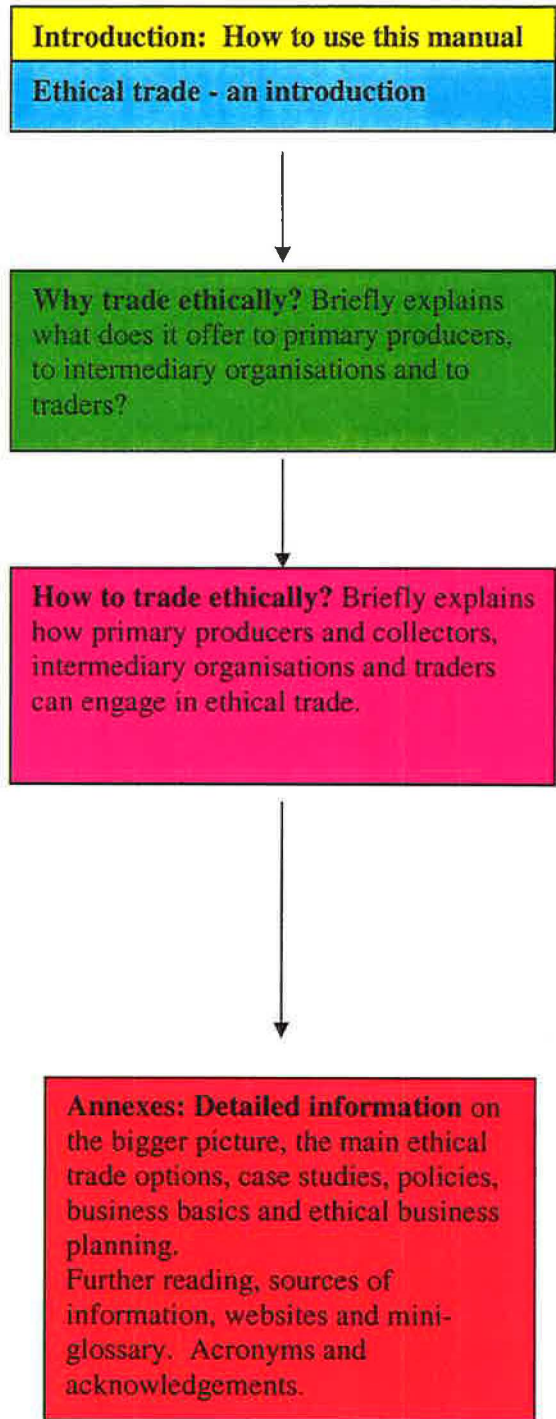
*Peruvian
Cloud Forest*

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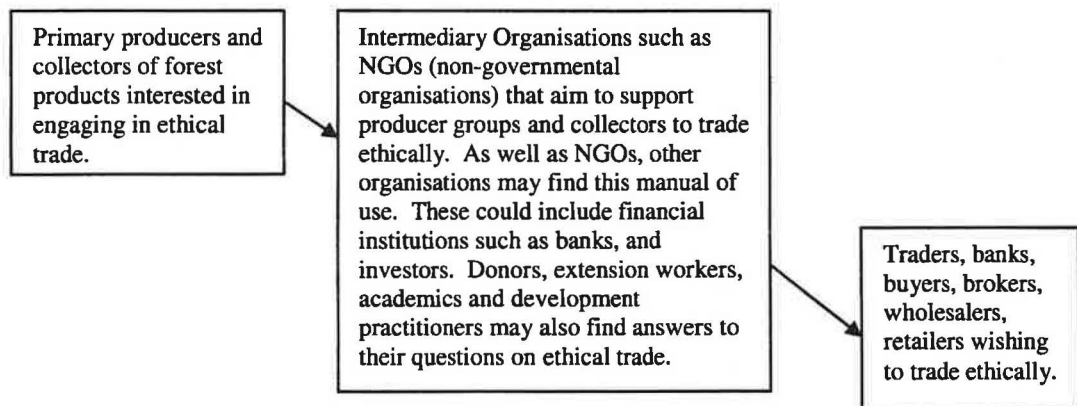
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How to use this manual

The logic of this manual is as follows:



Who is this manual for?



The manual may be of use to:

- People depending on forests for their livelihoods - Producers and collectors of forest products

It may also be of use to the following organisations:

- **Intermediary organisations** (e.g. NGOs - non-governmental organisations, donors, investors, academics etc).
- **Financial institutions** such as banks that provide credit to producer co-operatives to assess the feasibility and viability in social and financial terms of an ethical trading proposal.
- **Investors** who are interested in making more informed choices about where to invest their money in ways that have a positive rather than negative social or environmental impact will be able to obtain a better understanding of ethical trade from this manual.
- **Donors** have become increasingly interested in ethical trade as a means of tackling poverty and this manual may provide further insights into the decision-making processes required to assess whether ethical trade will work or not and the risks involved.
- **Extension workers** may wish to use this manual to assist producers in considering ethical trading options.
- The manual will be of use also to **development and research groups** that wish to familiarise themselves with the key elements of ethical trading based on original research on the ground, in order to further develop thinking in this area.
- **Traders, financial institutions, buyers, brokers, retailers, wholesalers** that wish to trade in a more ethical manner.



*Kwambonambi
Growers Cooperative
Kwa Zulu Natal, South
Africa*

Section 1, the introduction explains the following:

- How to use this manual; and
- Provides an introduction to ethical trade.

It compares ethical and conventional trade and introduces the main ethical trade options.

The objectives of this manual are to;

- Enable users to compare the opportunities and limitations offered by different ethical trade initiatives;
- To provide information about the different ethical trade initiatives so producers better understand the requirements, expectations, perspectives and interests of their market;
- To enable producers to make the best decision for their organisation and to inform intermediary organisations which are supporting producer groups and collectors of forest products. Too often organisations will adopt the first type of ethical trade scheme they come across.

Section 2 gives brief answers to questions about what ethical trade has to offer. It explains **why** it might be worth engaging in ethical trade from the point of view of the following:

- Primary producers and collectors;
- Intermediary organisations; and,
- Traders.

Where appropriate the manual user is directed to more detailed information in the annexes.

Section 3 provides a brief introduction on **how** to trade ethically. This section provides brief answers to questions about how producers/collectors, intermediary

organisations and traders can trade ethically. Where more detailed information is required the reader is directed to the annexes.

The annexes provide **detailed information** on the following:

- The bigger picture: Explains the relationship and tensions between trading and development. It also explains some of the approaches for how NGOs can engage with producers, and impact assessment. Tools for analysis of social, political, forest dependency, gender analysis are outlined and key social issues raised that might need to be addressed by an ethical trade scheme.
- Detailed information on the main ethical trade options on offer, namely forest and non-timber forest product (NTFP) certification and marketing, organic production, fair trade and conservation driven trade.
- A number of case studies illustrating the different ethical trade initiatives and also specific issues such as financial viability and social impact.

Finally, the annexes provide information on further reading, sources of information, references, websites and contact details of key organisations, a mini-glossary. It also provides a list of acronyms, abbreviations, key list of figures/diagrams and acknowledgements.

Colour coding is used in the headings and page corners in order to help the manual user to navigate through the different sections.

PLEASE NOTE

This manual should not be used as a blueprint. It is designed to guide practitioners and forest peoples through the maze of ethical trade initiatives, to help you ask the right questions, to answer frequently asked questions and to provide case study scenarios from which users can compare their own situation. The manual does not promote ethical trade initiatives in a blanket fashion. There may be instances where it may be better for users to not engage in trading or better for them to choose the conventional path to trading. The reasons for this are outlined where appropriate.

This manual is specifically aimed at the following:

- Ethical trade by people who are forest dwellers or who depend upon forests and forest products for their livelihoods:
- Organisations that support them (intermediary organisations); and
- Traders interested in ethical trading.

However, much of the manual will also be relevant to poor producers and development agencies in non-forest areas.

Contents List

Section 1: Introduction to Ethical Trade

- How to use this manual
- Ethical trade – an introduction
- What are the differences between ethical trading initiatives?
- How is ethical trade similar to conventional trade?

Section 2: Why Engage in Ethical Trade?

2.1 Why engage?

- Who will ethical trade benefit and how?
- Does ethical trade open up new markets
- Can engaging in ethical trade help maintain access to existing markets ?
- Does ethical trade provide access to premium prices ?
- Does it provide a useful business framework to follow ?
- Does ethical trade improve credibility to consumers?
- Does ethical trade increase the business profile?
- Does ethical trade provide contacts and recognition?
- Do I need to believe in ethical trade to participate?

2.2 Why engage in ethical trade? Primary producers and collectors

- What are your objectives?
- Will ethical trade provide better prices ?
- Will ethical trade provide better access to markets ?
- Will ethical trade provide better access to credit ?
- Does ethical trade make me a better business proposition ?
- Can ethical trade provide better access to training ?

2.3 Why engage in ethical trade? Intermediary organisations

- What are your objectives?
- Is ethical trade a better than conventional trade ?
- Will ethical trade be financially viable?
- What role will our organisation play?
- Do these schemes increase access to sources of finance ?
- What is the impact on livelihoods?
- Can ethical trade improve our credibility in the markets and to potential donors?

2.4 Why engage in ethical trade? Traders.

- What can ethical trade offer me and my business?
- What are the key characteristics of the ethical market?
- Will it increase my operating and capital costs?
What will be required of me?

Section 3: How to engage

3.1 How to trade ethically

- What are the barriers to participating in ethical trade?
- What 'scheme' is most appropriate for us?

3.1 How to do trade ethically - Primary producers

- How do I get involved?
- What do I need to know about acting as a supplier organisation (option a)?
- What do I need to know to operate as an ethical trading exporter (option b)?
- Can I get a 3rd party to pay my start-up costs?

3.2 How to trade ethically - Intermediary organisations

- How should I pick a scheme?
- How do I start?
- How can I measure the impact on poor people's livelihoods?
- What are the monitoring and reporting requirements?
- What does my organisation need to know about business?

3.3 How to do ethical trade: traders

- Where can I find ethical products?
- How do I source ethical products?
- How can I measure the impact on poor people's welfare ?
- Do I have to balance profits and ethics?

Annexes: Detailed Information

Annex 1: The Bigger Picture

- Trade and development
- Looking for positive benefits
- Approaches to impact assessment
- Tools, concepts and frameworks for analysis

Annex 2: Ethical Trade Options

- Overview
- Forest and timber certification
- NTFP certification and marketing
- Organic production
- Fair trade
- Conservation driven trade

Annex 3: Case studies

- Fair trade and livelihoods
- Timber certification
- NTFP certification
- Organic scheme
- Financial viability of ethical trade schemes: brazil nuts in Peru, cocoa in Ecuador
- Sustainable Forest standards for small-scale timber growers
- Fair trade coffee – issues from recent studies
- Ethical business planning – timber trading in Ecuador
- Impact of forest certification – lessons from Bolivia

- Organic schemes: Support for ethical trade in organic produces in Africa – the EPOPA programme.
- Financial viability of Ethical trade schemes – brazil nuts in Peru, and Cocoa in Ecuador
- Social impact of ethical trade schemes (Brazil nuts - Peru, Cocoa – Ecuador, Organic cotton – Uganda etc
- Sustainable forest standards for small-scale timber growers
- Fair trade coffee – issues from recent studies
- Developing social typologies for forest certification
- Ethical business planning – timber trading in Ecuador

ANNEX 4: Policies

ANNEX 5: Business Basics

ANNEX 6: Template for ethical business plan

ANNEX 7: Further Reading

ANNEX 8: Sources of Information - websites and contact details

ANNEX 9: References

ANNEX 10: Basic Terms (mini-glossary)

ANNEX 11: Acknowledgements, Acronyms, and Abbreviations

1. Introduction

Ethical trade - an introduction

Trading is the exchange of goods and services beyond those required for subsistence. It is an integral part of human life and social fabric throughout the world. It has been at the root of exploration, research, cultural identity and interaction for 30,000 years. From a development perspective a consideration of the 'ethics' of different trading systems is important. The questions 'who benefits from trade and who loses out?' is key.

There are many different interpretations of what 'ethical' trade represents incorporating varying degrees of social and environmental responsibility. From self-reliant organic agriculture and fair trade to corporate responsibility approaches there are a wide variety of initiatives, which could all be included under the ethical trade banner. However, there is a key difference between types of trading that attempt to alter the terms of trading (such as fair trade) and those that attempt to make improvements in conditions whilst maintaining the same terms of trading (e.g. codes of practice in corporate responsibility).

Despite this variety of approaches, all of these approaches to ethical trade do also share a common element – a consideration to a lesser or greater degree of the social and environmental dimensions of trade.

This manual is aimed at providing both an introduction to the complex maze of ethical trading approaches and practical information on how to do ethical trading, for those tackling or facing poverty and those promoting sustainable livelihoods. It focuses on the fair trade, forest and timber certification, organic production and conservation driven trade options.

A working definition of ethical trade is provided below.

A definition:

Ethical trade is the trade in goods produced under conditions that are socially and/or environmentally as well as economically responsible. There is no definitive approach to ethical trade. Rather, ethical trade is a generic term applicable to a variety of initiatives which apply sets of social/environmental values to aspects of the production and marketing process. These initiatives include fair trade schemes, the in-house codes of practice of corporations, organic production, environmental codes, forest certification, and in the ethical sourcing initiatives of major Western retailers.

*Source: Ethical Trade and Sustainable Livelihoods
DFID funded NRET paper. 1998*



Buyers engage in ethical trade to support economic, social and environmental improvements in the area where the goods are produced, while securing profitable exchange (rather than maximizing their profits without concern for the welfare of producers).

Organic fresh produce on sale in a UK supermarket

Some of the initiatives that can be included under the title ethical trade are the following:

Option	Definition
Forest and timber certification	Trade in products from forests that are certified that they are managed in an environmentally and socially responsible way.
Organic certification	Trade in products that have been produced according to organic production criteria
Conservation driven trade	Trade in products sourced from ecosystems of high biological diversity in order to provide local populations with economic incentives to conserve them (Definition - E. Millard, Conservation International).
Fair trade	Trade that at a minimum seeks to improve the position of relatively disempowered products or workers through offering a good price and a long-term trading relationship.

The options outlined above focus on the trade in products. However, trade in services can also be considered. Tourism for example is one of the biggest industries in the world. Most of this tourism is mass-market tourism, but there are also a variety of branches that have objectives other than profit maximisation.

There are many differing definitions of these types of tourism. Some of the alternatives to mass market tourism are listed below.

- Community based tourism
- Nature based tourism
- Alternative tourism
- Ecotourism

The promotion of alternatives to mass market tourism may provide benefits to local people and to the environment. Ecotourism is probably one of the best known types of tourism that is said to have positive social and environmental aspects. However, there is great variation as to the extent to which benefits to people and the environment occur in practice. The topic of tourism is too large for this manual and has therefore been excluded. However it is worth bearing in mind that many of the recommendations in this manual apply to attempts to promote ethical tourism.

For further information see annex 7 (further reading) and 8 (sources of information).

There are many different types of ethical trade scheme in existence. In practice it is often the case that a specific type of scheme will be adopted, because there happens to be information available on that scheme or support on offer from an external organisation that may only have had knowledge or experience of a specific type of intervention. One of the key aims of this manual to enable producers, collectors and supporting intermediary organisations to **make the right decisions** and to **choose which is the best option** of ethical trading for you that will enable you to **achieve your objectives**. The manual will help you to work out the requirements, expectations, perspectives and interests of potential markets.

Primary producers and collectors may have different questions and require different types of information to intermediary organisations. Likewise, traders have different information requirements. This manual therefore answers the questions that each of these three groups is likely to ask in terms of what ethical trade has to offer and how to trade ethically.

Firstly, it is important to review or clarify your objectives, because this may influence which route you take. For example:

- Those interested in forest conservation may look to conservation driven trade initiatives or to forest certification.
- Those promoting sustainable livelihoods may look to fair trade schemes.

There are overlapping elements to these schemes and increasingly conservation driven trade schemes are incorporating social concerns in their operations and socially driven schemes are beginning to include environmental sustainability considerations into their operations.

Nor are the approaches necessarily mutually exclusive. Forest certification does not include marketing of the products. However, it is a market instrument that may enable access to markets or preferential sourcing by buyers.

What are the key elements of ethical trade?

The key elements of ethical trade are:

- Integrating ethics
- A different distribution of benefits
- Increased transparency
- Increased monitoring of trading relations

These elements are explained in more detail below.

Integrating ethics

The concept of 'ethical trade' integrates ethics into trading. But what are ethics? Whose ethics are being considered here?

An ethic can be defined as 'a set of moral principles' and ethics are the 'moral principles governing or influencing conduct'. Morals are 'standards of behaviour, or principles of right and wrong'¹. The ethics of trading are highly contested, and it is possible to question whose ethics are being integrated into trading systems. Are these the imposition of organisations from the South? What are the priorities of poor men and women at the local level? How far are ethics eschewed in conventional trade in favour of profit maximisation?

Conflicts may arise therefore between the different types so-called ethical trading because their objectives are different. For example, for many in the organic farming movement one of the key principles of this approach to agriculture is self-sufficiency – i.e. no use of external inputs on the farm. Trading within this type of self-sufficient unit is therefore limited and a world away from the international export trading of fair trade, conservation driven trade, tropical timber marketing etc.

The term 'ethical trade' implies a moral judgement about the nature of the trade. In export trading, for example, the unequal nature of the global political and economic order that disadvantages developing countries and in particular poor people and marginalizes farmers and groups has been the motivation for fair trade projects – initiatives supported by NGOs and alternative trading organisations. The impact of forest degradation, particularly tropical forest degradation on biodiversity and the global climate, as well as some concern for local peoples' livelihoods and indigenous peoples' rights has driven the forest certification agenda.

What can be clearly stated though is that in the current context of rapid economic globalisation, the social and environmental impact of trade on poor people and the environment is increasingly of concern to intermediary organisations, traders, and is of course important to primary producers and collectors.

A different distribution of benefits.

Many people feel that certain stakeholders do not benefit adequately from conventional trading systems, and that trade can be made to benefit poor or marginalised stakeholders. Fair trade schemes have a specific social focus with an aim to support poor producers and collectors. It is

A variety of fair trade food products are sold in the UK



¹ Oxford University Press, (1999), 'Concise Oxford Dictionary', Oxford, UK

questionable whether such schemes can really reach the poorest of the poor, but they clearly provide benefits to poor producers and collectors in poor countries. Conservation-driven initiatives may focus on environmental management but aim to support local livelihoods in order to protect the forest. The marketing of certified timber and non-timber forest products may also help to benefit local people.

The equitable distribution of benefits does require greater attention than it has received in the past however and the degree to which neighbouring households and communities can participate in schemes varies. For example those found to be benefiting from an ethical trading scheme in brazil nuts in Peru only extended benefits directly to those holding brazil nut concession titles. Those without such assets did not benefit directly, even if they are engaged in brazil nut collecting and shelling. Participation in a scheme requires at a basic level access to some resources, such as land and trees. Some of the poorest in society may not have access to such resources and therefore cannot participate in the scheme. As well as the landless poor, there may be people living and depending on the forest who do not have the spare labour to invest in such schemes.

Increased transparency.

When a product is traded it is passed along a trading chain. Quite often when products are passed along a chain and are sold on the market it is not possible to say where they have come from and under what conditions they were produced. In ethical trading, people all along the trade chain are increasingly looking for assurances about the claims being made concerning the social and environmental conditions under which they were produced. This means a higher level of transparency is required so that it is possible for different people and groups in the chain to be able to state clearly where and how the products have been produced and handled.

Increased monitoring of trading relations.

Monitoring in ethical trade goes beyond the accepted norms of conventional trade. Requirements relate to price, quantity, quality, specification, volume, delivery time and other matters normally covered by trading contracts.

To date many ethical trade initiatives have focused on international export trading. However, ethical trade does not have to relate only to export trade. Any kind of trading that integrates ethics rather than focusing just on profits can be considered ethical trade – and this may occur in local, domestic and regional markets as well as more widely known international ethical trading. For example, tagua nuts that are used among other things to make buttons, are sold by an Ecuadorian community enterprise to local, national and international markets (see Case Study).

There are some activities that are commonly associated with ethical trading, although not all ethical trade schemes will necessarily involve third-party verification or labelling.

Practices commonly associated with ethical trading

Custodian body setting standards
Sometimes third-party verification of compliance with standards (although, conservation driven trade and much fair trade does not have third-party verification)
Use of label or logo to show compliance with standards, although products can be produced under ethical conditions but be sold on conventional markets without a specific label.
Transparency regarding certification process and access to findings

Source: NRAC paper, NRET 1998.

What are the differences between ethical trading initiatives?

There are also differences between different types of ethical trade scheme. See box below:

Divergent elements of ethical trade initiatives

Description	Comment
Focus	Fair trade primarily has a social emphasis with some schemes having environmental responsibility criteria; forest certification mixes social and environmental emphases; organic primarily has an environmental emphasis but some social criteria depending on the scheme.
End product	Only organic agriculture has a distinguishable end product (i.e. without chemical residues). The physical end product of forest certification and fair trade are not distinguishable from their conventionally produced equivalents.
Ethical premiums	Organic products currently sell at a premium price' products sold on the fair trade market have a social premium; little evidence except in niche markets of a green premium for certified forest products.
Access to markets	Marketing is integral to fair trade; incidental to organic and forest certification
Capacity building	Involvement is capacity building for producers is integral to fair trade; not part of forest certification; part of organic certification depending on the certification body (e.g. Soil Association)



Kwa Zulu Natal Timber Growers Cooperative. Institute of Natural Resources, University of Natal, South Africa.

How is ethical trade similar to conventional trade?

Many of the fundamentals of good practice in conventional business remain the same for ethical trade. These include the following:

- Quality;
- Timing;
- Risk;
- Price; and
- The need for a detailed business planning process

Remember that successful ethical trading schemes do not tolerate mistakes or inefficiency any more than is the case in conventional trade.



*Migrant forest related
community Belize*

2.

Why engage in ethical trade?

Some of the most frequently asked questions regarding ethical trade are answered below. These questions are relevant to all manual readers.

Who will ethical trade benefit and how?

The objectives of ethical trade schemes vary as do the benefits that different groups can obtain from them. The degree to which the types of benefits offered by engaging in one scheme or another depends upon what your objectives are. (It is important to clarify your objectives - if these are not clear see annex 1 on the bigger picture, particularly the section on strategic planning). Some groups will focus on conservation as their main aim, and others may have social goals as a priority. Social and environmental issues are in many ways inter-related but spending time thinking about your objectives will help you achieve your goals.

There are four main options in ethical trade that are dealt with in this manual:

- Fair trade schemes aim to deliver benefits to small scale producers and poor people.
- Forest certification facilitates market access and can be followed up by ethical marketing.
- Organic production may offer new markets and premium prices
- Conservation-driven trade can benefit those living in areas of conservation interest. (Although forest certification could be seen as being driven by conservation goals, when we talk about conservation trade we mean trading schemes in forest products that may or may not involve timber and non-timber forest product certification).

The benefits obtained from these schemes vary because they have different objectives. These are explained in more detail below:

So, many ethical trade schemes can deliver benefits to small scale producers and collectors of forest products, especially fair trade and conservation driven trade. Such schemes do not always reach the poorest of the poor, but they do provide all sorts of benefits to otherwise marginalised groups in rural areas.

The types of benefits obtained through fair trade schemes can include:

- guaranteed floor prices
- clearer and fairer means of weighing crops,
- training and capacity building support for organisations.

There are different types of fair trade but those products that are labelled in the shops can only use this label if the buyers buy from registered producers at a price agreed annually by an international fair trade body. This price is not only intended to

provide a better return to the producer, but includes a 'social premium' to be used by producer groups for social development activities. Groups that become organised through participating in fair trade schemes may obtain benefits from becoming a legally recognised entity.

Fair trade schemes often act as a **honeypot** attracting donor support for complementary activities and may provide international links and exposure to buyers, and alternative trading organisations facilitating export trade. However the distribution of these benefits amongst local groups and stakeholders has only recently been given greater attention.

Incorrect weighing and grading is also a problem for small producers. For example, cocoa producers in remote regions of North western Ecuador complained that the system of weighing and grading employed by middlemen lacked transparency. An Ecuadorian NGO engaging in ethical trade has instigated a clearer and fairer system of weighing and grading of produce – something which benefits directly the farmers they work with, but it also benefits other farmers living in the area because of the pressure on intermediaries to match the NGO practice.

Galvez and Nelson, (2000)

To engage in fair trade schemes does require access to basic resources such as land or in the case of brazil nut trading - concession titles. Many coffee farmers do not have legal land titles – something which has constrained access to credit from banks in the past – because banks have not recognised customary land tenure rights.

Other problems faced by small producers due to fluctuating commodity prices and declining terms of trade is the loss of land and the need to search for off-farm income. This in turn reduces the time that can be spent on cultivation.

In Nicaragua many farmers have land-related debts – after the defeat of the Sandinistas, the successive government has been 'forcing many farmers to pay for their land or to leave'. One particular coffee co-operative – the Denis Gutierrez co-operative – represents 300 farmers who sell some of their crop on fair trade terms providing a ray of hope.

(Fairtrade organisation website – 2001).

Timber and forest product certification offers a range of mechanisms for improving equity, transparency and stakeholder involvement in the management of forests. Forest certification when applied rigorously can improve standards of forest management by:

- demanding improvements
- rewarding examples of good practice
- a green premium does exist for some products, but these benefits are not always shared equally through the supply chain.
- certification provides the means of maintaining access to markets, particularly European markets, where there is greater awareness and pressure on companies to demonstrate that their wood comes from sustainable sources.

For further information see the case study on 'developing an ethical business plan for a timber exporting operation in Ecuador', in the case study annex 7.



*El Artonal,
Cocoa
Cooperative,
Ecuador.*

Certification is undertaken for the following reasons:

- to meet customer and buyer demands. Many customers now demand wood and paper products from sustainably managed sources and buyers groups have formed seeking products from independently monitored forests. There is a significant demand for certified timber produce (with a corresponding fall in demand for non-certified products) especially in Europe which is unsatisfied.
- to give credibility and to prove that the claims on labels are correct due to mislabelling in the past. There have been misleading claims made by companies in the past which can seriously affect the credibility of all labels. Consumer concern over forest destruction means that authenticating claims is important - certification needs to be accurate, credible and verifiable
- Government regulation requiring independent certification may be introduced in some countries in order to control forestry companies and to prevent forest destruction. If a government makes certification a regulation it can avoid the costs of inspection and monitoring.

Source: S Higman et al 1999.

Forest managers that undertake certification can also benefit from:

- An enhanced reputation
- Maintenance of or increases in their share of the market
- Improved relationships with retailers

Price premiums may occur but these tend to occur in particular markets. Some UK local authorities have issued guidelines allowing a 5 to 10% increase in payments for certified products (Higman et al 1999). Higher prices may also be achieved even if there is not a specific premium because as transparency increases along the supply chain the number of links between the producer and consumer is cut (Higman et al 1999).

Solomon Islands

Communities sell wood through an alternative trading organisation (ATO) called

SWIFT. The timber is sold to ethical markets in the UK and Netherlands. According to SWIFT a producer may be able to achieve a gross income of US\$ 1500 each year by cutting only two or three trees - to obtain the same income from royalties would require 70 to 100 trees to be felled by logging companies, with no prospects of future harvests.

Source: Schep J 'International Trade for Local Development: the Case of the Solomon Western Islands Fair Trade (SWIFT, 1997) cited in Higman et al 1997.

Different standards can be used for forest certification. The Forest Stewardship Council derived standards and any standards based on the International Tropical Timber Organisation (ITTO) are performance standards - i.e. a specific standard is set and has to be achieved. In contrast forest certification can also be carried out according to process based standards where a forest organisation has to implement a



documented management system to control environmental performance, with provision for continual improvement.

Environmental standards are adopted by multinational and international companies with supply chains extending into developing countries. Many of these large companies have purchasing policies and protocols that call for them to source raw materials and goods from reputable and sustainable suppliers where possible. In some instances there is a risk that this may encourage large companies to avoid buying locally – especially if they cannot be sure of where products come from

and under what conditions they have been produced. If however small producers can understand and meet the requirements for becoming a preferred source (i.e. 3rd party assessment of production systems) this may open up new market opportunities. However, the relevance of environmental management systems to smaller producers and collectors is less clear.

Organic production has largely been the preserve of small producers in the past. This has provided some opportunities for these producers:

- to find new markets

- to obtain higher prices.

However, larger producers are increasingly moving into organic production and the premium for organic products may decrease in the near future. Organic certification is still affordable to smallholders though, through group certification for example.

Conservation driven trade initiatives can benefit those living in areas of conservation interest – such as adjacent to or in protected tropical forest areas. Whilst the primary aim of conservation driven trade is environmental, many of the initiatives that are supported by donors and NGOs recognise the inter-dependence of environment and aim to improve and support the sustainability of the livelihoods of the rural poor.



*A fair trade product:
Plain chocolate brazil
nuts, sold in an Oxfam
shop.*

Does ethical trade open up new markets ?

Forest certification and marketing helps to maintain access to markets in North America and Europe, where increased consumer concern and pressure from NGOs has driven parts of the retail sector to buy certified timber.

The certification and marketing of non-timber forest products, that are traded as ethical products may open up new markets to small farmers and collectors. Ethically traded non-timber forest products may be marketed through conservation driven trade or fair trade schemes. There are a wide range of non-timber forest products some of which may open up access to markets that offer premiums, whereas other products may be sold largely to conventional markets (e.g. brazil nuts).

Fair trade aims to provide an alternative to conventional trade – the latter being of limited benefit to small producers because they have limited access to world markets and a weak bargaining position in relation to intermediate traders (middlemen). Fair trade schemes are more consciously developmental than the other options, and they offer access to new, but small niche markets.

However, it is important to note that:

- even in successful commodities often the market is not sufficient to accommodate the produce of its larger producer groups.
- there is a lack of evidence to confirm whether fair trade is consistently able to achieve its goals, and whether benefits are fairly distributed.

Conservation trade is similar to fair trade in that it offers access to new, but small niche markets. However it is limited to a much smaller range of products that can be collected or produced within specific ecosystems.

Environmental standards may open up new markets. If small producers can understand and meet the requirements for becoming a 'preferred source', then environmental standards that encourage large companies to seek reputable and sustainable suppliers may open up new market opportunities for small producers.

Organic agriculture is a form of ethical trade that is viable in developing countries, but access to organic markets for Southern producers can be a problem, not least because of the many different standards and requirements in existence. Finally, it is important to note that organic production should not depend on the export market: local markets need to be encouraged, at least as a fall back position to export dependency.

Can engaging in ethical trade help maintain access to existing markets ?

Ensuring continued market access is one of the key drivers for producers to get involved in ethical trade schemes. Some buyers are implementing standards along their supply chains as part of ethical sourcing strategies and will only buy from producers that meet these standards. This may be the case for export vegetables and fruit purchased by supermarkets which are espousing labour codes of conduct and timber and wood products purchased by Do-it-Yourself retailers seeking an FSC label.

Does ethical trade provide access to premium prices ?

Whether an ethical product can offer a premium price depends on a number of features of the target market. Factors related to the potential premiums for ethical products include:

- Consumers are relatively high income earners.
- Consumers are fairly aware ethical issues in production and trade
- Is the product considered a luxury or an essential item? Consumers tend to be more willing to pay a premium for items that have an element of luxury

Fair trade schemes do provide access to premium prices but these are niche markets. Fair trade schemes do act as a catalyst though for producer groups to gain credibility on international markets and to gain experience in export trade that may allow them to sell to non fair trade markets.

Organic products do tend to obtain a premium on the market, but the premium for organic is going down. The cost of conventional production is, however, going up. For consumers it is expected that any remaining price differential between organic and conventional produce will become a minor issue.

Many international organisations remain cautious about the potential for premiums for certified timber. Whilst the volume of certified wood has increased, the number of companies that have committed to sourcing only certified timber has also increased, so there may well be increased demand for certified timber that could in the future be reflected in prices offered.

Does it provide a useful business framework to follow ?

Many ethical trade schemes do provide incentives for better business practice and planning. They generally require more rigorous management systems, which can encourage a more structured entry into the market and more efficient management.

Increased monitoring means that there is more transparency in the business. However the introduction of management systems and transparency does require more bureaucracy with attendant demands on time.



MCCH promoters buying cocoa from producers

Does ethical trade improve credibility to consumers?

Certified forest products that carry the FSC label may improve credibility to consumers, although consumer awareness is not particularly high as a rule. Forest certification may help to allay the concerns of NGOs that have previously campaigned against timber retailers.

Fairtrade labels and brands do have credibility with consumers – consumers buy these products at a higher price because they believe the guarantee of the label or trust the organisation itself that small producers are being assisted. However, in recent years it has become clear that much closer attention must be paid by alternative trading organisations to monitoring and impact assessment to ensure that the validity of such guarantees and brands are not questioned.



Bagging up forest products in the forest in Puerto Maldonado, Peru.

Does ethical trade provide contacts and recognition?

Ethical trade can provide contacts and recognition for those involved in the following ways:

- Ethical trade export initiatives can put organisations and producers groups on the international map.
- Links with international NGOs, buyers, ATOs etc can provide local NGOs, co-operatives and intermediary organisations with exposure to new ways of doing things, new ideas and contacts.
- The visibility of a producer organisation may increase and a wide variety of other interested parties from development practitioners, donors to campaign groups and activists may become interested in your operations.
- For some organisations this can lead to the 'honeypot' tendency whereby – an ethical trade scheme attracts interest from donors, funding foundations, NGOs that may provide complementary support such as technical advice.

However, greater exposure and recognition could also mean that you are under the spotlight and your shortcomings exposed, but you may well have other organisations supporting your cause.

Do I need to believe in ethical trade to participate?

There is nothing to stop those who do not actually support the 'ethical' part of ethical trading in participating. For some people, ethical trade can be a part of a strategy to make profit for the organisation and its shareholders, but the extent to which ethical trade can help make money depends on at least two factors.

- there are good and bad ways in which ethical trade can help make an organisation profitable. Ethical trade schemes must be implemented in an effective way: a badly planned stakeholder dialogue can cause as many problems in the future, including wasting money, as installing the wrong kind of filing system.
- the field of ethical trade is still developing and so there are only a limited number of analytical tools and cases from which lessons can be drawn. So, commitment to a process of learning, transparency and ethical trade itself all contribute to ensuring that the maximum benefits for primary stakeholders are derived from participation in ethical trade.

The research carried out by NRET has tended to find that the most successful initiatives have been those where those involved have believed in the ethical objectives in their trading relationships

The ethics of cocoa trading

An example of an extremely successful ethical trading initiative is that of cocoa trading by the Ecuadorian church based NGO Maquita Cushunchic. A study of this initiative found that the NGO had been extremely successful in delivering benefits to the primary producers working with the NGO. The NGO has not sought any kind of external certification. In the beginning the scheme was kicked off by support from the Dutch Based trading company, Max Havelaar, and the cocoa was sold on fair trade markets. Having obtained credibility in the markets, MCCH could move to selling on conventional markets. Starting from scratch in the export trade of cocoa, MCCH has entered the top dozen exporters within x years. This success is a combination of the clarity of approach of the NGO, the commitment of the staff to the organisations' development ideals and the acuity of the commercial manager.



Cocoa grown by an associate of MCCH, drying in Quinde, Esmeraldas region, Ecuador

2. Why engage?

2.1 Why engage in ethical trade?: Primary producers and collectors

Primary producers and collectors are the people that produce or obtain the products that will be traded. They may include individual and household smallholders and producers, but they may also be organised into co-operatives.

The questions primary producers and/or collectors might ask are answered below.

What are your objectives?

Spend some time thinking about what your objectives are, since this may help you work out which is the most likely route to get you there. See section on the bigger picture (annex 1).

Will ethical trade provide better prices ?

Some kinds of ethical trade offer prices that are higher than available on the international market, but others do not but there may be advantages of more secure relationships with buyers, which may in the long-term increase the price that you are paid. Fair trade aims to offer producers a good price, one that at least covers costs of production and aiming to offer more. Some fair trade schemes have both an internationally agreed minimum price and a premium, payment designed to contribute to development of the producer welfare and/or development of the producer organisation.

Forest certification schemes, in contrast, do not make price promises, and recent experience indicates that certified timber does not always achieve higher prices in the market. Similarly the criteria of organic schemes do not refer to prices, but some schemes may offer producers higher prices as part of a package of incentives to maintain the higher production standards required of organic systems.

Will ethical trade provide better access to markets ?

Ensuring continued market access is one of the key drivers for producers to get involved in ethical trade schemes. Some buyers are implementing standards along their supply chains as part of ethical sourcing strategies and will only buy from producers that meet these standards. This may be the case for export vegetables and

fruit purchased by supermarkets which are espousing labour codes of conduct and timber and wood products purchased by Do-it-Yourself retailers seeking an FSC label.

Ethical Trade may also mean an opportunity for some producers to access new markets, especially where consumers are expressing preferences for good produced in an environmentally and socially responsible way. Fair trade schemes and organic schemes seek to take advantage of such niches in the market and can offer new marketing opportunities to producers. However, the ethical market is complex, diverse and subject to changing tastes and fashions so one should be careful before tying a marketing strategy to just one segment of the market. Moreover, the number of people who claim to be interested in ethically traded products differs considerably from the figures on actual sales of fair trade, organic or other products with an ethical dimension.

Will ethical trade provide better access to credit?

Access to credit is a problem for millions of small producers around the world. The lack of access to loans at fair rates of interest means that farming families find it difficult to invest in the farm and forces them to sell their crop when prices are at their lowest. Organising in co-operatives is also more difficult when access to credit is limited¹.

So how does fair trade facilitate access to credit? An example is provided in the box below.

In Peru and Bolivia an advance payment system called the *habilito* is accepted practice in many Amazonian regions. However, it locks small producers and collectors of forest products into debt – for example, brazil nut traders provide an advance to brazil nut collectors at the beginning of the collecting season. This loan enables collectors to go into the forest and to cover family living costs.

Candela Peru follows a different approach to giving credit. The collectors are not obliged to repay the loan in unshelled brazil nuts, but if they do, the price is determined by the prevailing market rather than a rate that is agreed at the time the collector takes the loan. The conventional practice of having a "contracted" price - agreed at the time the collector takes the loan - is usually at a significant discount to the value of the nuts at the time of sale. This can be seen as a way of charging interest on the loan, something that Candela does not do, either explicitly or implicitly.

Source: Agreda and Collinson (1998).

Fair trade schemes offer credit to producer organisations for production of the goods ordered (to cover materials or inputs for example) and to cover the marketing costs. A basic principle of fair trade is to offer pre-finance. For example, under the FLO coffee criteria a buyer is obliged to pay up to 60% of the price up front, before delivery which tends to be used by the producer organisation to cover final processing

¹ Fairtrade organisation website 2001.

costs, preparation for export and delivery to the port. The farmer organisation still has to find credit to pay farmers for the coffee delivered to the co-operative, or to undertake an agreement with members to wait for payment until the coffee is delivered. So the credit offered by fair trade generally goes to the partner organisation, which then decides what it is to cover, i.e. the marketing or processing costs borne by the organisation or those borne by the individual producers.

Other kinds of ethical trade scheme do not have explicit criteria on credit provision, however, evidence of an ethical trade contract may well help a producer organisation access credit sources available locally as it would be an indicator of credit-worthiness.

Does ethical trade make me a better business proposition?

Having an ethical trade link may make a producer a better business proposition in the eyes of some stakeholders. Links to ethical trade markets indicate that export standards – including, in the case of timber certification, quality - are being maintained, there is a market for the product and possibly that outside organisations are interested in investing in the capacity of the organisation. These factors may mean that local stakeholders such as credit agencies, and government officials may take your organisation more seriously as a business organisation. Moreover, you may develop skills, both through your experience of trading and through capacity building inputs such as training, which will make you a better business proposition to potential customers, organisations offering credit or skilled people you may wish to recruit.

Can ethical trade provide better access to training?

Ethical trade schemes in general do not offer training to producers as a matter of course, however, some buyers or other organisations involved in ethical trade supply chains may offer producers training. This may be part of their commitment to increasing the market opportunities for disadvantaged producers (e.g. Fairtrade schemes) or to ensure that producers can establish and maintain monitoring systems (e.g. forest certification).



*MCCH
promoters
buying cocoa
from producers*

2.2 Why engage in ethical trade?: Intermediary organisations

Intermediaries represent the organisations and people that facilitate ethical trading initiatives. There are many different types of intermediary organisations and ways in which they can facilitate ethical trade.

This manual is principally targeted at non-governmental organisations (NGOs), because they may have developmental objectives and may be able to facilitate access to ethical trade schemes by producer groups. Non-governmental organisations can play a variety of roles. In the first instance they may assist producer groups to consider the options on offer – including non-trading options. If trading is considered a possible option then the NGO may be able to help in various ways - from operating as an intermediary trader, or facilitating links to commercial organisations and buyers, to providing advice on business development and ethical trade. Finally, NGOs may adopt the traditional NGO approach of capacity building and organisational development or group formation.

See annex 1 for further information on the potential roles that NGOs can play in promoting ethical trading.

What are your objectives?

It is important to be clear about your objectives and also to see how these will affect your engagement with producers and collectors. If you are a small organisation it may not be possible to do a full strategic planning process, but still try and clarify your objectives. For larger organisations strategic planning is a very useful process that can take some time, but you will reap the rewards later (See annex 1).

Is ethical trade a better option than conventional trade?

Ethical trade may be a better option for forest-dependent people than conventional trade - it depends on many factors that are explained in this manual. Indeed, the role of trade itself in the development process is worth considering before deciding on the merits of ethical versus conventional trade.

It may be that an intermediary organisation decides that campaigning, advocacy, policy work or technical and capacity building assistance is a higher priority or more likely to deliver benefits. It is always important to question whether an ethical trade option can deliver benefits (is there a product that can be traded? Can the resource be used in a sustainable manner?). Are there pressing issues in relation to natural resources rights – such as land rights – that are threatened and which requires more immediate action?

Secondly, ethical trade that involves linking to export markets means that quality and quantity standards must be met. It may link producers to consumer markets that are led largely by fashion or trendy ideas or to commodities markets that are unstable or unpredictable. If a scheme is not financially viable and risks failure then is this a sensible option to pursue? Ethical trade may offer big rewards to producers but it may also increase their vulnerability.

However, if ethical trade options can really deliver benefits to small producers, that can be equitably distributed, that build on the assets of the poor, that can use products in a sustainable manner, and that look financially viable offer a great deal more than conventional trading. Many small producers face huge obstacles to moving out of subsistence agriculture and to secure livelihoods, including access to market knowledge, production and marketing skills, the ability to organise, access to credit and land etc.



Conservation driven trade can provide benefits to those living in areas of high conservation value and help to assign economic value to forest resources. Ethical trading schemes alone are extremely unlikely to reverse

or fend off other, potentially damaging, forest use trends, but they may form an important element of an overall strategy for forest protection.

Forest certification can help encourage improved forest management and is a market mechanism for doing so. Many buyers are looking for certified timber and may be prepared to develop trading links with forest communities and forest owners that have demonstrated a commitment to responsible management of their forest environment.

Will ethical trade be financially viable?

In many ways ethical trade is no more or less viable than any other business venture. You have to understand your market and respond to the requirements of that market, whilst managing the business efficiently and effectively.

Fair trade markets offer higher than usual prices or minimum guaranteed prices, but it is unusual for a fair trade buyer to purchase all of an organisation's produce, especially for primary commodities. You are likely to have to sell to conventional as well as ethical markets. This means having producing goods efficiently and with a

pricing strategy that covers costs of production, whatever market it is sold to. An intermediary organisation should be careful about raising the expectations of producers about the prices that can be achieved in ethical markets, and ensure that production levels and costs of production are in line with financial viability.

Another consideration for financial viability for an intermediary organisation is the cost of the support it is offering to the producer organisation. Who pays for this? At the early stages of an ethical trading relationship it may be acceptable for the support costs to be paid for by donors, but this is unlikely to be sustainable in the long term. It is important to establish a system by which support, especially if it is likely to be on-going, is eventually paid for in some way by the service-user, i.e. the producers themselves. This could be phased in through a cost-sharing mechanism. Issues relating to the financial viability of support to ethical trade are covered in annex 1 under business development services (see capacity building section).

It is important to recognise at the outset that an intermediary organisation may not wish to, or may not be able to, support a producer group for ever. Like in any partnership, it is important that each partner recognises this basic fact and there is a mutually understood exit strategy.

What role will our organisation play?

First of all, an intermediary organisation needs to understand the role that it is going to play in an ethical trade scheme. Is it:

- Operating as an intermediary trader
- Facilitating links to commercial organisations/ buyers
- Providing advice on business development and information about ethical markets
- NGO explores development options with a community or social group using a participatory approach.

The advantages and disadvantages of each of these models are discussed in annex 1 (see section on the potential roles of intermediary organisations). Each requires a different combination of skills and implies a different level of involvement in the activity of trading. You may be advising, facilitating or actually undertaking the trade itself on behalf of the producers. However, whatever role you as an intermediary organisation decide to take on, there a number of skill and knowledge areas that are vital.

Involvement in an ethical trade scheme requires

- Understanding of business planning and management (see annex x),
- Knowledge of the market and marketing
- Understanding of the particular requirements of the ethical trade scheme that you are seeking to get involved in
- A business-like attitude and orientation, and preferably business experience

Whilst this manual aims to provide the relevant knowledge on ethical trade and provide pointers to additional information it does not aim to teach good business practices. These must be learnt from other sources. See annex 5 on business basics).

Leaders of an intermediary organisation should be aware of the mix of skills in the organisation and make plans to fill in the gaps where they exist.

Do these schemes increase access to sources of finance?

Ethical trade schemes are popular with a range of donor organisations, especially those that are keen on promoting development through private sector linkages, though some have reservations regarding development impact.

It is worth investigating whether donors have dedicated funds for promoting ethical trade schemes or corporate responsibility.

The search for funding opportunities should not end with the international development donor agencies, many private sector companies, or their trust funds may be keen to support ethical trade schemes, especially where they are keen to secure sources of supply that have ethical credentials.



Fair trade coffee on sale in the UK

What is the impact on livelihoods?

The livelihoods of poor producers do not revolve around any one activity. Poor farming families make their living from engaging in a range of activities and by drawing on a range of resources that they have access to. Some of these activities involve cultivation and sale of crops, but off-farm activities and wage labour and piece work are increasing strategies for survival in many parts of the world.

Ethical trade schemes vary in their objectives. Fair trade schemes and many conservation driven schemes enable producers to obtain a higher price for their product. At the same time fairer and more transparent systems for weighing and grading products enables farmers to get more money overall for the same amount that is traded. In Ecuador, for example, the NGO MCCCH has introduced grading tables and systems for proper weighing of cocoa that it buys from farmers. This is forcing other intermediary traders to do the same in these areas.

A livelihoods analysis means considering not only the financial benefits obtained but other types of benefits obtained. Other types of benefits that farmers and forest product collectors can obtain from ethical trade schemes include

- New skills, including marketing, negotiating, bargaining
- Organisational development, budgeting, management

- Greater credibility with buyers

(see Oxford Policy Management 2000 and Mayoux 2001)

Can ethical trade improve our credibility in the markets and to potential donors?

Involvement in ethical trade may well increase credibility, especially if done well. However, credibility can be undermined if benefits are not enjoyed by those who are supposed to benefit.

Involvement in ethical trade may provide interesting stories useful for sponsors in fundraising. However, it is important to ensure that the impacts of ethical trade for producers are not exaggerated. Claims of ethical traders may be investigated and challenged in much the same way as the claims about codes of conduct on the part of multi-national corporations have been in recent years.



*Peruvian brazil
nut shells*

2.3 Why engage in ethical trade?: Traders

Buyers, brokers, exporters, wholesalers and retailers may all be interested to learn more about ethical trade. Some traders may already be involved in ethical trade and may be looking for new suppliers or products. These traders may already have an understanding of the needs of the ethical market and what it entails for them. Questions about ethical trade for them would focus on the capacity of the particular producer to meet their requirements.

For traders new to ethical trade, there are three basic questions:

- What can ethical trade offer me and my business?
- What are the key characteristics of the ethical market?
- What will be required of me?

These questions are answered below:

What can ethical trade offer me and my business?

Operating in ethical trade can offer a trader a tangible way of engaging in corporate responsibility. Today business performance is no longer assessed on financial balance sheets alone, but also on social and environmental value-added. Any business can be responsible; no matter its size, the product or the location. **A responsible business is one that is aware of its social and environmental impact, and actively manages its operations to minimise and offset negative consequences, and optimise positive ones.**

Poor people interact with business in a variety of ways: as workers, as producers, as consumers, and as the owners or custodians of natural resources. Responsible business requires companies not to take advantage of poverty and the marginalisation that often accompanies it (e.g. by paying less than a living wage, by selling harmful products, by denying land rights without fair compensation). Moreover, there are instances where companies actively seek to reduce poverty (e.g. by locating factories in deprived areas, investing in education and health, providing poor people with market access).

Ethical Trade is an approach to responsibility. Many people feel that certain

'Ethical trade' is an umbrella term for a wide range of approaches that in one way or another question conventional trade. These approaches are often



A range of teas on sale in the UK, that are both organic and fairly traded.

very different, but they share the common goal of optimising the benefits of trading relations, particularly for those stakeholders that hitherto have been, in reality or perception, unable to realise adequate benefit. To achieve this they introduce some form of regulation of trading relations beyond the accepted norms of conventional trade; that is, in addition to requirements pertaining to price, quantity, quality, specification, volume, delivery time and other matters normally covered by trading contracts.

At present, these approaches are mostly found in internationally traded commodities, particularly ones sold in Europe or North America. For anyone trading in other markets, there may not be a market demand for goods meeting standards of social or environmental performance. However, this is not to say that social or environmental performance is unimportant for such businesses. Any business that wants to help ensure that it is having a positive social or environmental impact, would do well to consider the standards used in international trade, regardless of which market it serves.

There are two main reasons why companies may engage in ethical trade:

- **Reputation:** major companies manage their reputation just as they would any other asset because in Europe and North America consumers and investors trust and value a company's name. As US Secretary of State Warren Buffet once said, it takes twenty years to build a company's reputation and twenty minutes to destroy it. Damage to reputation not only puts at risk company investment in advertising and brand management, it can lead to consumer boycotts and have a long-term influence on consumer behaviour.
- **Sustainability:** companies are driven by the need to ensure sustainable supply and sustainable markets. They want to know that year in, year out, they can rely on producers to supply high quality produce without being threatened by environmental degradation or conflict.

A third driver is the *new markets* that are emerging for goods that can be shown to be produced in a socially and environmentally responsible fashion. 'Responsibly produced' goods can be sold in specialist shops, or labelled in such a way as to differentiate them from other products in conventional outlets. Organic labels, the fair trade mark and the labelling of timber from responsibly managed forests are three examples of this.

What are the key characteristics of the ethical market?

The market characteristics of products sold in ethical trade schemes differs markedly from one to another. Some products are sold only in niche markets, whilst others are sold in bulk to the mass market. However, the producers of goods for the ethical market are increasingly aware of the need to supply quality product in a reliable fashion, just as any other market demands.

Market research repeatedly highlights growing consumer demand for products with ethical attributes. Moreover consumers want to be assured that products that claim to

be ethical actually are produced and traded according to certain verifiable standards and so there is a move towards certification of ethical claims. Trends in the market for ethical products are discussed according to the relevant ethical trade schemes in annex 2 - ethical trade options.

Will it increase my operating and capital costs ?

Buying from non-traditional suppliers may mean that you have to invest in the relationship in order to get to know the suppliers better. Where the suppliers are new to export or the particular market, there may be some learning costs that you would have to shoulder. However unless you are required by a scheme to implement a chain of custody scheme or abide by certain purchasing criteria you should not incur any higher costs than you would in establishing any other new trading relationship.

What will be required of me?

Do I have to complete any forms or implement any new systems?

Under forest certification schemes there is a chain of custody certification system which you must abide by if you wish to market the products as certified. Similarly there are forms and procedures that you must carry out in order to market goods as organic, including abiding by national or regional organic regulations (e.g. the EU regulations)

Do I have to abide by any particular criteria?

In fair trade labelling schemes there are criteria which govern the trading relationship, including price paid and credit terms.

3. How to trade ethically

Having explained in part 2 why different groups might consider engaging in ethical trade and answering frequently asked questions, parts F goes on to explain HOW to engage in ethical trade.

What are the barriers to participating in ethical trade?

Anyone embarking on an ethical trading initiative will need to consider some wider issues which may impact on the long-term sustainability of the trade. Two notable issues are:

- a) Phytosanitary regulations
- b) World Trade Organisation (WTO) regulations.

Exporters will be faced by certain regulatory barriers. An example of the barriers faced by honey exporters are outlined below.

Impact of tariffs and non-tariff barriers on fair trade: the case of honey

After food scares and some legitimate concerns about pesticide, antibiotic and heavy metal residues, the EU began a programme of tightening up the import controls and checks on honey from third countries. First, containers of imported honey were checked against a wide range of phyto-sanitary indicators. Then all non-EU individual honey producers were asked to set up a residues monitoring plan in order to be registered on an official list of approved sources. Despite difficult for some producers to achieve, support from European-based fair trade organisations meant that market access was still available to the smaller, less well-resourced fair trade producer organisations.

On 12 Feb 2001, a piece of legislation was passed by the European Commission, requiring each country aiming to import into the EU to put together a monitoring plan to check on honey residues. To export to the EU, the plan should be in operation and run by the country's government - usually through the Ministry of Agriculture. The directive then lists the 29 non-EU countries that have approved monitoring plans in place. All main importers into the EU are included. However, not a single country in sub-Saharan Africa is included.

For Traidcraft and other fair trade organisations like Tropical Forest Products, the Situation is difficult - for the producers they buy from the situation is potentially catastrophic. For many co-operatives and other small businesses in Africa, export sales of honey are critical to their survival. Even more ironic is that many of the producers penalised through legislation are organically certified and by definition are achieving much higher standards of residues than many of the non-organic suppliers who have national governments that comply with legislation. Dafter still is the fact that EuropeAid -the EU development agency- funds a number of forest honey projects across Africa aiming to gain European market access for the groups involved.

Traidcraft, supported by the European Fair Trade Association, is lobbying and campaigning to ensure that the food safety regulations do not negatively impact on fair trade and organic producers of honey. Traidcraft recommends that the legislation be suspended for a minimum of two years, during which a full assessment of the likely costs and benefits of a nationally implemented monitoring scheme should be undertaken.

Source: Adapted from an item in the EFTA Advocacy Newsletter, July 2001

What "scheme" is most appropriate for us?:

Consider what your product is, what kind of organisation is required, the location of products, and the potential market for these products.

There are many different types of schemes that exist today which can be considered under the same umbrella of ethical trade. DO NOT try and join the first scheme that you come across. It is important to consider which is the most appropriate type of scheme for your organisation and its specific objectives and to find out more about what different ethical trading options have to offer (see annex 2).

3.1 How to trade ethically: Primary producers and collectors -

This section explores answers to the questions primary producers might ask about how to engage in ethical trade.

How do I get involved?

Having decided that ethical trade may be an attractive route to take for your, the next thing is to establish whether you have to the capacity to engage in ethical trade yourself or whether you should seek to establish a partnership with an intermediary such as an NGO or business. That is there are two major ways in which you can get involved:

- a) As a supplier organisation in a partnership with an intermediary organisation that takes responsibility for the export marketing
- b) As an ethical trading exporter

If you have never traded in the export market it is probably a good idea to try to establish a partnership with an NGO or similar organisation in your country or region that is promoting or exploring ethical trade, option (a).

If on the other hand you have successfully traded in export markets, or have developed significant experience of trading in the domestic market, you may consider engaging in ethical trade as the primary marketing organisation (b).

What do I need to know about acting as a supplier organisation (option a)?

If you do not engage in ethical trade exporting directly, your organisation will need to link up with an organisation that has the capacity to export the product on your behalf. This could be an NGO or a company.

You will have two main concerns. First, the supply of a product to a specified standard and in sufficient quantities, and second, the relationship with the exporter. The relationship with the exporter will have a market dimension: the price you are paid, credit or input supply, bonuses or premiums. But the relationship may also involve training from the exporter who may also be able to offer you advice. These services may be free, or involve payment of membership subscriptions or user fees.

A key question for you to consider is whether as a result of this trading relationship you can build up the skills to get involved in the export trade yourself in the future. Can you use this relationship to build up the necessary skills to get involved in ethical trade markets or other markets directly? It is important that you do not get locked into a dependent relationship that in the long run does not benefit the organisation or its members.

What do I need to operate as an ethical trading exporter (option b)?

Ethical trade is not an easy option. Assuming you have a product and ethical trade market in mind, questions that should be asked before embarking on ethical trade include:

- Does the organisation have the management capacity for exporting?
- Can you access sufficient credit?
- Can you offer regular supply of acceptable quality?
- Do you have adequate monitoring systems?
- Do you have appropriate communications technology?
- Do your members understand the requirements of the trade?
- Where can you get access to further training and advice should you need it?
- Do you have access to up to date market information?

You should also look at the following section aimed at Intermediary Organisations

You may be able to get advice on marketing and ethical markets from Fair Trade organisations or from service providers (e.g. CBI in the Netherlands).

Can I get a third party to pay my start up costs ?

It may be possible to get funding from NGOs or donors to contribute to establishing yourself as a supplier to the ethical market. See annex 8 for further sources of information and websites.



*Organic forest honey.
An organic and fair trade
product - an Oxfam fair
trade product.*

3.2 How to engage in ethical trade? Intermediary organisations

Questions about how to engage in ethical trade that are of particular relevance to intermediary organisations and facilitators of ethical trade are answered below.

How should I pick a scheme?

The most appropriate scheme will depend on a wide variety of factors:

- a) the product
- b) the views and capacity of the producers
- c) grants and subsidies available
- d) the objectives of your organisation
- e) the role that your organisation takes as an intermediary

How do I start?

How you start to engage in ethical trade depends on three main factors

- Your understanding of the needs, capacities and objectives of the producers who will supply the product
- Your understanding of the ethical market opportunities and the requirements of the schemes
- Your own capacities and objectives

This manual sets out the requirements of the schemes, the way in which you can engage with producers. Using this manual, you can determine whether ethical trade fits I with your own capacities and objectives.

How can I measure the impact on poor people's livelihoods?

This is a key question for NGOs that have a development remit. To date there have been relatively few impact assessments of ethical trade schemes. Examples of assessments undertaken to date include studies for Oxfam Fair Trade Company and impact assessments of trade in cocoa and brazil nuts by NRET. The main lessons so far have been:

- ethical trade can offer benefits to some producers over and above conventional trade, especially in terms of better prices
- ethical trade can offer a more reliable or stable price to producers

- ethical trade can lead to the development of capacity of producers and their organisations (skills of individuals, organisational development)
- there may be positive externalities from involvement in ethical trade, such as improvements in the reputation of small scale producer organisations.

However there are some down-sides to ethical trade in terms of the overall development impact

- Especially in trade in cash crops which tend to be a male preserve, not all the household may share in the improved income
- Not all poor stakeholders in the supply chain benefit from the trade
- Fair trade can lead to the development of dependent relationships

See Annex 1 on the bigger picture which includes a section on approaches to impact assessment.

What are the monitoring and reporting requirements?

Most forms of ethical trade involve some kind of monitoring and reporting on performance against a standard. With organic and forest certification once you are sure that you have established the appropriate systems and have achieved the required standard you have to apply to be independently audited against the standard. Both schemes involve the establishment of relatively sophisticated monitoring systems.

For Fair Trade labelling, the monitoring requirements are different in that the focus of the criteria are largely the nature of the producer organisation and the trading terms offered. The fair trade auditor will require access to records of the meetings of the producer organisation, the membership lists etc. With the gradual introduction of more environmental indicators to sets of Fair Trade criteria, producers and their supporters will be required to keep environmental records such as fertiliser use and plans to combat erosion. Trade brands, the monitoring and reporting will depend on the system developed by the Fair Trade buyer and the partnership that is developed between buyer and seller.

Some Fair Trade brands such as Traidcraft undertake a regular cycle of social reporting in which partners are invited to evaluate their relationship. Other Fair Trade Organisations undertake strategic planning for their partnership with individual producer organisations.

What does my organisation need to know about business?

The knowledge you need as an intermediary organisation about business depends on the role you wish to play in relation to producers and traders. Are you going to trade yourself? Is your role primarily enabling the producer organisation to trade? Are you bringing traders and suppliers together? For any of these roles you need to have an understanding of business basics (see annex 5). Donors, specialist NGOs and even some companies may provide support to identifying business administration needs

and capacity building both for your own organisation and producers. The range of business development services available are covered in the section on capacity building (annex 1).

An example of an organic farming logo



3.3 How to engage in ethical trade: Traders

The questions that traders might ask about how to engage in ethical trade are answered below:

Where can I find ethical products?

Ethical Trade products are available through a variety of routes. Possible groups who could provide information on where to source products are listed below:

- Fair trade standard custodian
- Networks of traders
- NGOs
- Directories
- Internet

Further information on these sources is provided below.

Contacting the custodian of a particular fair trade standard.

Contact the Fairtrade Labelling Organisations International (FLO) for information on lists of producers that are registered as fair trade. This is relevant specifically for the following commodities:

- Coffee
- Tea
- Honey
- Orange juice
- Sugar
- Cocoa (and cocoa products)
- Bananas

For other products you can contact specific alternative trading organisations (ATOs) or go through the International Federation of Alternative Trade (IFAT) or European Fair Trade Association (EFTA).

For certified timber or other forest products contact certification bodies such as the Forest Stewardship Council (FSC). For organic products try the International Federation of Organic Agriculture Movements (IFOAM).

See annex 8 for contact details of these organisations.

Networks of traders

For certified forest products you may be able to get information about sources from the WWF sponsored Global Forest and Trade Network (FTN).

Non-governmental organisations

Many NGOs are promoting ethical trade as a development strategy and are always looking for buyers to trade with the producer groups that they support.

Poster for the UK Fair trade Fortnight



How do I source these products?

Traders are likely to be concerned about a variety of issues when entering ethical trade markets such as:

- How do I ensure that supplies are reliable?
- How can I finance operations in ethical trade products?
- How can I find buyers for ethically traded products?
- How can I get the best price for my ethically traded products?
- How can I create market demand / lucrative market niches - 'branding' ?

The simple answer to these questions is 'just as you would for trade in conventional products'. In practice there may be some differences between trade in ethical products and trade in more conventional products. However, these mostly relate to either the extent to which the suppliers of ethical products have experience in trading or the need for traders in ethical supply chains to keep records of the trade and be prepared to be open to ethical auditors.

How can I measure the impact on poor people's welfare ?

Undertaking assessment of the impact of ethical trading schemes on poor people's welfare is not something that traders usually undertake as part of their business and indeed it can be a very difficult task to undertake even for development specialists. However, if one is going to engage in ethical trade it is important, for credibility if nothing else, to be aware of some of the key issues facing stakeholders along the supply chain.

See annex 1 on the Bigger Picture (impact assessment).

How do I balance profits and ethics?

There may be situations when there is a temptation to increase profits at the cost of the genuine participation of producers and collectors. It is important there to ensure that business planning integrates social policies, objectives and targets from the beginning to ensure that these do not get lost along the way.

4. ANNEXES

This section provides detailed information on the following:

- The bigger picture
- The potential roles for intermediary organisations in promoting ethical trade
- Capacity building
- Ethical trade options
- Case studies
- Policies
- Business Basics
- Template for Ethical Business Planning
- Further reading
- Websites and Contact Details
- References
- Basic Terms (mini-glossary)
- Acknowledgements, Acronyms, Abbreviations

Annex 1: The bigger picture

The bigger picture includes information on:

- Trade and development
- Looking for positive benefits
 - a) Participation
 - b) How do NGOs engage with producers and collectors?
 - c) Approaches to impact assessment.
- Tools, concepts and frameworks for analysis
 - a) social analysis
 - b) forest dependency
 - c) strategic planning
 - d) swot analysis
 - e) policy analysis
 - f) stakeholder analysis
 - g) gender analysis

A young boy drinking coffee in Mexico



Trade and Development

Ethical trade schemes may have development or conservation objectives. Increasingly they consider both social and environmental issues, as well as economic dimensions of trading.

Using trade as a tool to promote development is the central proposition of fair trade. Global economic and political structures and systems disadvantage poor people and poor countries. Fair trade schemes try to establish trading on a different set of terms - terms that improve the position of poorer producers and collectors. Ethical trade can help to bring about more positive developmental impacts than conventional trade. It can be undertaken at the local or national level - it does not have to be export trade. However, many ethical trade schemes use the buying power of concerned consumers in industrialised countries and so they have to export products. **Export production has problems**, as well as benefits. For example, the global ecological impact of export trade is considered a big problem as it contributes to global climate change. Further, export production can lead to rapid changes in the division of labour at the household level, with women being the most negatively effected.

But ethical trading can bring many **positive benefits** such as increased cash income, capacity building etc.

Looking for positive benefits

So, how can positive developmental impacts be ensured? Three aspects are considered below:

- a) Participation
- b) how NGOs engage with producer groups and communities
- c) Impact assessment

One of the key things to remember is that the people that are supposed to benefit from such schemes fully **participate** – i.e. in terms of **decision-making**.

a) Participation

Over the past two decades **community participation** has become recognised as a fundamental part of any development process or intervention.

There are many **different interpretations of participation**, with differing degrees of participation by local people and stakeholders. Two common types of participation are as follows:

- Participation is a process that aims to empower local people
- Local people are consulted about projects that have been selected elsewhere and are invited to participate in their implementation.

So why adopt a participatory approach?

- **Ethical** - the involvement of people in decisions that affect their lives is increasingly recognised as a democratic right. Accountability and participation are precursors to good governance and a healthy democracy.
- **Practical** - for development programmes and projects to succeed they must ensure that those intended to benefit feel ownership and are engaged in developing solutions to problems, otherwise they are unlikely to be sustainable or to have a positive impact.

To what extent can ethical trade schemes foster real participation?

Good quality participatory processes largely depend on the skill of facilitators. Facilitators need to have a good understanding of the principles of participation and to be able to practice these in their own activities as much as with others. It is too easy to focus on the techniques of participatory rural analysis (PRA). Do **NOT** do this. Doing lots of maps and matrices is of little use if only small groups in a village are doing them and they have no idea why they are doing these exercises! This type of situation is all too common.

Participatory methods include all techniques that facilitate the democratic participation of group members in the process of reflection and analysis. The methods enable the formal power dynamics that exist within any group of people to be broken down – to de-formalise a situation so that the status and roles of different people do not prevent a free flow of ideas and opinions. (Source: www.reflect-action.org).

The reflect approach is one of the more dynamic approaches to participation and social change.

Reflect is an approach to adult learning and social change, used in many different contexts, with many different names - including Reflect-Action, common in Latin America.

There is a wealth of information about participatory techniques. Putting the principles of participation into practice is more important than learning lots of techniques (adapted from the www.reflect-action.org). Some of the key **principles** of participation are outlined below.

Communication practices

- People need the capacity to be able to articulate their own experience and perspective, to communicate and engage with an external world - because this is the essence of democratisation. People's capacity to communicate is fundamental to equitable relationship (e.g. between men and women, adults and children etc).
- Communication is two-way and it is not neutral. The capacity to communicate and be heard is determined by power relationships.
- To change inequitable power relations it is important to assert peoples' right to speak individually and collectively, and to give people space for analysis and reflection so they can decide what to communicate.
- Help people to learn to communicate and help them to access appropriate 'instruments' for communication - not only reading and writing but also speaking, listening, visual means, technology, the media, numeracy.

Power Analysis

- In any group of people, and between that group and wider society there are a diverse set of power relations. Stratification in society can form along a variety of lines including gender, ethnicity, generation, class, culture, or level of experience.
- The capacity to communicate and be heard is determined by power relations. Those who live under conditions of very unequal power relations have no voice - they internalise their social status and roles and what they are allowed to say and what they are not allowed to say.
- Making small practical changes may help to improve people's condition but may also reinforce their social roles and positions of inequity.
- Therefore it is important to analyse power relations (and how these vary in different situations).
- Many participatory techniques can be used to analyse power e.g. visualisations to explore specific instances of power, or participatory video to influence wider audiences. The aim is to help people to see the power that the DO have and the power they may lack, and to work towards change that helps them to positively transform power relations to lead to a more equitable world.

Other principles include:

- Develop **long-term relationships** between NGOs and local communities. Time is needed to build **trust** and to promote informal, non-formulaic, personal modes of interaction in shaping the development agenda at the community level.
- Consider the **pace of change**. The speed of change required by many ethical trade standards (e.g. forest certification) is often far too rapid for local forest management institutions and nascent community enterprises and can lead to conflicts and failure if not carefully tackled.
- Be sensitive and help others to understand local **differentiation and power dynamics at the local level**.

- Engage in a **dialogue** with producers about **development** and the ‘**ethics**’ of trading, **views of each other** and the **power relations** at stake.
- Any NGO considering engaging with producers should consider its **own limitations**, to share this with partners and to develop **strategic alliances** with development organisations with additional resources from outside.

These principles outlined above are useful and can be applied in the development of ethical trading initiatives.

Your challenge is to consider these principles and to try and put them into practice in whatever you are doing.

One specific example in relation to ethical trade is that an intermediary NGO could facilitate a power analysis with local people to make explicit the power relations they experience and to bring out the images that both parties have of each other. This is useful to identify where changes may need to occur.

Some of the **risks** of ethical trade that may be avoided if participatory approaches are adopted are outlined below:

- Ethical trade schemes can create **dependency** on external organisations and rarely are the possible consequences of engaging in global trade explored sufficiently by intermediary NGOs and local communities. It is important to research priorities, power relations and possible implications of such schemes with partners.
- Engagement in the market economy which may leave **existing inequalities** in society untouched and lead to further marginalisation of the poor. For example, it is worth questioning ‘who is represented by a producer organisation and who is excluded?’.

The question of how an organisation engages with local communities is crucial to ethical trading. It is therefore important to explore fully some of the following questions:

- What type of enterprise interests different people in the community?
- What would be the motivation and required results of different groups within a community or producer group?
- Who in the community would like to be an owner (shareholder), which means investing his/her money in the scheme and participating in the business planning process? Who might be excluded from this process because they have less power than others?
- Who would benefit from the enterprise and how?
- What are the short and long term social, economic and environmental interests of different social groups?
- How does enterprise fit with these interests?
- What might be the positive social impacts of establishing an enterprise? (e.g. in socio-economic community development, or negatively in creating divisions and power struggles?)
- What are the gender considerations?
- Is there genuine interest within the community in establishing and participating in an enterprise?

(Adapted from - Source: E Millard, forthcoming Enterprise as a Conservation Strategy, Conservation International.

b) How do NGOs engage with producer groups and communities?

There are three main options:

- Working with **producer and community enterprises** based on their **potential for success**. Market demand is the starting point – i.e. there is market demand for a specific product and the NGO will seek producers with which to trade in an ethical manner.

- Working with **producer businesses** based on their **social development needs** which means they may need more resource input. The producer business/enterprise already has ready developed products, that can be supplied under 'fair trade' terms.
- An NGO develops a long-term relationship with a community or social group and through participatory planning the possibility of entering into an ethical trading initiative emerges – **community-NGO relationship-led trade.**

Some of the pros and cons of these three options are laid out below:

Pros and Cons of Market led trade:

- A key advantage is that because market led trade begins with the market demand it may be more likely to succeed because it can meet quality and volume requirements etc
- Risks associated with this approach are that it may not respond to the priorities of many within a community.

Producer-organisation led trade:

- Greater opportunities for building on priorities set locally (although the opinions of more marginalized groups may still be ignored)
- Risk of quality levels and volumes demanded by international markets cannot be made by a local community enterprise.
- There are also questions about working with existing producer groups, because there may be groups within the community who wish to participate but who are unable to because they lack the power and access to the right resources.

Pros and Cons of community-NGO relationship led trade:

- It may be that an NGO is working in a long-term relationship with a community or social group and through participatory planning the possibility of entering into an ethical trading initiative emerges and fits with local priorities.
- The problems with such an approach is that often the NGO may not have any experience of supporting ethical trade initiatives and the scheme founders as a result.

Other tensions inherent in trading for development have been outlined (L. Humphries 2000). For example:

- should an alternative trading organisation focus on developing products that match the changing tastes of the market or offer protection to producers from market fluctuations?
- Can goods be sold at competitive prices to stay in the market, but premiums paid to producers, even though many ethical trade schemes do not have the advantages of economies of scale that conventional business often has?

Balancing market and producer needs can create problems. An example of this is provided in the box below:

A study of the Chiquitano Lomerio community forest enterprise in Bolivia found that the sawmill experienced difficulties in retaining staff of the right calibre, because of the clash of local cultural values and the those inherent in a market-oriented business. Moreover, the timetable of changes required in the enterprise to meet all the requirements of certification, including new bureaucratic requirements, were too fast for a fledgling enterprise - creating internal conflicts. Smart Wood responded by extending the period of compliance but the author of the study argued that it should be the responsibility of the certifiers to tailor the demands of certification to the local context.

Source: Markopolous, M. (1998) The impacts of certification on community forest enterprises: A case study of the Lomerio Community Forest management project, Bolivia. IIED Forestry and Land Use Series No. 13.

c) Approaches to Assessing Impact

Assessing the impact of such schemes is important. To date impact assessments of ethical trade schemes have been fairly limited.

Impact assessments are important because:

- It is important to know if the claims of ethical trade labels fit with the reality on the ground
- To work out who is obtaining what kind of benefits and how these can be increased?
- To assist the participants in the ethical trade scheme to reflect on how they are organised and what could be changed.
- To work out who is being negatively affected by a scheme and how this could be reduced?

Whose criteria are used to assess the impact of such schemes?

- The monitoring and evaluation criteria for projects that reflect the concerns and priorities of non-local organisations?
- Criteria that are locally meaningful, i.e. by developing participatory indicators for self-assessment.

The criteria of external organisations have been used for impact assessment in general, but there is an increasing recognition that such criteria need to include participatory indicators, because impact assessment involves value judgements, and the views and priorities of participants and neighbouring communities should therefore be central to this judgement.

For external organisations it is important to consider very carefully the potential impacts of any scheme they may be promoting and to support local community groups to explore these as well. This is important to avoid the raising of expectations over and above what can be delivered and also to try and ensure that the scheme is a priority for the producer group or community rather than an externally driven process.

TOOLS, CONCEPTS AND FRAMEWORKS FOR ANALYSIS

This section presents a range of tools, concepts and frameworks for analysis of the context of ethical trade and the scheme itself to ensure positive benefits and to minimise negative effects. The following are explained:

- h) social analysis
- i) forest dependency
- j) strategic planning
- k) swot analysis
- l) policy analysis
- m) stakeholder analysis
- n) gender analysis

a) Social analysis

For any producer organisation or facilitating NGO it is important to have an understanding of the social context within which an ethical trade scheme may operate or within which it is already operating. This is important for the following reasons:

- Without an understanding of the social context it is possible that inappropriate or unviable schemes are initiated and that these create conflict or run into problems later on.
- Spending time on background research is important to understand the underlying structural inequalities that exist in a particular society and the factors that will influence or constrain development and conservation strategies.
- Care needs to be taken to avoid creating or exacerbating conflicts over resources. If for example there are severe structural inequalities in a society in which an ethical trade scheme

begins to operate, then it is possible that the benefits from the scheme such as increased income could serve to reinforce the divisions that exist.

- To feed into participatory planning processes
- To provide baseline information for assessing the impact of an ethical trade scheme.

What kind of social analysis is useful and who does it?

Analysis of the context is important for any ethical trade scheme. The social, political, economic, cultural and institutional context of a producer group should be understood.

Within the social sciences there are numerous approaches, tools, and frameworks for analysis of the social context. These range from in-depth anthropological analysis to rapid market research and large-scale questionnaire surveys. Many NGOs are familiar with social analysis and with approaches to community development. However, for producer organisations, NGOs and other organisations engaging in ethical trade that are keen to gain a better understanding of the social context read on.

There are stages of social analysis:

- Obtaining secondary information
- Carrying out original research through fieldwork at the local level and with key stakeholders.

It makes the most sense to begin collecting information together from secondary sources. Secondary information will be available from a variety of places and people:

- Government statistics departments
- Local government departments (e.g. forestry, land)
- Village schools and teachers, health centres and health workers, agricultural extension officers, traditional birth attendants,
- NGOs with published and unpublished reports
- University departments and academics.

Unfortunately a whole separate publication would be required to fully explain all the key concepts of social analysis and there is not the space to do so here. However, an initial introduction is provided below relating to some of the key issues that are relevant to understand the social context of ethical trade schemes. See also annex xxx on further reading and sources of information.

Issues that may arise

- **History:** Too often insufficient attention is given to what has happened in a geographic region and to specific populations and communities, including changes in agroecology, formal and informal institutions and trading. It is important to understand history in order to plan for the future - and yet in the rush to 'achieve success in development' a certain amnesia often occurs and previous and existing regional trends and dynamics overlooked.
- **External organisations:** Who else is working in the area where alliances could be created? Which external organisations have an influence on policies and practices in the region? Which organisations may compete with the scheme being developed and therefore may require a specific strategy (See section xxx).
- **Stakeholders:** Stakeholders are the people or organisations that have an influence over or are affected by projects, programmes and policies. Primary stakeholders (at the local level) are often the intended beneficiaries of a project and neighbouring households and communities. Secondary stakeholders may be at one remove from a particular project, but they may have an important role to play in the project or scheme and may also be able to wield a great deal of influence over it thus potentially affecting its failure or success. Carrying out a stakeholder analysis at the beginning of a project, programme or scheme is important and repeating this exercise regularly is useful. This is because stakeholder analyses can help to point out the relationships that may need to be developed and areas where conflicts might occur. At the same time it is important to be aware that

depending on your social position, role in an organisation or cultural perceptions you may have different ways of categorising people - i.e. it is a subjective process.

- **Local social divisions:** It is important to have an awareness of the social divisions in a society along which peoples' access to and control over resources, status and role in society and relative power and well-being are often determined. This is because any intervention will not necessarily have a predictable effect, but will interact with the existing power relations in society and social divisions to produce impact, that may or may not be beneficial to different groups. Social divisions occur along the lines of gender, wealth, age, class, ethnicity.
- To try and improve project planning so that it is not gender blind, requires a good gender analysis.

In studies carried out by NRET, gender awareness in fair trade schemes was not found to be explicit which suggests that there may be gender blind policies operating. In other words decisions are made that ignore the Also it is important to remember that differences of wealth, age, class, ethnicity also influence power and status in society and ultimately well-being and livelihoods (see section xxx. Further reading)

- **Negotiations, conflict and consensus building:** The negotiation of mutual expectations is important when an ethical trading scheme is beginning. This will help to ensure that roles are made explicit and that expectations are not raised too much. Conflicts may occur in such schemes particularly when the pace of change is forced by external processes of certification and the heavy demands on time that they require, because of the need to manage extra bureaucracy. Certification processes can help to highlight areas of conflict and to identify ways of tackling these, but there are also risks that a dependence on external facilitation develops, since local and indigenous methods of solving disputes are undermined. The distribution of benefits also needs to be clearly discussed early on and to take into consideration an awareness of the social divisions in society outlined above that mean that some groups may be less likely to benefit than others unless specific measures are taken.
- **International, national and regional policies:** What are the current and possible future policies that might influence development interventions in an area and specifically an ethical trading initiative?
- **Livelihoods of different groups** - rather than focusing purely on people as producers or collectors of a specific product, it is important to see them as PEOPLE with a whole variety of aspirations, interests, faiths, resources, capabilities, levels of power and activities. People operate in a context of vulnerability. Within this context they have access to certain assets or poverty reducing factors. These gain their meaning and value through the prevailing social, institutional and organisational environment. This environment also influences the livelihood strategies - ways of combining and using assets - that are open to people in pursuit of beneficial livelihood outcomes that meet their own livelihood objectives (see www.livelihoods.org).

DFID Sustainable Livelihoods Approach

Core principles of the sustainable livelihoods approach are the following:

- **People-centred:** sustainable poverty elimination will be achieved only if external support focuses on what matters to people, understands the differences between groups of people and works with them in a way that is congruent with their current livelihood strategies, social environment and ability to adapt.
- **Responsive and participatory** - poor people themselves must be key actors in identifying and addressing livelihood priorities. Outsiders need processes that enable them to listen and respond to the poor.

- **Multi-level:** poverty elimination is an enormous challenge that will only be overcome by working at multiple levels, ensuring that micro-level activity informs the development of policy and an effective enabling environment, and that macro-level structures and processes support people to build upon their own strengths.
- **Conducted in partnership:** with both the public and private sector.
- **Sustainable:** there are four key dimensions to sustainability – economic, institutional, social and environmental sustainability. All are important – a balance must be found between them.
- **Dynamic:** external support must recognise the dynamic nature of livelihood strategies, respond flexibly to changes in people's situation, and develop longer-term commitments.

SL approaches must be underpinned by a **commitment to poverty eradication**. Although they can, in theory, be applied to work with any stakeholder group, an implicit principle for development agencies using the framework is that activities should be designed to maximise livelihood benefits for the poor.

Source: Carney and Ashley, DFID 1998 'Sustainable rural livelihoods: what contribution can we make? DFID, UK.

It may be useful to use the sustainable livelihoods framework to support your social analysis of the context within which an ethical trade scheme is or could operate. Studies of the impact of ethical trade schemes have been carried out that used the sustainable livelihoods framework as the means to analyse who the scheme affects and in what way. See box below.

Fair Trade and Sustainable Livelihoods

Vulnerability context

Fair trade aims to reduce vulnerability in relation to the export market, but the fact that fair trade is based on accessing export markets may in fact make producers more vulnerable.

Institutional analysis (structures and processes)

Limited analysis of local institutional set up, with exception of favouring democratically organised producers. Some producer organisations may be exclusive. Scheme promoters rarely undertake stakeholder analysis.

Access to assets

Social capital – fair trade has strengthened some co-operatives, offered them a lifeline, but there is potential for greater capacity building

Natural capital – limited consideration of environmental sustainability of the ethical trade schemes studies.

Financial capital – main outcome

Human capital – technical training is often offered including marketing skills and post-harvest techniques

Physical capital – fair trade premiums and links to donor funding (honey pot syndrome) may lead to investment in physical capital, although for remote forest communities infrastructure needs are likely to be quite high.

Poverty focus

Tends to focus on one stakeholder, the primary producer, and not other stakeholders. While the focus may be on small scale producers, they are not necessarily the poorest; for fair trade in cash crops such as coffee and cocoa, the members are owners of land – often males, household heads; fair trade criteria for coffee do not consider the conditions of seasonally hired labour

Source: Adapted from analyses in NRET 1998

Checklists covering some of these livelihood issues are useful for analysing the context of an ethical trade programme and its feasibility given this context. Many social, political and institutional issues have been explored in this section on the bigger picture and economic questions that you need to consider have been laid out throughout the text.

Some of the key questions to consider before taking a final decision on whether to go for an enterprise option are included in the checklist below. The following checklist is focused on conservation driven trade, but it can be adapted for any type of ethical trading initiative and is a useful and simple place to begin.


Factor	Issue	Likely effect on enterprise
Political	What political support or resistance might there be for enterprise?	
	What legal regulations are there?	
Social	Will local institutions support the enterprise?	
	What are the major social and cultural issues in the community?	
	Is there any enterprise tradition?	
	What is the likelihood that the enterprise would cause people to stop doing destructive activities?	
Economic	How do people earn their living?	
	Which skills exist?	
	What possible sources of finance exist?	
	What infrastructure exists and what costs are associated with its use?	
	What technology and what type of technical support is necessary for this enterprise? Is it readily available?	
Environmental	What will the direct and indirect impacts of the enterprise be?	
	Will there be negative ecological impacts - road building, waste, etc?	
	How will the enterprise use resources sustainably?	

b) Forest dependency

Forest dependency analysis is an assessment of the degree to which different social groups rely on the forest for their livelihoods. A forest dependency framework was developed by Byron and Arnold (1998¹) and it explores different kinds of relationships between people and the forest. The framework also facilitates an analysis of the wider picture of trends affecting forest sustainability.

Analysing the different kinds of relationships between people and the forest is important for the following reasons:

- It can provide insights into options for trading in forest products
- Highlights the different degrees of vulnerability of social groups relying on the forest

¹  (Byron and Arnold "What Futures for the People of the Tropical Forests?" CIFOR Working Paper no. 19; Bogor, Centre for International Forestry Research 1998).

- Makes explicit future forest sustainability threats and opportunities because it encourages reflection upon the impact that different degrees and types of forest utilisation have on natural resources and the changing pressures on forest use. (See also section on livelihoods framework and vulnerability).
- It allows the characterisation of different forest dependent groups (e.g. hunter–gatherers), and encourages examination of how different groups respond to economic opportunities such as trade, and how these opportunities can impact upon the forest.
- Encourages a view of trade in a particular commodity, not as a discrete activity, but as one part of a multi-faceted and dynamic system of livelihoods, where, for instance, financial benefit may not be the sole consideration.

The term “forest dependent people” covers a variety of different kinds of relationships between people and forest. Key issues to consider are outlined by the questions below (this is adapted from Byron and Arnold 1998).

What is the relationship between different social groups and the forest?

- Is the forest a dominant part of the physical, material, economic and spiritual lives of people, or are the social groups in question less intimately linked to the forest and therefore assessing forest importance in terms of individual forest products and services used may be possible and appropriate?
- In many parts of Sub-Saharan Africa many people obtain income from forest products, but these products may actually be obtained from trees on farm or in sparsely wooded areas, rather than forests themselves.

What are the subsistence uses of forest products?

For example:

- Forest foods rarely provide the staple items that people eat, but often improve nutrition, have health benefits etc. They may cover seasonal shortages and provide food at peak agricultural periods, and in times of conflict.
- Construction materials and wood fuel
- Medicinal plants
- Fibres for baskets
- Fodder for animals

What income is derived from forest product activities and by whom?

- Many households obtain cash from the sale of forest products
- Rather than the absolute size or share of household income, cash from the sale of forest products tends to play an important role in fillings gaps and complementing other sources of income.
- Marketing of forest products may be seasonal and carried out during the hungry period between harvests or when the crop is available, year round or occasionally when people have more time to dedicate to these tasks.
- In times of crop failure or shortfall, sale of forest products can act as an economic buffer and safety net.
- Where access to forests is relatively unrestricted, forest products are often very important for poorer groups. However, the wealthier groups often have more time and resources to dedicate to such tasks and may be the heaviest users.
- Forest products may form an important source of income to women because the products in some situations may be easy to access and little is required to begin collecting the products. However, in some instances there will be rules governing who has access to resources from trees, which may limit accessibility to women.

What are the patterns of change in the use of forest products and access to forests?

How are subsistence uses changing?

- In some instances fewer people are using forest products, (e.g. where food crop supplies have been improved or people buy food instead). Tastes also change as new food products enter rural markets or as 'traditional' products become less available due to physical shortage of the product or due to a reallocation of household labour. Increased pressure on women's time may mean they have less time to gather forest foods.
- Loss of knowledge about forest foods can also be reflected in declining use of forest foods.
- The need for income by the poor can also mean that products that might otherwise have been consumed are sold, to get cash to buy staple foods.
- Generally, the subsistence economy remains large, even where people are increasingly integrated into the market economy.

Are people becoming more dependent upon income from tree products or less so?

- Some markets for some products are large, stable and diversified, but for other products they are volatile and demand is seasonal or fluctuating.
- Domestic markets may provide more stable markets for products. Fuelwood and forest fruit transactions are increasing in many areas as they become more commercialised. As people move to urban areas they may still demand the forest foods that they ate in the forest and that are cheaper than more expensive formal sector products.
- For some products, as incomes rise, people stop buying them and buy more convenient purchased foods and factory made alternatives.
- Even where there are new and upgraded markets for forest products, poor people in these areas may be unable to take advantage of the opportunities on offer, due to lack of access to credit, technical skills, capital etc.
 - Collection of forest products can be arduous and if alternative income generating activities arise that are more attractive.
 - A decline in the quality and size of the resource is a common problem for forest users. Clearance of land for agriculture and pasture puts pressure on the land, timber harvesting can damage other parts of the forest, and sometimes that state takes over the forest or it is privatised in practice (if not in law) by wealthier and more powerful users.
 - Increased pressure on what is left can lead to forest degradation, and people may have to depend upon bush fallow and farm land trees.
 - However, those who do not have their own land to grow trees are the most badly affected by the loss of access to forests, such as the landless poor, small landholders. Farm trees cannot provide all of the products and services that forests provide either.

What trends can be discerned in relation to how people depend upon forests?

How does population and per capita income ratios relate to changes in people-forest relations?

- Where population grows faster than per capita incomes, people may turn to forest product activities to obtain income (e.g. collecting and mat making - low return and labour intensive activities).
- Where per capita incomes are increasing people may turn to more productive and remunerative activities, e.g. vending, trading to meet growing rural and urban demands. Instead of many people doing these forest product activities but only on a part-time basis, fewer people overall may now become involved on a more specialised basis.
- Where there is increasing urban poverty people, may increase demand for cheap forest products.
- Forests always play a safety net role that may not be visible in better times.

There are not clear cut differences between groups depending upon forests, but to highlight some of the diversity of relationships between forest dwellers and users and the forest we outline below the typology developed by Byron and Arnold.

Forest-People Relationships

- ❖ People who live in forests such as **hunters and gatherers**, depend on the forest as the very basis of their livelihoods systems. Many are self-reliant, although some are increasingly exposed to the market economy and are dependent on middlemen to sell and buy products. **Shifting-cultivators** grow crops in areas of cleared forest, alternating this with long periods of forest fallow and supplementing crops with forest and bush fallow foods. Many of these systems are under pressure as the forest area available overall is reduced leading to reduced productivity and increasing pressure on the forest that is left. Also increasing engagement in wage labour outside the forest leads to insufficient time to maintain the system. Both of the above appear likely to decline as rural infrastructure expands, and the market economy spreads enticing people into intensive agriculture and wage employment.
- ❖ “**Forest-related**” peoples, such as **nearby farming communities**, have looser links with the forest, forest products playing a smaller, though important, role in their overall livelihood system. As the market value for certain forest products increases, economic and political elites tend to restrict the access of poorer groups to forests. As new market opportunities arise, these **wealthier farmers and landowners** are the most likely to take advantage of these. Communal property regimes are often under threat as wealthier groups wish to privatise them and poorer groups wish to maintain access.
- ❖ Other peoples, such as **artisans and entrepreneurs**, may depend on commercial forest product activities. Many of the processing and selling activities relating to forest products are conducted on a part-time basis, but as markets grow larger rural workshops may take over and are located in bigger settlements. Sometimes the role of households in this trade, is taken over by traders and entrepreneurs. Many of these live in urban areas, and although these people that live outside the forest will be affected by declining physical stocks of trees, they are more likely to be able to shift their activities to other locations and products. **Forest industry employees** may obtain jobs, when large modern sector forest industries are established, and when many people may as a consequence be cut off from livelihood assets. However, the number of jobs available is often small compared to the losses suffered overall by local people, and many of the jobs are snapped up by outsiders anyway, since they are more likely to have the skills needed and these jobs are often short-term - for the period of extraction.

Source: Byron and Arnold (1998).

The potential role of ethical trade schemes in supporting forest based livelihoods or indeed in helping people to diversify out of forest livelihoods needs to be explored in the context of a good social and forest dependency analysis.

Forest sustainability may be the goal in conservation-driven trade. In fair-trade the focus is on social benefits. However, whatever the end goal increasingly social and environmental benefits and costs are being integrated into such approaches with an increased understanding of the interlocking nature of sustainable natural resource management and livelihoods. In other words the current trend in ethical trade is towards a balance between human and natural resource benefits. It cannot be ruled out, however, that increased access to markets and better returns for producers may result in a negative environmental impact.

c) Strategic Planning

Strategic planning is actually a process which is useful for an organisation to undertake in order to be clear on its objectives and how it will achieve these objectives. Although, very small producer organisations may not have the capacity to undertake such a process, intermediary organisations could facilitate a simplified version.

An explanation of how to do strategic planning for ethical trade is outlined below. (This information is based on E Millard, forthcoming, Conservation International).

The **rationale** may vary for different organisations with some prioritising development objectives and others having more of a conservation focus. However, as we have argued elsewhere sustainable development requires an understanding of the links between developmental and environmental issues.

It is important to note that the process of strategic planning should centrally involve primary stakeholders - e.g. the collectors, farmers, forest families, men, women and children, traders and specifically people in poverty. This is to ensure that strategic plans are based on the understanding of these groups, with these different groups having a sense of ownership over the process and to bring out potential conflicts in priorities earlier rather than later.

Strategic planning often begins then with the development of a **vision** - this articulates how your organisation would like things to be, i.e. it represents something to work towards. There are conditions outside of this vision that the organisation may not be able to directly influence but these should be identified so that it is clear in what conditions the vision can actually be realised.

Carrying out an analysis of **threats** that might prevent this vision from being implemented, and the root causes of the threats, will help you identify what action to take to avoid these risks or reduce their impact if they occur. Taking time to think of what the **opportunities** might be is also a helpful exercise to prioritise options for action.

Analyse who the key **actors** or stakeholders are, to work out which are the most important and whether this importance is positive or negative.

Having done these exercises it is likely that possible options or **alternatives** will have started to emerge which might lead you to your vision. Further explore these options to help you decide on what your strategy should be.

Your organisational strategy (for conservation, development, sustainable development etc) may involve different activities and projects, one or some of which might be the development or strengthening of an enterprise. The strategy would set out how this enterprise will help the organisation achieve its vision.

For further information see the conservation manual 'Enterprise as a Conservation Strategy' (forthcoming), E. Millard.

d) SWOT Analysis

SWOT (strengths, weaknesses, opportunities, threats) is a useful tool for analysing the context of a specific area, project or scheme and can be carried out with different stakeholders (This is a recommendation from Conservation International Manual, forthcoming 'Enterprise for Conservation').

Key questions would include what are the threats that exist which would prevent the vision of an NGO being realised and what are the kinds of opportunities that could be acted upon. The strengths and weaknesses of the NGO – i.e. its capability to implement different strategies should also be explored.

e) Policy Analysis

The viability of an ethical trade scheme and the livelihoods of poor people are influenced by a whole range of policies and institutions at different levels.

From macro-economic policies and global trends² to negotiations within the household³ there are interlocking processes, policies, and institutions, as well as cultural beliefs and values that determine an individual's opportunities and constraints to obtain a living for themselves and their families.

² E.g. Globalisation, particularly the spread of the market economy and a declining share in trade by poor countries and poor people, global environmental degradation.

³ E.g. over access to natural resources and use of cash.

Institutions and organisations are actually central to livelihood sustainability. 'Adverse policy environments, inappropriate regulation, a lack of markets, and barely functioning service delivery or local government organisations can all have a profound, negative effect on livelihoods...unless these institutional/organisational problems are addressed directly, it may not be worth engaging in more traditional areas of support to productive activities' (DFID SL guidance sheets). This may be true not only for productive activities, but for trading activities.

For example, national extractive mining policies may allow for mining to occur which will threaten tropical forest upon which poor people are dependent for the livelihoods (often the poorest are those that depend on common property resources).

f) Stakeholder Analysis

The term 'stakeholder' is increasingly common in development parlance and particularly in ethical trade. Understanding the concept is useful for the following reasons:

- To uncover hidden interests
- Depending on the objectives of the ethical scheme identifying who is likely to benefit and who may be marginalized.
- To ensure all the key stakeholders are involved in monitoring and impact assessment, especially the main local stakeholders.

It is a method that can be used to analyse power relations and could be carried out using participatory techniques with forest producers and collectors.

Stakeholders are individuals and groups that have an interest in or are affected by a project or programme. Primary stakeholders are those at the local level who could include occupational groups (e.g. workers on estates, brazil nut collectors) or specific social groups (e.g. women, older women, youth, men, etc). Secondary level stakeholders could include the individuals and organisations external to the local context that will influence or be affected by conservation and development driven initiatives including ethical trading schemes.

Ethical trade forest stakeholders at the local level may include e.g. factory workers, primary producers and collectors, home workers and processors and other community groups that may be affected by the development of such a trading scheme. Secondary stakeholders may include NGOs and ATOs, different levels of farmer organisations and associations, indigenous peoples organisations, local and national government, intermediary traders and commercial companies.

In annex 5 on business planning it is explained that identifying marketing chain stakeholders is important. However, it is also crucial to understand who else is a stakeholder outside of the direct marketing chain and particularly those at the local level whose livelihoods may be affected by a scheme or project. There may well be people who live in a forest but who are not participating in an ethical trade scheme? Will these people have less access to the resources upon which they depend if the scheme is successful and many products are extracted?

'Communities' are often perceived as homogeneous entities but in reality this is often a myth and extensive power differences and complex social groupings exist. Social groupings may be divided in a variety of ways – e.g. wealth, class, age, gender, caste, ethnicity, religion and it is useful to remember that these divisions are rarely static. Social divisions at the local level must be explored for all types of ethical trade.

Stakeholders in the brazil nut trade, Peru

Fair and ethical brazil nut trading in Peru is supported by a number of conservation and development ATOs. An association of brazil nut concessionaires is supported by these organisations to export brazil nuts to fair and conventional markets. When a stakeholder analysis of the trading scheme and the forest resources was carried out it was discovered that at the local level there were two specific groups who were not benefiting in the same way as the concession holders. The difference between those who hold brazil nut concession titles and the seasonal labourers who carry brazil nuts out of the forest had not been

properly analysed and benefits had been assumed to trickle-down. In the same way, the shellers who largely work at home as well as in the factory and are female had been overlooked. The invisibility of these groups is largely because they are located in the informal economy and because their labour is seasonal.

Stakeholder analysis can also highlight the **desired kind of relationship** that an NGO, trader or producer group may wish to have with each other and other stakeholders (e.g. government departments, other forest users). Some stakeholders will only need to be informed of decisions taken, whilst others may need to be included in the decision-making process. Some stakeholders may need to be lobbied and alliances built with others.

For all development-driven NGOs that are tackling poverty it is important to **identify who are the marginalised and poor social groups**, to see if they are being reached and to check they are not being negatively affected. Fair trade schemes need to maintain the credibility of their labels and maintain their reputation on international markets. Carrying out stakeholder analysis can help to identify who are the poorest groups in society.

Trade-offs occur over the use of natural resources and conflicts may arise. Forest-dependent people tend to have multiple uses for trees and forest products. Use of a natural resource in conservation driven trade by one group (especially if the level of use is ecologically unsustainable) may mean that another group is unable to make use of that resource thus driving them further into poverty. Such trade-offs can be revealed by carrying out an analysis of different stakeholder groups, their interests (both hidden and overt) and the areas for competition and conflict between the different groups.

g) Gender analysis

The gender dimensions of ethical trade have been raised at various points within this manual. This is because gender issues are cross-cutting. However, it is important to reflect separately however on gender in ethical trade, because although inequalities in power relations follow many different lines (e.g. generation, class, caste etc), gender discrimination is one of the most common throughout the world and therefore merits special attention.

The inequalities that exist between men and women vary in different places, but women are often discriminated against. Women may experience poorer conditions in the factory, for example, or receive less pay for equal work. When crops are being traded the cash earned from sale of the crop will not necessarily be controlled by women, even though women may be centrally involved in cultivating these crops and also have less time for other important household tasks. Women's representation on formal bodies also tends to be more limited than that of poorer men. How far can ethical trading bring development benefits fairly to both men and women given these underlying inequalities?

A very **brief history** of women, gender and development is provided below:

- In the past **welfare** approaches in development focused on vulnerable groups, including women. **Women-in-development** policies arose. These policies were targeted at women, because they saw women as an untapped resource, able to make an economic contribution.
- Focusing on women in isolation is too narrow though. It is better to think in terms of '**gender**' rather than 'women'. Try not to perceive women in terms of their *sex* – namely, their biological differences from men – rather than in terms of their *gender* – that is, the **social relationship between men and women, in which women have been systematically subordinated**' (Moser 1993).
- It is thus the **relations** between men and women that is important, because men and women play different roles in society. These **roles are determined** largely by ideological, historical, religious, ethnic, economic and cultural determinants' (Whitehead in Moser 1993).
- Gender divisions **vary between cultures**.
- The **earlier** women-in-development approaches aimed to include women in development processes because this is more **effective** (e.g. promoting women's access to credit). However, **now** gender and development approaches are now more common and these focus on the subordinate position of women to men rather than looking at the position of women in isolation.

Until now the gender dimensions of ethical trade have been **neglected**. For example, in the development of FSC standards, in the fair trade in export crops. Non-cash crop fair trade and craft-based fair trade have attempted a much greater consideration of gender issues (or at least used the earlier limited women-in-development approaches or targeted women's groups - e.g. Eswatini – a group in Swaziland producing chutney and marmalade for Oxfam; thousands of groups in India).

Gender has not been considered in any great depth within **fair trade criteria** for traditional crops such as coffee – mostly because of the difficulty of setting down criteria for what happens within the household.

Few impact assessments of ethical trade schemes have been carried out and still fewer have considered the gender dimensions in any great depth. However, see the example from an international NGO below.

Gender Issues in Oxfam Fair Trade Programme

- The make up of producers groups was analysed - some have a majority of female members, others are all male.
- Fair trade can offer an alternative livelihood for small producers, generating a new source of income and employment. This can improve the status of women, increasing their self-esteem and expanding their decision-making role in the household. For one group in India, the status of women was changed when they were allowed to continue working after marriage and sometimes their husbands joined the scheme as well.
- Women often have to juggle multiple activities and they can fit fair trade activities, such as craft production, with their other household and productive tasks. However, women's workload may increase overall.
- Many traditional roles continue unchanged. Hierarchical producers groups means that women often do not hold the more powerful positions - in the Philippines women were employed in the lower skilled manual jobs of sanding, finishing and assembly, whilst men work the machines. Jobs are often divided according to gender, and those carried out by men are more highly remunerated.
- Awareness of gender issues is fairly shallow and in some a few cases there was unequal pay for equal jobs.
- Leadership skills were obtained by women. In India for example, in one scheme women from poor, low caste backgrounds had developed skills through the fair trade scheme and become prominent local government officials.

Source: Oxfam Fair Trade Programme - Impact Assessment Study of Oxfam Fair Trade (2000). R. Hopkins.

Potential roles for intermediary organisations in promoting ethical trade

For any organisations that are acting as intermediaries and who aim to provide support to producers and producer organisations then it is important that they consider how they will engage with producers. Just as it is essential to remember that good business planning is required for a successful ethical trade initiative, it is also necessary to adopt an appropriate approach to working with producers. A process that does not involve producers in decision-making is less likely to produce a sustainable or successful ethical trade initiative.

There are major tensions in ethical trade, especially for an NGO that wishes to use trade as a way to promote development. This tension between social development and marketing objectives is well rehearsed in the fair trade movement. Fair trade has not resolved this tension, and indeed it is a source of considerable debate within the movement. It is important to recognise this tension in efforts to build up the capacity of producer groups and try to identify a workable compromise through a process of partnership building.

One of the first steps is for intermediary organisations to familiarise themselves with the different kinds of roles that they may be able to play in facilitating producers to engage in ethical trade. There are a variety of ways in which organisations may work with producers. Four possible options are set out below. This is not an exhaustive list – there may be many other roles for intermediary organisations, but these include some of the more common options.

1. Operate as an intermediary trader
2. Facilitate links to commercial organisations/ buyers
3. Provision of advice on business development and information about ethical markets
4. Traditional NGO

More detail is provided on each of these roles below.

Operate as a trader:

The intermediary organisation is a primary stakeholder in the marketing chain and trades with the primary producer, usually offering services to producers.

Examples include Candela in Peru, MCCH in Ecuador; NCT in South Africa (see box). The intermediary may be registered as a co-operative (such as the Natal Timber Co-operative) but may be a conventional company with 'additional objectives (such as Candela).

Natal Timber Co-operative, South Africa

Natal Timber Co-operative (NCT) in Pietermaritzburg, KwaZulu Natal is increasingly responding to the needs of small growers in the province from which it buys timber. The co-operative was established in 1949 and the majority of its members are white, some with large timber plantations. Some small-scale black growers are now becoming full members of the co-operative, building on formal relations that began to develop from 1994 onwards.

From 1999, NCT began to establish more direct communication with the small growers. As an initial step, the co-operative employed a professional development and forestry specialist who relates with small growers on matters regarding timber prices and market trends. NCT intends to produce information material in the local language so as to engage small growers in issues regarding management performance and early in 2000 held its first field day in Zulu. The development forester has taken steps taken to introduce co-operatives to the timber growers in the areas where it operates (Greytown, Dalton, and Richards Bay). The primary responsibility of NCT is to identify market sources and opportunities for the sale of timber for members. However, the co-operative has limited capacity to build up primary level co-operatives and efforts at outreach thus far have focused on technical skill development, such as silviculture and dealing with transport problems. NCT has to get agreement from the board for investment in development and there is reluctance among some of the growers for further growth in the co-operative administrative staff.

Source: Addo et al, 2000 and Keyworth, pers com (11 Feb 2000), Norris, pers comm

Advantages of the 'operating as trader' model

There are several advantages to this model. These are as follows:

- Links to export markets
- Export marketing skills
- Efficient handling of produce
- Strong technical skills
- If organised as a co-operative, the benefits of efficient marketing passed down to producer members

Issues raised

However, this option does raise certain questions that should be considered by the intermediary: These are the following:

- Does the intermediary have an appreciation of the social development context?
- What is the intermediary's capacity for group formation or organisational development?
- Are wider implications of the trading relationship considered, e.g. impact on poverty, who is included/ excluded from the trade?
- How does the intermediary relate to and communicate with the producers? Are producers members? Do the producers have avenues to put forward their views to the board of the intermediary?
- If the co-operative represents larger producers as well as small scale producers, what is the scope for action on behalf of more marginalised groups?

Facilitate links to commercial organisations/ buyers

In this option, the NGO acts as an intermediary between a producer group and a commercial company buying produce.

Produce may be bought under contract and the company may provide the producers with inputs on credit or payment deducted from the price paid on delivery. This system is quite common for agricultural products or timber. Both producers and company may find benefits in employing the services of an NGO to facilitate this relationship. Examples include Faida in Tanzania and Lima in South Africa (see boxes).

Faida, Tanzania

Faida is an NGO based in Arusha in Tanzania which focuses on linking producers to markets - both export and local urban markets. It works with producers of horticultural crops, coffee, dairy products, oilseeds and flower and vegetable seeds, linking them to commercial buyers, through outgrower relationships.

Central to Faida's approach is recognition of the interdependence between the farmers and the company. The NGO plays the role of a 'marriage broker' in facilitating relationships between a company and small farmers in outgrower schemes. Many companies are willing to pay for an agency to act as a marriage broker to bring them into contact with smallholders and to help make the relationship work. For Faida, there are eight steps or elements to the marriage broker's role from initially checking out the company and the market to gradual withdrawal:

- Step 1: meet the company
- step 2: mobilise farmers
- step 3: introduce the partners
- step 4: identify finance
- step 5: technical and business training
- step 6: monitor progress
- step 7: handover training and evaluation
- step 8: withdrawal

After Step 8, Faida continues to keep a watching eye on the farmer-company partnership, but is no longer directly involved

Ingredients for success are:

- Careful enterprise planning
- Secure and transparent financing
- Fair and consistent pricing
- Sure and effective servicing
- Clear definition of roles
- Confidence and trust between producers and the company
- Facilitation - Marriage broker

Source: *Faida (forthcoming) Linking farmers to markets - An operational manual, Arusha*

Lima , South Africa

Lima is a not for profit foundation that works with a South African timber company (Sappi) to implement its 'social responsibility' outgrower scheme that buys timber from small scale timber producers on the KwaZulu-Natal south coast around the SAAICOR mill at Umkomaas. Sappi's social responsibility scheme, Project Grow began 1983, with Lima getting involved in 1989. It is essentially a contract farming scheme that Lima administers on behalf of Sappi. By January 2000, there were 4000 farmers involved in the Lima managed scheme

Initially Lima managed the scheme for Sappi on a fixed three year arrangement, but this was extended to a commission basis for area planted and area serviced. Since 1997 Lima has been contracted to harvest woodlots and the organization is paid a commission on tonnage delivered to the mill. All contact with the growers from production credit and supply of seedlings is delegated to Lima which also trains and advises growers. It is through this scheme that growers are able to access the export market for pulp. Lima's inputs are primarily technical and geared towards good forestry practice, and delivery of quality timber to the company. It also arrange contracts and provides some informal business skills training.

Whilst the arrangement with Sappi is largely in terms of product delivery and forest management, Lima has been able to use the timber scheme as a catalyst for other development programmes. Lima has built access and in field roads., and depots which stock agricultural and forestry inputs and has attempted in some areas to maximise farmer involvement both in growing and harvesting. In some cases farmers have set up co-operatives to undertake harvesting in an area. Through arranging interest-free loans, Lima has established 30 micro level contractors who work with bow saws and hand tools However, Lima is not involved in developing farmer associations. Nevertheless, in the region of twenty five farmer groups have been developed in half of the fifty tribal wards where they are active, and annual workshops are held with 100 elected or nominated growers.

Sources: Addo et al, 2000; Cairns, 2000, Zingel, 2000.

Advantages of the 'facilitating links to buyer' option

The advantages of this option include the following:

- Direct link to the market for producers
- Facilitates technical training for the producers
- Provides access to credit for producers

Issues Raised

Issues raised include the following:

- The company may only be interested in the outputs of the producers for a short time
- The model does not necessarily offer a mechanism for the improvement of social or environmental conditions of producers
- Producers may not learn business and marketing skills outside what is necessary to deal with the particular company
- The NGO may find it difficult to assert its independence from the company
- Both company and producers may become dependent on the NGO

Provision of advice on business development and information about ethical markets

In this option the NGO provides a business development and information service to producers, usually to a number of producer groups.

General information about markets may be provided in addition to business skills training. Bespoke advice may also be delivered to particular groups of producers to enable them to reach northern markets.

Examples of this option are Amka in Tanzania and Just Exchange in South Africa and other Traidcraft partners. For more details see below.

Traidcraft partners

Since the mid 1990s, Traidcraft has worked with intermediary NGOs to assist producer groups. They link up with existing organisations or instigate the creation of a new project which is then 'Southern' driven.

Currently, Traidcraft has 6 partners: International Resources for Fairer Trade (IRFT), India; ECOTA Forum, Bangladesh; Associated Partners for Fair Trade International (APFTI), the Philippines; Just Exchange, South Africa; Zambili, Zambia; Amka, Tanzania.

Traidcraft aims to "develop a channel for training in market awareness and product development. The partner development team works on business capacity building and trains the personnel at the organisation where required, to enhance their ability to give appropriate advice to their clients. Market information is also passed on to the partner for distribution where relevant. The Trade Facilitation department then links the products to appropriate markets in the UK by arranging retail tours for the producers to explore the competition, offering support on strategy and making links with buyers. The services will be provided until such time when the business has enough experience and resources to manage the buyer relationship without external input" (Humphrey, 2000: 16).

Examples of Amka's activity

- worked for Teadirect, assisting four tea producing communities in Tanzania and Uganda to set up premium committees, representative of the workers and smallholders involved in the tea production, who meet regularly to prioritise areas for the premium to be spent.
- Advice to Kibo Handicrafts on researching buyers' interests and preferences for marketing arrangements

Sources: Traidcraft (1999) Social Accounts, Liz Humphrey (2000) Which way to market? Traidcraft

Advantages of the 'advice provision' option

The advantages of this option are listed below.

- Potential link to donor finance through ATO partners
- Support offered by the ATO and fair trade movement, including links to similar organisations
- The NGO becomes specialised in business and marketing skills appropriate for small or marginalised producers
- Direct links to the fair trade market, and potentially other markets

Issues Raised

Issues raised by this option for NGOs include the following:

- It may be difficult for the NGO to assert its independence from ATO partners
- Producers may become dependent upon the services of the NGO

NGO supporting the identification of development options with a community or social group

In this final option, an NGO works with the community or groups of producers to explore their capacities and options and gradually assists them to sell to export markets/ ethical markets if this is something the producers identify as a priority activity.

Examples of NGOs operating in a fairly traditional manner are development NGOs such as Oxfam and CARE International.

Oxfam South Africa

In South Africa Oxfam GB is working in the KwaZulu Natal province on a sustainable livelihoods project. The aim of the project is to identify together with “potential stakeholders (beneficiaries, traditional leaders, Oxfam GB staff and associates, government officials, business people) policy and practice changes which could provide a model for economic and social development to enable poor people, particularly in Nkandla, to have improved and more sustainable livelihoods based upon local natural resources”.

A key aim of the programme is to change policy and practice in local government and some of the initial activities of the programme have been to enable the community to develop its social capital and be able to make effective demands on the local government, whether it is the local community council, the district council at Nkandla or the Uthungulu regional council. Three members of the Oxfam team have been working with three communities in the Nkandla district to identify the priorities of the local people and to understand the nature of social and physical capital in the area. They have made most progress with a community in Mdelanga where the local people have identified roads and water as their main priorities to articulate to the local council, Uthungulu. They have now come to the point in the programme where they plan to explore with the communities the economic and social potential of the natural capital in the Nkandla district.

In the area of natural resource capital, proposed activities included:

- Developing understanding of markets as they relate to sustainable livelihoods within Nkandla, including implications of international trends and ways to mitigate their impact
 - Enabling people in focus communities, particularly youth, to make decisions about small-scale enterprises to produce semi- or finished goods.
 - Enabling people in focus communities to identify priorities for alternative high value crops
- Enabling local people to have an improved contribution to their livelihoods from local forestry resources.

To date Oxfam has four main proposals for ethical market linkages that are at varying stages of development.

Tea Estate

- proposal for worker share equity in the estate
- extension of promotion of outgrower scheme

Essential Oils

- develop a link between smallscale herb growers and processor/ market of essential oils

Cut Flowers

- Explore potential for outgrower scheme between a women’s group and commercial flower growers

Nkonisa and Qudeni forests

- explore options for community ownership of local forests to be privatised

These proposed market linkages will be explored in dialogue with the local community.

Advantages of the 'traditional' NGO model

The advantages of NGOs promoting ethical trade and engaging with producers in a fairly conventional manner are outlined below:

- Good understanding of the social context and development implications
- Good understanding of the capacities of local people
- Skills in group formation
- Access to donor funds for producer capacity development

Issues raised

The issues raised that need to be considered by an NGO operating in a traditional manner are outlined below:

- Does the NGO have a good understanding of the market?
- Does the NGO have marketing skills, including links to buyers?
- Does the NGO have business skills?

Capacity Building

Working with producer groups to access ethical trade requires a specific combination of skills both in development and understanding business and trade. Assisting producer groups to maximise the benefits from ethical trade requires a facilitating NGO to develop both sets of skills. (See annex 5 on business basics and understanding markets, and annex 1 on the bigger picture, specifically the section on social analysis).

A co-operative may be very effective in terms of accessing the market on good terms for members but may be ineffective in promoting good group management. Conversely a co-operative may be effective in terms of promoting local organisational development but fail to access markets on good terms. Either way the sustainability of the enterprise is at risk. Therefore it is likely that capacity building will be required. But what do we mean by capacity building?

What is capacity building?

First we will consider what is 'capacity' and then go on to explain the process of developing capacity.

Capacity is more than the skills and assets of an organisation, it is about how these are related to its aims. Fowler defines the capacity of a non-governmental development organisation as being:

'the capability of an organisation to achieve what it sets out to do: to realise its mission. In this sense, capacity measures an organisation's performance in relation to those it is set up to benefit....[Capacity] must be viewed according to an organisation's results....Efforts at capacity building must not be separated from assessing external change....This type of definition has consequences for how to approach and evaluate capacity building efforts, because it requires asking the question: capacity building for what?' (Fowler, 1997: 43)

Moving on to the process of capacity building, we have to consider the relationship between the organisation delivering the capacity building and the organisation receiving it. Indeed, capacity building is often based on an external intervention. A study of capacity building initiatives by northern NGOs in relation to southern NGOs, defined capacity building as:

'an explicit outside intervention to improve an organisation's performance in relation to its mission, context, resources and sustainability' (James, 1994).

However, for other organisations the concept of capacity building is based more on the process and approach adopted rather on a specific set of inputs being delivered. For example, Oxfam, defines capacity building as the following:

'an approach to development rather than a set of pre-packaged interventions. So while there are certain basic capacities (social, economic, political and practical) on which development depends, Oxfam seeks to support organisations working for Sustainable social justice....Oxfam aims to combine a detailed focus on each specific situation with a broader and longer term strategic vision', (Eade, 1997: 2)

This process approach is an attempt to go beyond capacity building as the use of resources (human, financial, physical, natural, and social). Hudock adds to the debate the dimension of how these resources are acquired and the implications of this for the room for manoeuvre of southern NGOs (Hudock, 1997: 590). She argues there is a need to recognise southern NGOs' interdependence with those supplying resources but that reliance on outside support is not the problem, rather the 'unreliable nature of the support provided that limits Southern non-governmental organisations' ability to strategically plan and implement their activities' (ibid).

The focus here is on approaches to developing the ability of producer organisations to obtain access to ethical export markets, but also to maximise the benefits of ethical trade for primary stakeholders, within the context of a longer-term partnership.

Capacity Building – What does it involve?

In order for an intermediary organisation to provide support to producers and producer organisations then various steps are required.

Firstly, an assessment of the capabilities of the NGO itself – what does it have to offer? Secondly, the development of a partnership with producers is necessary (See annex 1 - social analysis). Thirdly, the capacity building requirements of producers should be jointly identified by the producers and the intermediary organisation and support provided where appropriate by the NGO.

These three elements of capacity building are outlined below.

NGO capability requirements

Earlier in this section we set out four models for how an NGO may assist producers in accessing ethical markets. This demonstrated that a wide range of skills is required on the part of the supporting NGO, both in terms of social development and also business development. Earlier in this annex 1 there the social development skills that are required such as stakeholder analysis, institutional appraisal and participatory impact assessment are outlined.

There appears to be less readily available information on delivering business development services, such as legal services (e.g. registration of the enterprise), training of owners and workers, special laboratory services for testing goods produced by the enterprise, and assistance in arranging contracts with larger firms, especially in comparison with available advice on micro-finance and financial services (Gibson 1997). However, some donors and international agencies have recognised this gap. For example the ILO has funded a series of studies on best practice in business development services.

Business development services (BDS) refer to the provision of information, knowledge and skills, as well as advice on the various aspects of a business. This definition of BDS implies a conscious action performed by the service provider for the benefit of the receiver of the service. Thus, the action of an individual using savings for establishing a business may not be considered as a "financial service". Similarly, information obtained inadvertently by an entrepreneur (e.g. on a supplier of materials) may not be considered an "information service". This is an important distinction that is not made by some practitioners who tend to use the term business development services whether a service provider is involved or not.

ILO 1999

One of the major roles of Traidcraft's partners (see box above) is the provision of business development support and advice. In Oxfam this is likely to be an important service of the field-based market access co-ordinators. As a step towards rectifying this gap Gibson identifies 11 core principles for business development and support, see box below.

Gibson's core principles for business development and support

1. Business development services should be business-like and demand-led: Those supported are seen as clients, not beneficiaries, and the client should ask for the services and design the relevant instruments
2. Sustainability: Interventions should have a credible path to sustainability; interventions should be finite
3. Tailoring: relevance through focus: The intervention must be specific and relevant
4. Participatory approaches: Greater understanding of needs, more sustainable, greater ownership
5. Maximising outreach: Focus on sub-sectors; support learning; macro level approaches
6. Building on demonstrated initiatives: Build on what is there rather than importing models
7. Focus in delivery: Clearly focused intervention, building on the deliverer's strengths as well as the client's needs.
8. Systemic approaches and programme integration: Co-ordination with other providers.
9. Renewed focus on cost analysis: Many business development service providers have not kept an eye on costs.
10. Continued importance of impact assessment and evaluation: Build in impact assessment to the programme, especially benchmarking

11. Subsidiarity: The idea of who can do what best; i.e. responsibility delegated to the lowest possible level

Derived from Gibson, 1997

□ A similar set of guiding principles can be found in an ILO discussion paper, ILO 1999: <http://www.ilo.org/public/english/employment/ent/papers/thai2.htm> and

*A fair trade
tea product -
Teadirect.*



Establishing a relationship with producers – partnership building

Before efforts to build the capacity of a producer group can begin, the NGO must take time to establish an effective relationship with the group. NGOs are almost always outsiders, and thus they must recognise that social and political processes are on-going within a village, community or local organisation and that outsiders must take time to understand these (Fowler, 1997: 95). Good quality participatory approaches should reveal these processes to outsiders and those within a community or group. Participatory planning provides ways of exploring possible development activities, but they need to ensure that the priorities and plans that are made do not ignore the internal divisions and views of those who are less likely to be heard. This is particularly the case if the NGO is taking on a traditional NGO role and where villagers may not already have formed a producer group or have considered engaging in such a scheme before.

If a producer group is already in existence then the development of partnership between an intermediary organisation and this group will then require the establishment of a 'framework for intervention' within which the purpose of the 'intervention' and its duration are made explicit.

It is necessary for both the NGO and producer group to have explicit agendas that are a starting point for negotiation for them to plan for how the intervention is to end as much as begin (Fowler, 1997: 95). Another way of looking at the producer group – NGO relationship is to see it as a partnership developed for the explicit purpose of gaining access to an ethical market. The fair trade movement now talks about building partnerships with producer organisations, see box.

Fair trade partnerships

In the 1980s and early 1990s, Alternative Trade Organisations (ATOs) provided 'producer services', something for the benefit of the producer, e.g. a workshop on product design, delivery of market information newsletters. However, whilst these services might have been efficient, they did not always respond to the changing needs of the producers. It also implied asymmetry in the relationship, with benefits flowing from the ATO to the producer, rather than recognising that a trading relationship is based on mutual benefits for the buyer and seller. Indeed the responsibilities that were due to the ATO buyers on the part of the producers were not always recognised. From the mid-1990s many ATOs began to set out their expectations of producer groups and what producer groups can expect from them (for example Oxfam and Traidcraft).

Recently this is evolving into a more clearly defined partnership. Cafédirect, for example, and other ATOs, explicitly use the language of partnership both in terms of their relationship with producers and with consumers. However, what each ATO means by partnership differs considerably and is not always made explicit. The Oxfam Fair Trade Company has begun to redefine what it means by fair trade partnership and is piloting a new 'partnership agreement' and Traidcraft uses the term 'partner' almost exclusively in relation to intermediary NGOs that work with producers.

The term partnership is rarely used with any great clarity. The elements of a good partnership are also elusive and vary with each relationship. However some of the conditions that are likely to be needed to ensure a partnership is sustainable and the process adopted that will contribute to a partnerships' success are outlined below.

Partnership checklist

Necessary Conditions

Shared understanding

Does each partner understand the rationale for the partnership and the issues

Mutual commitment

Is each partner equally committed to the partnership?

Distinct contribution

To what extent does each partner offer something distinctive?

Shared objectives

Are objectives for the partnership shared?

Trust

Do the partners trust each other

Processes

Shared time frame

Does each partner understand the different phases of the partnership, especially when it will end?

Participation

Does each partner participate in setting the objectives and framework for the partnership

Balance of responsibilities

Does one partner bear all the responsibility for the outcome

Clear boundaries

Is there a clear understanding of what the partnership does and does not cover

Autonomy of partners

Is each partner fully independent from the other?

Accountability

To what extent is each partner accountable to the other?

Transparency

Is the partnership transparent?

Source: Tallontire 2000

As this box shows key conditions include a shared understanding and objectives. In cases where there are differences of opinion and approach these need to be tackled explicitly from the start to avoid problems and conflicts arising at a later stage.

'Most partnerships work best when the parties share a philosophy and agree on approaches from the outset. If they do not, they should at least discuss and deal with their differences'
Thrupp, 1996 :19

The NGO WaterAid has reflected upon its extensive experience in capacity building and distilled the relevant lessons about the conditions required for partnerships.

Lessons from WaterAid : capacity building

WaterAid has worked with a variety of partners in different sectors. It advises that a supporting NGO should focus on the following issues in developing the capacity of its NGO partners

- Clear constitution and mandate
- Active responsible board
- Executive director responsible to the board
- Encourage independence of aims (from northern/ funding partner)
- Develop skills, policies and procedures
- Develop fund raising capacity
- Liaise with government
- Training in technical and professional areas

Johnson (1994)

Building the capacity of producer organisations

In this section it is assumed that the NGO is working with groups that have a prior existence, rather than forming groups explicitly for the purposes of ethical trade.

Many observers have noted that marketing groups that build on pre-existing collective activity, whether women's labour sharing groups or savings groups or nascent marketing co-operatives, are much more likely to be successful (Stringfellow et al, 1997). 'Build on what's there', says Johnson (1994).

For effective involvement in ethical trade, a producer organisation needs two kinds of capacity:

- a) capacity to organise itself efficiently and effectively represent the needs of its members and
- b) capacity to engage in business and marketing

Certain questions arise as to how to whether producers should group together at all, what kind of benefits they can obtain from participating in a group, what kind of management skills are required. Any NGO and producer group should consider these questions in assessing the viability of their scheme to increase the likelihood of their success.

Why work as a group?

In order to gain access to new markets, especially to engage in export trade, then sufficient volumes of products will be required. Benefits may also be derived from working as a group such as sharing knowledge of trading, greater power to influence as a group, greater likelihood of obtaining support from NGOs and donors.

It is necessary, however, to assess the balance of individual and group benefits: do individual benefits delivered by the organisation exceed the costs of participation and are they sufficient to minimise temptations to break rank and go outside the co-operative? Can the long term needs of the co-operative be met without sacrificing short-term returns?

What kind of co-operative works best?

Most studies conclude that co-operatives work best when they are the result of a member-led, voluntary initiative as opposed to being imposed by government or a development agency (Lele, 1981; Hussi et al, 1993). Membership factors such as strong internal cohesion among group members and a member driven agenda will increase the likelihood of success of a co-operative. It is important that all members understand the conditions of membership and the way in which committees are elected.

What skills are required?

Effective management skills are important for a successful co-operative. A key question for consideration is whether the organisation already has people with suitable management skills available or can people that can be trained? It has frequently proved difficult to attract managers of appropriate calibre to co-operatives due to their rigid and low salary. The skills of managers are dealt with in the annex 5 on business basics. It is important that basic book-keeping and record-keeping skills are present within the organisation in addition to more managerial skills.

What else is needed apart from skills?

The best group dynamics do not help if there is no viable business opportunity. See section on good business planning.

Why is accountability important?

Accountability structures become important when one individual requests or pays another to do something on their behalf, i.e. in relations between a principal (co-operative member) and agent (management). There are two main issues, does the agent do what he or she is charged to do and is the experience and information used in carrying this out used to disadvantage the principle?

How does the context affect the organisation?

A supportive, but not stifling environment and an ability to appreciate and influence where possible, that environment. Co-operatives are classic 'open systems' organisations – in other words their performance cannot be understood without an appreciation of their environment, including the policies and behaviour of other organisations. The capacity of an organisation is made up not only of internal factors, its 'ability to be' (maintain specific identity, values and mission) and an 'ability to do' (to

achieve stakeholder satisfaction) but also its 'ability to relate', i.e. to manage external interactions whilst maintaining autonomy.

Making a producer organisation work both in terms of remaining economically viable and representing the needs of its members is a tall order. There are many obstacles to overcome, but this is not impossible as the case of El Ceibo illustrates.

El Ceibo - a cocoa marketing organisation

El Ceibo is a small cocoa marketing farmer organisation in the Alto Beni region of Bolivia, the humid tropical north. It is a successful co-operative, having developed from initially shaky foundations in the late 1970s to exporting US\$518,000 worth of cocoa in 1993 on behalf of over 800 member families.

Factors contributing to its success include:

- good relationships with external agents
- long term financial and technical support from external agencies, including access to fair trade markets,
- cash/export crop specialisation,
- isolated location (less government interference, major development oriented institution in the area),
- linking technology work to processing and marketing,
- effective management
- focus on delivering services to members rather than representing the whole population of the area.

The continued success of El Ceibo as a rural social enterprises might be facilitated by external support in the following areas:

- market identification and development
- developing capacity in social business administration and product transformation
- support for marketing strategies
- appropriate forms of human capital formation
- support to initiate contacts with external institutions

El Ceibo's success and sustainability has been achieved following considerable, long term investment by official donors, NGOs and fair trade organisations.

Sources: Bebbington, Quisber and Trujillo, 1996; Bebbington, 1996

Recent impact assessment studies have pointed to the continued dependence of producers linked to fair trade markets on their fair trade partners. A recent study for Oxfam highlighted the extent to which many producers are dependent on the Oxfam Fair Trade Company orders: 44% of the groups studied sold at least half of their produce to Oxfam Fair Trade Company and where groups had become less dependent on Oxfam they tended to diversify sales to other Fair Trade buyers. Fair trade organisations have exit strategies in theory, but it has proved very difficult to put them into practice. In some cases where diversification from one fair trade buyer has been achieved, new buyers are also part of the fair trade movement.

Difficulties with enabling producers to graduate from project support to independently accessing markets are not only found with fair trade. An evaluation of a programme to promote organic exports from Africa noted that it would have been better for the project facilitators to have given the producers support for a longer period to ensure that sustainability of the market linkages developed. The learning process can be quite slow.

Capacity building for forest certification is not explicitly part of the certification system; but some donors have built up the capacity of groups to enable them to take advantage of FSC.

ANNEX 2: Ethical trade options

Overview

The main options or schemes currently in existence in terms of ethical trade in the forest sector are as follows:

- Forest timber certification
- Organic Production
- Fair trade
- Conservation driven trade
- Ecotourism/sustainable tourism/responsible tourism

These are the main approaches to ethical trade that will be described in detail in the manual.

The key elements of certification are:

a) a standard - a set of principles, criteria and indicators which represent 'good' or 'acceptable' practice (that is locally relevant but have international compatibility and credibility); b) a custodian of the standard; c) auditors or monitors; and d) an award to a producer or trader acknowledging that they have achieved the standard (there may also be a label to inform the consumers).

Broadly speaking any social or environmental standard will fall under one of two categories – process or performance.

Process approach	Performance approach
Company identifies its own social dilemmas, and adopts processes for understanding, measuring, reporting on, managing and improving key social issues.	Company employs externally derived social performance standards (e.g. code of practice), and uses these to measure, report on, manage and improve its performance.

A **process** approach is one where the areas of environmental or social responsibility are identified and addressed on a case by case basis. There may be guidelines that show what issues need to be looked at (e.g. land tenure, participation, worker welfare, health and safety), but there are rarely pre-defined solutions or rigidly defined targets that have to be met.

ISO standards are the most internationally renowned examples of process standards, but there are emerging independent process standards (e.g. AA1000), and many companies develop their own processes.

A **performance** approach is more prescriptive and is mostly used as part of supply chain management to ensure that suppliers adhere to substantive performance criteria for a prescribed set of social issues. Codes of practice are the most well-known example of performance approaches, typically building on international definitions of best practice and universal principles often enshrined in international conventions. The forest management standards recognised by the Forest Stewardship Council and the labour standards of SA8000 or ETI are examples of performance standards.

Process and performance approaches are **NOT MUTUALLY EXCLUSIVE**. Both can be part of a company's responsible business strategy or as part of the strategy of any organisation seeking to engage in ethical trade. It is tempting to think of managers and organisations weighing up the pros and cons of all the different approaches on offer. The reality is that few people know what is available, and what is best suited to their needs. Companies may often do what they see others doing and what their

customers require of them. Consultancy firms and certain NGOs promote approaches in which they have a vested interest, and few people have an interest in evaluating one approach against another.

In the future it is likely that the dividing line between process and performance oriented approaches will become blurred.

You can undertake ethical trade without using an externally defined standard. This may be a way of getting towards a standard or an approach in its own right – (see case study Ethical Business Planning - Ecuador).

There are advantages and disadvantages of such an approach from developmental and business points of view:

The advantages of a process approach are as follows:

- It enables the organisation to learn
- It helps to ensure that ethical principles are integrated into how an organisation operates from the outset, rather than having these bolted on in future when/if they go for an ethical standard,
- It provides a way of being ethical for organisations that find existing standards inappropriate/ not yet achievable

The disadvantages of a process approach are that:

- There is more likely to be a lack of recognition in the market place, people may not necessarily understand what you are doing.
- Less visibility means less opportunities for benefiting from the honey pot.

Forest (timber) Certification

A definition of forest (timber) certification is given below.

Forest management certification

'Certification is the process of independent verification that forest management has reached the level required by a given standard. In some cases, when combined with a chain of custody certificate, certification allows products from a particular certified forest area to carry an eco-label. Certification has evolved largely in response to international consensus that sustainable forest management is a matter of great significance. Its success depends upon consumers, investors and others providing incentives for forest managers to apply sustainable forest management, by preferentially purchasing products from, or investing in, certified well-managed forests'.

Source: 'The Sustainable Forestry Handbook' Higman, S et al (1999) Earthscan, IIED, SGS.

Forest management standards need to have publicly available and internationally credible contents, and the certifier should be recognised as an independent body. Certification is applied at the operational forest management level - a particular area of forest that is defined under a single or common system of forest management forms the unit of certification (options include forest concessions, privately owned forest land or 'a series of small areas owned by different people under a common system' (Higman et al 1999). The commercial, social and environmental benefits of independent certification are only beginning to be assessed (see Markopolous, IIED, NRI date).

A brief history of certification

- Certification arose because of the failure of traditional approaches to arrest the decline of the world's forest resources (including an over-reliance on technical solutions and ignoring the role of the commercial sector.

- Discussions were held at the United Nations' Earth Summit (Rio 1992). No legally binding agreements were produced, but a range of new initiatives were created including a novel system for certifying and labelling forests and forest products.
- Certification is unusual because it relies on markets and the trade in wood products to make it work – it is a market-based initiative.
- Certification has given much criticised forest managers with greater direction for protecting forest resources.
- There is an ever-growing number of national, regional and international initiatives in certification.

What does certification have to offer?

Certification has the following to offer:

- It can enable you to meet customer demands
- Allows you to demonstrate the authenticity of claims
- Sometimes it helps you to fit with government requirements

Certification standards

There are two main types of forest management certification - those derived from the Forest Stewardship Council performance standard and those derived from environmental management system standards (ISO 14001 derived).

FSC derived	ISO derived
<p>6 organisations accredited by the FSC by the end of 1998</p> <ul style="list-style-type: none"> • Forest conservation programme - run by Scientific Certification Systems, US • Woodmark - run by Soil Association, UK • QUALIFOR - run by SGS Forestry, UK • Smartwood - run by Rainforest Alliance, US • EKO - run by Skal, The Netherlands • IMO - Institut fur Marktökologie 	<p>Published in 1996. Many companies have been certified against this standard, but labels are not given to their products because the standard is a process standard and not a performance standard - i.e. a particular level of environmental performance cannot be guaranteed.</p> <p>National standards are being developed in some countries based on ISO 14001 (e.g. Canadian sustainable forest management standard (CAN/CSA Z809-96).</p>
<p><i>Sept 1998</i></p>	

Source: Higman et al 1999.

The Forest Stewardship Council

- The Forest Stewardship Council (FSC) is the most well-known timber certification initiative.
- In contrast with conventional forest management, responsible (or sustainable) forest management is viewed as a process which strives to meet multiple objectives. The 10 Principles and Criteria, which define the FSC and provide the framework for its certification programme, reflect a broad-based approach to forest management. (see box below).

The Forest Stewardship Council is an international non-profit organisation founded in 1993 to support environmentally appropriate, socially beneficial, and economically viable management of the world's forests. It is an association of Members consisting of a diverse group of representatives from environmental and social groups, the timber trade and the forestry profession, indigenous people's organisations, community forestry groups and forest product certification organisations from around the world. Its head office is in Oaxaca, Mexico. <http://www.fscoax.org/>

The FSC has developed globally recognised principles for forest management that are designed to ensure that forests are managed in ways that are environmentally appropriate, socially beneficial and economically viable. Regional, national or other geographic entities, such as Smartwood and Woodmark, are accredited by FSC and use these principles as a basis for developing locally appropriate performance standards against which managed forests and wood products are assessed.

The principles of the FSC are laid out below.

Principles of the Forest Stewardship Council

PRINCIPLE 1: COMPLIANCE WITH LAWS AND FSC PRINCIPLES

Forest management shall respect all applicable laws of the country in which they occur, and international treaties and agreements to which the country is a signatory, and comply with all FSC Principles and Criteria.

PRINCIPLE 2: TENURE AND USE RIGHTS AND RESPONSIBILITIES

Long-term tenure and use rights to the land and forest resources shall be clearly defined, documented and legally established.

PRINCIPLE 3: INDIGENOUS PEOPLE'S RIGHTS

The legal and customary rights of indigenous peoples to own, use and manage their lands, territories, and resources shall be recognised and respected.

PRINCIPLE 4: COMMUNITY RELATIONS AND WORKER'S RIGHTS

Forest management operations shall maintain or enhance the long-term social and economic well-being of forest workers and local communities.

PRINCIPLE 5: BENEFITS FROM THE FOREST

Forest management operation shall encourage the efficient use of the forest's multiple products and services to ensure economic viability and a wide range of environmental and social benefits.

PRINCIPLE 6: ENVIRONMENTAL IMPACT

Forest management shall conserve biological diversity and its associated values, water resources, soils, and unique and fragile ecosystems and landscapes, and, by so doing, maintain the ecological functions and integrity of the forest.

PRINCIPLE 7: MANAGEMENT PLAN

A management plan -- appropriate to the scale and intensity of the operations -- shall be written, implemented, and kept up to date. The long term objectives of management, and the means of achieving them, shall be clearly stated.

PRINCIPLE 8: MONITORING AND ASSESSMENT

Monitoring shall be conducted -- appropriate to the scale and intensity of forest management -- to assess the condition of the forest, yields of forest products, chain of custody, management activities and their social and environmental impacts.

PRINCIPLE 9: MAINTENANCE OF HIGH CONSERVATION VALUE FORESTS

Management activities in high conservation value forests shall maintain or enhance the attributes which define such forests. Decisions regarding high conservation value forests shall always be considered in the context of a precautionary approach.

PRINCIPLE 10: PLANTATIONS

Plantations shall be planned and managed in accordance with Principles and Criteria 1 - 9, and Principle 10 and its Criteria. While plantations can provide an array of social and economic benefits, and can contribute to satisfying the world's needs for forest products, they should complement the management of, reduce pressures on, and promote the restoration and conservation of natural forests.

NB: Principles 1-9 were ratified by the FSC Founding Members and Board of Directors in September 1994. Principle 10 was ratified by the FSC Members and Board of Directors in February 1996.

It is important to note that:

- FSC is not simply a standard, but an approach to partnership – it has a wide stakeholder base that has contributed to its success.
- FSC stakeholders include - indigenous peoples' organisations, community forestry groups, concerned individuals and companies from within the timber trade make up the constituency from which FSC draws its support.

The key characteristics of the FSC are laid out below:

The Key Characteristics of the FSC

- It is a membership organisation.
- It is open to any organisation or individual committed to the fundamental aims and principles of the FSC.
- Direct membership by Government bodies or their representatives is not permitted.
- The FSC is structured to ensure equity between the principal stakeholder groups (between North and South and those representing social, environmental and economic issues). The membership is split into chambers with differing voting weights. The board comprises representatives from each chamber. The supreme authority of the FSC is the General Assembly and voting is based on the chamber system.
- The FSC is not a single issue organisation. Good forestry and forest management requires meeting a broad range of objectives, providing a range of goods and services and meeting the aspirations and expectations of a wide range of stakeholders – national and international.
- The foundation of FSC is its 10 basic principles – see appendix 1.
- The FSC is an accreditation body. Accreditation requires certifiers to adopt and pursue the FSC principles and criteria, and make use of certification standards that were congruent with (or incorporated) these.
- The FSC was designed, from the outset, to be a constantly changing and evolving organisation, flexible and responsive to meet the aspirations and challenges of its members.

The WWF-World Bank Alliance and the Global Forest and Trade Network (FTN, formerly known as Buyers' Groups in consumer countries, and now including producer groups) and now producer groups have also strengthened FSC. (See <http://panda.org/forestandtrade/index.html>).

What are the benefits of certification?

The benefits of certification are as follows:

- When applied rigorously, certification can improve standards of forest management by demanding improvements and rewarding examples of good practice.
- A green premium does exist for many products. Although not always shared equally throughout the supply chain, it often provides a sufficient incentive to stimulate companies to explore the possibility of certification.
- Certification offers a range of mechanisms for improving equity, transparency and stakeholder involvement in the management of forests.
- Certification can be useful in promoting wider aspects of a project or community. In some cases social cohesion, political support and security of tenure have all been improved. See box below:

The benefits of certification - from WWF website

Consumers of paper and wood products (and we all are!) know they are buying environmentally friendly products. Producers and retailers have a marketing mechanism which is responsible and both ecologically sustainable and economically profitable. Forest owners have the benefit of promoting that their forests are well-managed and sustainable for long-term economic growth. FSC certification encompasses a wide range of environmental, social, and economic issues to encourage sustainable forest management worldwide.

Environmental benefits-The main motivation for many of the FSC's members at the start was environmental: to create a certification system that would guarantee to everyone participating in the forest industry that their contribution was helping to protect, rather than to destroy the forests. FSC's environmental criteria recognises that forest management should: Conserve biological diversity and its values: water resources, soils, unique and fragile ecosystems and landscapes, Maintain the ecological functions and integrity of the forest, Protect threatened and endangered species and their habitats, **Social benefits -** The FSC's concept of sustainable forest management aims to ensure that human rights for local communities and forest workers are respected. To meet the social criteria laid down by the FSC, all certified forestry operations must seek permission from indigenous groups before forestry work can begin. Those local people who have traditionally used the forests for collecting fruits, firewood, building materials or medicinal plants, must still have access to the forests, which offer them a livelihood.

Economic benefits - Certification can enhance profitability. The FSC's economic criteria state that forest managers should seek to minimise waste in harvesting and on-site processing, and strive to strengthen and diversify the local economy, avoiding dependence on a single forest product. Certified forestry operations are reaping excellent economic rewards, some of which include: FSC certificates facilitating access to new markets, FSC certified timber achieving a higher price in the market than equivalent uncertified timber FSC certification audit showing up wasteful practices.

There are limitations of the FSC approach and not all participants are satisfied. As a result:

- Some national certification initiatives are being developed as a reaction to FSC
- There are ongoing debates about how to make certification accessible to small producers
- How to expand further in developing countries (30% of FSC certified forest in developing countries is represented by only one certification).

There is criticism of forest certification in general and in also specifically of the FSC scheme from some quarters. These are as follows:

- One of the many criticisms of the FSC certification system is that it fails to recognise the difficulties faced by small woodland owners, particularly in Europe, and the small scale forest operations in developing countries.
- The use of the market to protect rainforests is flawed, since this means that the causes of deforestation and the infringement of indigenous peoples' land rights are not tackled.
- The undue influence of commercial interests is another concern
- The additional burdens (time and resources) placed on the woodland owner and/or manager. Producer certification is thought by many to be too expensive and bureaucratic. The current cost of certification per unit area is too high.
- Degree of concern and awareness in the retail trade varies which may lead to a shift in international trade patterns away from the markets of Europe and North America to Japan and South-East Asia.
- What markets will be left for small producers if forest certification becomes the norm, but certification is inaccessible to some?
- Certification effectively passes the responsibility for regulating forest management to a body which has no legal or moral authority at a local or national level.

- Certification disadvantages the small woodland owner and enterprise. The concomitant of this is that certification favours big business. This is increasingly recognised as a valid criticism of certification and is supported by both objective and anecdotal evidence.

In a developing country context, the extent to which certification, especially FSC, addresses the livelihoods needs of small producers is a concern, particularly to development practitioners. Whilst the FSC pays considerable attention to the traditional and cultural rights of indigenous peoples in terms of their access to forest products, certification standards do not directly address the way in which forest dependent people may earn a livelihood from forest products. The FSC does not address the extent to which forest products may contribute the livelihood of poor people through their cultivation of forest products, only recognising the use or exchange value of free/public goods under the principle on 'benefits from the forest'. Forest dependent people are not perceived as forest managers. The only direct reference to livelihoods is in terms of the rights of labour to organise freely and bargain collectively.

It should be recognised that the FSC did not design its standard to be a development tool, livelihoods and community issues were mainly considered in terms of their potential impact on forest management. Therefore within the FSC principles and criteria the development of communities around a forest have often been seen in the light of a way of managing any potential risk of encroachment or damage to the environment.

If there is a desire to ensure that there is a greater development impact guaranteed within the process of certification, it is possible to address it through the addition of specific development criteria with national standards.

Alternatively, depending on the objective of an organisation, the types of concerns outlined above may mean that engaging in ethical trade is not the right activity to engage in. For example some environmental Southern groups are campaigning on Northern Markets. Hoffman (1997 in Bendell and Murphy 2000) gives an example of a Chilean conservation group – the Defensores del Bosque Chileno – linking up with environmental groups in Japan to implement an education campaign aimed at reducing the wood-chip trade between the two countries. Some companies are responding to the pressure from both Northern and Southern organisations and consumers to take on a greater degree of social and environmental responsibility in the timber industry but as outlined above difficulties still exist in reaching the less concerned sections of industry.

NTFP Certification and Marketing

Over 150 NTFPs are important in world trade (CI 1997) and this trade is increasing. Most of the products traded originate in South America and Asia, with a small amount coming from Africa. The number of people deriving a significant proportion of their livelihoods from the extraction of natural forest products may be as high as 1,500,000 or 20% of the economically active population of Brazil's Amazon region¹.

Non-timber forest products include the following:

- Fuelwood and charcoal
- Forest foods – for example the transport and trade of bushmeat, fruits and leaves (e.g. aguaje fruits used in drinks, frozen drinks and Popsicles in Peru), beverages (e.g. palm wine tapping), leaf wraps and plates (e.g. leaf wraps in Ghana, and sal plates and thals in West Bengal). In the Iquitos market in Peru 163 fruit species are regularly traded. 120 of these are wild-harvested and 19 more originate from both wild and cultivated sources. Marketing channels are relatively undeveloped due to their perishability but a positive aspect of this is that a higher proportion of the sales value accrues to the producers.

¹ Browder, J.O., 1992 *Extractive Reserves and the Future of the Amazon's Rainforests: Some cautionary observations*. In Counsell S. and Rice T. (eds), 1992. The rainforest harvest: Sustainable strategies for saving the tropical forests? Friends of the Earth Trust, London.

- Basketry and handicrafts – some of the products of basket-making, mat-making and cane-working enterprises are utilitarian, but a proportion is for the decorative and ceremonial purposes of craft products.
- Extractive products – any product derived from a natural forest which enters into a large-scale industrial process as a raw material or is exported in an unprocessed or semi-processed form. Previously important in the high forest zones of West Africa and Southeast Asia, but these have declined except for rattan from Southeast Asia. Extractive systems from Latin America are important (e.g. copal, rubber tapping and brazil nut collecting in the Amazon, babassu kernels from Brazil).
- Furniture and carpentry – products that are manufactured at an artisanal and small workshop scale (as distinct from use of timber in formal sector forest industries)².

To give an idea of the volume of trade of different non-timber forest products see the box below.

Product	Value of Trade (US \$) (Million)
Natural Rubber	4,185.8
Plants used in pharmacy	689.9
Nuts	593.1
Fibres	421.0
Ginseng roots	389.3
Natural Honey	268.2
Mushrooms and truffles	210.7
Spices	175.7

Source: De Beer and McDermott 1993 in CI 1997

The markets for NTFPs vary however and fluctuate through time. Some NTFPs may be saleable but the markets for them are uncertain. The markets are uncertain because as incomes rise they may fall out of consumption patterns or because they are replaced by synthetic products or plantation grown raw materials³. Further, unsustainable levels of harvesting of products as demand grows is also undermines these activities in places.

Synthetic substitutes are squeezing out some traditional products (e.g. rattan), but the markets for food and health products are expanding (CI 1997). There are many schemes in existence that began in the 1990s to support the export of different non-timber forest products, including brazil nuts, vines for fibres, furniture and baskets, oils and plant extracts. A case study is provided below of a project promoting the export of tagua nuts. Conservation International (a US based NGO with a mission to conserve biodiversity) and CIDESA - Foundation for Socio-Environmental Training, Research and Development, (an Ecuadorian NGO) have engaged in a joint venture with a local community enterprise (see box below).

Non-timber forest products can be sourced from primary and natural forests, secondary forests and forest plantations or agroforestry systems. The ecological, cultural and economic significance of NTFPs are often under-researched but they are key assets underpinning rural livelihoods and the high value products (e.g. brazil nuts, chicle, mushrooms, maple syrup, essential oils, rattan, tagua nuts, palm and pine resin) generate income for national and regional economies⁴.

The potential of Non-timber Forest Products (NTFPs) particularly their contribution to rural livelihoods has not been fully realised. The commercial successes of large companies that engage in bio-prospecting have rarely benefited the livelihoods of local people.

² Townson I M and Arnold J E M (1994) *Forest Products and Household Incomes. A Review and Annotated Bibliography.* Oxford Forestry Institute

³ Townson I M and Arnold J E M (1994) *Forest Products and Household Incomes. A Review and Annotated Bibliography.* Oxford Forestry Institute

⁴ *Tapping the Green Market: Management and Certification of Non-Timber Forest Products* (forthcoming, Earthscan Publications).

NTFPs are often treated as a homogenous group but there are differences. For example:

Volume/value ratio:

- Low volume/high value products – e.g. medicinal plants or birds nests
- High volume/low value products such as rattan.

Perishability:

- Perishable - such as *afang*
- Durable – e.g. resins

Availability:

- Seasonal – e.g. brazil nuts
- Continually available

Destination:

- Subsistence crops
- Traded locally
- Small minority reach the export market.

NTFPs can therefore be categorised into the following:

- High value commodities.
- Species outside formal market structures and out of reach of market influence.
- Within the current framework of market structures, that allow for influence by responsible practice.

An ethical trade scheme might provide producers and collectors with opportunities to:

- Add value in a financial way,
- Increase market access,
- Increase security,
- Protection of environment for inter-generational access

However, the barriers for small producers and collectors are:

- Small producers and collectors do not necessarily have sufficient information about certification schemes
- The market does not accommodate small, irregular volumes of seasonal products
- Many small producers struggle to continuously meet the quality standards demanded by the international market.

Community level certification has occurred through the FSC, but also there are examples where several communities have joined forces to increase supply volumes, to share technical resources and processing and marketing efforts. In a few instances a new organisation is created at a higher level to carry out these functions. For example:

- UZACHI in Oaxaca, Mexico
- Plan Piloto project in Quintana Roo, Mexico.
- The Chiquitano communities in the Lomerio Project in Bolivia.

Timber producing companies have been certified. These produce logs, sawn-wood or manufacture wood products. There are a few exceptions (e.g. the charcoal-producing communities in Mexico that supply Noram S.A). Local communities find it easier to manage operations that focus more on crafts and/or small-scale processing that do not require high quality dimensioned lumber for demanding markets (e.g. Muzama Crafts and the Greenwood furniture project in Honduras).

However the majority of certified community operations produce or are interested in selling NTFPs as well. The role of certification in assessing NTFP management is not well developed. However, there is growing interest in evaluating the potential for NTFP certification within the FSC system, and of co-ordinating certification efforts with organic and fair trade systems.

Forest certification is not just about timber and NTFPs may be sold as certified products under forest certification systems because these systems are concerned with the sustainable management of an entire forest resource. So in theory any product sold from a certified forest can be labelled as such, so long as there is a chain of custody of certificate. In practice this is rare and only a small number of NTFPs have been certified under FSC (chicle and maple syrup and a test certification for coffee, see Courville, 1999). However, as NTFPs can be considered agricultural as well as forest products, a variety of certification programmes are open to them.

NTFPs such as Brazil nuts, rattan, heart of palm, pine resin, maple syrup, mushrooms, and chicle are potential candidates for certification. In addition cultivated products such as coffee and cocoa, where they are grown under the shade of natural forests using agro-forestry techniques, have been classed as NTFPs.

"Generic Guidelines for Assessing the Management of NTFPs in Natural Forests" are being developed with the social chapter of the FSC taking the lead. The Guidelines set some species-specific performance indicators for species such as palm heart, brazil nuts, rattan and chicle. But certifying with species-specific management criteria, often for minor products, could be a costly and cumbersome process.

For those interested in ethically trading in NTFPs it may not be necessary to opt for forest certification, and instead to look for other options (see Fair trade and Organic Production Sections).

Both the organic and fair trade movements have an interest in NTFPs and give an indication of how other ethical trading systems might be developed.

The Table shows how different systems approach common aspects of trading in NTFPs:

	Organic Agriculture	FSC	Fair trade labelling
Products covered	Agriculture, wild products	Forests – timber and non timber	Specific agriculture and agro-forest products
Cost	<=2% of farm-gate price	High for small producers	No direct cost to producers
Markets	National and International	Europe and North America	Mainly Europe
	Key Issues Addressed		
Management plan	[[[
Ecological harvesting practices	[[limited

The three systems put different emphasis on each element, and even within the same system it is possible to find that different certification bodies have different interpretations of what is significant. It is important to note also that though these are meant to be Performance Standards, these often draw on national norms or legal requirements, so that in the case of health and safety, for instance, the standards used will differ depending on the country. This means that there are no absolute standards.

The systems share common application and implementation processes:

1. Producer requests certification standards package.
2. Producer submits application forms with supporting documents.
3. Assessment contract signed between producer and certification body.
4. Inspector consults with stakeholders and undertakes field assessment.
5. Inspector writes final report.
6. Report is reviewed by committee and final decision is made on whether the producer meets the standard.
7. Certification contract is signed.
8. Regular monitoring of site takes place.

However the different options offer different levels of support. Small producers often require assistance to meet standards. In organic certification the certifier is not able to act as a consultant to the producers,

whereas in fair trade these two roles have merged. In the latter case this means that costs are reduced and support is provided to producers, but it can affect the credibility of the verification process.

Some of the possibilities for Non-timber forest products are outlined below.

Organic certification of NTFPs

The major organic non-timber forest products are shade coffee, cocoa, honey and nuts. The many NTFPs that are harvested rather than cultivated means that almost any NTFP could be certified as organic but in practice, markets are a key constraint.

- The formal requirement for selling on organic markets is the possession of an internationally recognised organic certificate.
- On the practical side, producers must be capable of meeting market requirements in terms of quality and packaging. Organic buyers from the main consuming countries will not buy poor quality produce.
- To be certified at relatively low cost, harvesters must also be identified and organised.
- In addition, some developing country suppliers may face difficulties in accessing northern markets. This is because of government regulations on organic agriculture to maintain standards and to control fraudulent labelling, e.g. USDA's Organic Food Production Act in 1990 and the European Council regulation 2092/91.⁵ The implementation of the EU regulation is supervised in each member state by a competent authority (in the UK this is UKROFS) which approves certifying agencies (such as the Soil Association).

In addition to government regulation there is a network of organic certifiers whose requirements in many cases exceed government standards. In this context, the custodian of the international private sector organic standard is IFOAM (International Federation of Organic Agricultural Movements). As its name suggests, IFOAM is a decentralised organisation of member organisations including certifiers, retailers, processors, farmer organisations and consumer interests. Organic certifiers are accredited by the International Organic Accreditation Service (IOAS), established in 1997 by IFOAM (Courville, 1999).⁶

The IFOAM Basic Standard lists 17 principle aims of Organic Production and Processing. These cover social, environmental and farming issues although not all of these are given equal weight. Over time the level of detail and range of issues covered in the IFOAM Basic Standards have increased as new products have been considered for organic certification, including the addition of specific standards for wild harvested products from forests (Mallet 1999).

Accessing organic markets can be a problem for Southern producers. The plethora of standards and the emphasis on meeting the requirements of northern regulations often overshadows the importance of issues that affect the long-term sustainability of organic agriculture. Nevertheless organic farming presents opportunities for small producers and developing countries. This is because although larger producers are increasingly moving into organic production, organic certification is still usually affordable to smallholders (e.g. through group certification), making organic agriculture a viable option in developing countries.

Fair trade in NTFPs

Fair trade (FT) standards include a number of agro-forestry products such as coffee, cocoa, bananas and honey. Certification according to fair trade principles is undertaken by Fairtrade Labelling Organizations International, FLO. There are FLO standards for a range of products (coffee, tea, cocoa, honey, sugar, orange juice and bananas). A wider range of products are sold as fair trade by

⁵ See Nycander 1999 for discussion on developing country access to the EU organic market.

⁶ IFOAM appoints the board of the IOAS but does not influence its operations.

Alternative Trade Organisations (ATOs) which tend not to formally certify producers, instead preferring to use their own systems of monitoring and assessment. The FLO system was first launched for coffee in 1988 by Max Havelaar, one of 17 National Initiatives that make up FLO.

Under the FLO labelling system, producers are assessed according to pre-set criteria and then registered as Fair Trade producers. Buyers can label their products as fairly traded only if they buy from these registered producers at a price agreed by FLO. This price is not only intended to provide a better return to the producer, but includes a 'social premium' to be used by producer groups for social development activities. To ensure that producer groups are delivering benefits to members, FLO monitors producers regularly against the relevant Fair Trade criteria and ensures that the quantity of Fair Trade goods sold by producers under Fair Trade conditions matches the amount sold to consumers under a Fair Trade label. The National Initiatives monitor the licensees of their label. Producer monitoring tends to be undertaken by the same people to maintain continuity, build trust and the capacity of producers, rather than by different people every few years, which is common in other certification systems (with the aim of ensuring objective certification). Another difference between the FLO system and that of sustainable forest management or organic certification is that the producer does not pay for certification - this is paid for by the consumer (Courville, 1999).

The format and content of the current criteria differ according to the needs of the market and industry and also according to when they were written. Whereas the criteria for coffee only have a cursory mention of environmental sustainability, the more recent banana criteria detail integrated crop management techniques. These ICM techniques form minimum entry criteria to FLO as well as minimum measures to ensure environmental protection. Throughout the banana code there is a clear separation of minimum requirements and process requirements. Minimum requirements must be met within a specified period after joining the register whereas process criteria are to be met according to a schedule mutually agreed by FLO and the producer organisation. In 2000 FLO began to explore harmonisation of the standards, because these currently differ for each product (based on the product and market characteristics and the time they were produced). Two draft standards, one for smallholders and one for waged labourers, have been produced which aim to cover all fairly traded products.

Questions have been raised about the same umbrella organisation being responsible for fair trade standards-setting, auditing, market promotion and producer support. FLO is considering the separation of auditing and producer support functions and there are proposals under discussion for restructuring the organisation to provide for producer representation in the board.

Sustainable Agriculture and NTFPs

Another system frequently used by promoters of NTFPs is the Conservation Action Network's ECO-OK certification programme that was initiated by the Rainforest Alliance in the early 1990s. This has a primarily environmental remit, focusing on deforestation and habitat loss, but also seeking a balance between the needs of conservation, cultivation and community (Rainforest Alliance, n.d.). To date the ECO-OK programme has certified coffee, citrus and cocoa and has a linked scheme for bananas but has not as yet made a major impact on certification of NTFPs and has largely been concentrated in Central America. But, it 'has the potential to be a useful system of certification for NTFPs and may fill a gap for agro-forestry producers who are not able to make the full transition to organic agriculture practices' (Mallet, 1999).

Collaboration

There is increasing overlap in these certification systems in relation to NTFPs. An FSC working group has been exploring since 1996 a number of key issues:

- how NTFP certification may be put into practice)
- fears of 'label fatigue' developing among consumers
- whether the costs of certification could be reduced

Overlap between the standards is increasing in terms of what the criteria cover:

- In 1998 IFOAM agreed a set of criteria on labour standards
- FLO product standards are increasingly environmentally aware.

Joint certification exercises are also being piloted (e.g. the pilots carried out by the the Institute for Agriculture and Trade Policy which set out to compare the criteria and certification processes of a number standards relating to shade coffee in Mexico, including fair trade (FLO), forest management (FSC, Smartwood and their Mexican partner CMSS) and organic (Certimex, and IFOAM). The joint inspection revealed that whilst each system was different in focus, there were clear areas of overlap. Smartwood has undertaken similar exercises in Brazil. A new project is currently being initiated in the field of social auditing in agriculture by FLO, Social Accountability International and IFOAM.

Recognising that they shared similar objectives and challenges, the major international environmental and social organisations involved in standards setting, accreditation and labelling agreed in December 1999 to co-operate on a more formal basis and established ISEAL – the International Social and Environmental Labelling and Accreditation (ISEAL) Alliance.

Box 3: ISEAL participants

- Conservation Agriculture Network (CAN)
- Fairtrade Labelling Organizations (FLO)
- Forest Stewardship Council (FSC)
- International Federation of Organic Agriculture Movements (IFOAM)
- International Organic Accreditation Service (IOAS)
- Marine Stewardship Council (MSC)
- Social Accountability International (SAI)

The aim is for ISEAL to have its own organisational structure, but at present its secretariat is hosted at the Falls Brook Centre in Canada, that also co-ordinates the FSC working group on NTFPs. Whilst the members of ISEAL aim to share experience and best practice, the main aim of their collaboration is to work towards obtaining recognition as Conformity Assessment Bodies. The members of ISEAL decided that this goal was best achieved by creating an independent body that could defend their common, unique interests and provide a neutral forum of transparent and objective peer review.

An alternative to certification

Instead of spending time and money on certification an alternative is to concentrate on building up production and marketing capacity and innovation – i.e. doing without certification. Certification may not be the most practical option for the trading of NTFPs that are low volume/low value or have long supply chains.

Small-scale processing is a good means of improving producer welfare, because it adds value. However, there must be a good financial case for processing at the farm/village level to ensure that farmers would not be better off selling the raw material directly to traders. An alternative is for intermediary organisations to invest in lowering the incidence of poor quality primary products, building on existing producer skills rather than developing new ones.

A focus on the international market may not be the best option either, because consumers in developed countries that buy ethical products also want these products to be of good quality. There may be less competition on local markets and possibly a greater willingness to pay premium price for quality and new enterprises might do better to focus on these. Domestic markets are more profitable than export ones in the following examples:

- bamboo in India
- handicrafts in Indonesia both show that domestic markets are more profitable than export ones.

Key steps

Whether certification is the preferred path or not, the following steps are key for successful and viable ethical trading in NTFPs.

For improved financial viability:

- do a thorough financial analysis at the beginning, including not only projections of productive capacity, but also the inclusion of cost and revenue dimensions (e.g. the complicated and costly logistics of assembling small quantities of NTFPs into tradable volumes, and the enterprise costs - all operating and capital costs).
- Consider economies of scale, since this above all else is likely to determine financial viability.
- Sound organisational, management and business practices are required, but the costs of capacity building need to be factored into the equation. In Ghana community-run processing enterprises have a close to 100% failure rate.

In terms of marketing:

- Do not overlook potential marketing constraints. Work out who will assemble, handle, transport, store and pre-finance the trade and who will arrange contracts, freight, insurance and port handling.
- Transaction costs may be high and this may drive down prices (the costs of travelling long distances to negotiate and make small transactions, and the requirement to inspect the quality of each potential purchase, may make the NTFP unattractive to traders). If low trading margins mean that there is limited space for competition between traders, a situation of near monopsony (singly buyer) may emerge, under which producers lose all ability to negotiate higher prices. Even if a producer organisation undertakes the role of assembly and quality control, costs can still be very high. These considerations must not be overlooked when designing the NTFP enterprise.

For improved technical management:

- Ensure proposals have considered storage and transport. Poor product quality is as likely to stem from poor storage and handling as it is from poor production techniques.

NTFPs and livelihood benefits

With the right commodity, adequate quality and proper marketing, trade in NTFPs can be an important part of livelihood strategies. Not enough is known about the impact of NTFP exploitation on the environment, and it is generally assumed that the boom-bust nature of many NTFP markets acts as a break on over-exploitation, while consistently high value NTFPs become managed/cultivated to ensure sustainable yields. Commercial exploitation of NTFPs has been encouraged by several conservation projects (e.g. tagua nuts in Ecuador, brazil nuts in Peru, *prunus Africanus* in Cameroon). This has often been to provide income generating activities that either reduce community incursion on a conservation area, or provide a commercial incentive for communities to be conservation managers. Surprisingly, the social and environmental benefits of such environmentally-driven trade projects is rarely assessed.

Commercial exploitation poses a threat to NTFP use for subsistence, and may disadvantage certain community or household members. Studies of responsible business approaches to NTFP trade (e.g. fair trade in the Peruvian brazil nut industry) show that equitable distribution of benefits is far from guaranteed.

The distribution of benefits is not necessarily in favour of the collectors (see box below).

Aguaje fruits

Aguaje fruits are processed in the Amazonian region of Peru around Iquitos town. They are used to make drinks, frozen drinks and popsicles, mainly by small-scale enterprises, but ice-cream is also made by larger operations. The licence-holding dealers who dominate the trade appear to benefit most, and the marketing system is relatively complex with wholesalers, secondary wholesalers, retailers and secondary retailers of raw fruit and vendors of processed products. The importance of dealers, the relatively large size of Iquitos and the variety of forms in which aguaje is sold may all contribute to this marketing structure.

Padoch, C. (1988) cited in Townson, I.M.OFI, 1994 'Forest products and household incomes: a review and annotated bibliography).

This picture was echoed in research carried out on the ethical trading of brazil nuts in Peru, where many of the key stakeholders groups at the local level (the porters and shellers of the nuts) were found to be missing out on any benefits from the scheme largely because they are an invisible, seasonal workforce. Those benefiting the most were the better-off citizens who hold brazil nut concession titles.

NTFPs are typically one of a number of income generating activities. Often in ethical trade the starting point of the scheme has been the commodity, not the livelihood strategy, and by encouraging production of a single commodity may have unnoticed impacts on producers. It can be argued that the producer is free to weigh up the opportunity cost of concentrating on a single commodity. However, this ignores the often unequal power relations that exist within the household or community, and that a benefit for one member may be a disbenefit for another.

Some of the issues raised by NTFP certification are outlined in the box below.

NTFP commercialisation

The collection and sale of forest fruits and leaves is very dependent on the natural fruiting season of the trees and sometimes harvesting is restricted to a few months of the year. Variability in yields between years can greatly influence the degree of involvement and the returns obtained. The degree of involvement in collection also depends on the demands on labour from other agricultural tasks.

Little can be concluded on the gender division of labour in relation to forest fruits, but in the case of *uppage* collection men were found to take over collection of this product as it became more profitable.

Differences between poorer and wealthier collectors also exist. Wealthier collectors can store fruit and take advantage of higher prices later in the year, and they can also hire workers to collect produce for them and they may have access to more lucrative marketing channels. Nationalisation and sale of products by state governments in India have benefited the government by earning more revenue than assisting tribal development. In Peru the government requirement for commercial harvesters of aguaje to obtain a licence and pay a tax has discouraged small-scale extractors and resulted in production being dominated by large scale dealers. Collectors of the fruit are often hired labourers, recruited by an extractor-contractor – and therefore less likely to reap the rewards of the trading.

Access to fruit tree products may be limited by tenurial claims, often based on land claims or active management. In Orissa, access to trees in village lands is highly dependent on class and caste status. Differences in access to trees can make a large difference in the pattern and quantity of collection.

The commercialisation of products can lead to destructive harvesting techniques. Deforestation reduces the availability of forest produce (e.g. in Orissa) with the poorer members of communities being most affected.

Source: Townson, I.M.OFI, 1994 'Forest products and household incomes: a review and annotated bibliography).

It is therefore important to consider the social and political context within which a trading scheme might be developed. Building the capacity of local producers is a key part of this. Commercial exploitation cannot succeed if there is not a market for the product, or the product does not meet customer requirements. Some alternative trade organisations have raised unrealistic expectations amongst local communities by trying to create an ethical market where a conventional one did not already exist. Nowadays, such mistakes are less common, but there are still many projects that try to market products without building sufficient capacity.

Local processing is an attractive option but should be entered into with care. Expectations are often unrealistic, and try to introduce too many new elements rather than maximising the value of existing strengths. An important but often overlooked constraint to developing quality local processing is national government policy (e.g. restrictions on imports and foreign exchange). 1

Medicinal NTFPs and ones important to the bio-technology industry have been the subject of legal cases on intellectual and other property rights. High value NTFPs are typically ones relevant to the above industries, and there is a fear that once the value of a product has been recognised, poor people and developing countries in general will not benefit. Intellectual property rights therefore require careful consideration.

A key question is whether these schemes can continue to provide benefits to producers when many of the commodities are experiencing a long-term decline in value on international markets. The MCCCH case study (see annex 3 - case studies) does show however one intermediary organisation is supporting the ethical trading of cocoa from Ecuador quite successfully.

Organic Production

A definition of organic farming is provided below.

Organic farming – definitions

Organic agriculture involves 'managing the agro-ecosystem as an autonomous system, based on the primary production capacity of the soil under local climatic conditions'.

The common principles of organic agriculture are as follows:

- a) use of crop rotation and other natural methods of conserving and enhancing soil fertility.
- b) Encouragement of biological cycles involving micro-organisms, soil flora and fauna, plants and animals
- c) The maintenance of valuable existing landscape features and habitats for wildlife
- d) Attention to animal welfare considerations
- e) Avoidance of pollution and consideration of the wider social and ecological impact of the farming system.

UNDP (1992) Benefits of Diversity: an incentive towards sustainable agriculture'
New York: United Nations Development Programme.

Organic agriculture is an alternative to industrialised, external input based resource management. However, there are many different approaches which can all be called organic.

Production for export is not an explicit goal of organic agriculture, and for many people organic practices involve self-sufficiency – i.e. non-dependence on external markets – thus long-distance trade has no role. For farmers wishing to export, however, farms must meet the requirements of an internationally accepted regulatory framework and be certified as organic. Certification is by third party bodies accredited by the International Federation of Organic Agricultural Movements (IFOAM).

A brief history

The United Nations Conference on the Environment and Development highlighted the notion of 'sustainable' agriculture, and since then organic farming has been promoted as an alternative to the

Green Revolution in developing countries. However the organic movement has a much longer history and different approaches to more environmentally friendly agriculture, which would today be classed as organic, date from over 50 years ago.

Today, the International Federation of Organic Agriculture Movements (IFOAM) has 750 members in 150 countries. The percentage of members in the South is close to 40%, and makes up the fastest growing membership sector in the movement. This growth is largely due to consumer demand for organic produce. There is quite a lot of potential in organic markets (see box below).

Organic markets

The market share of organic products in Northern markets is as follows:

- It currently averages 1-2% of fresh produce sales
- Growth rates average 25% per year (40% in the UK).
- It is highly likely that the organic market will continue to grow
- Most studies indicate a share of 10% (OF WHAT?) before growth will level off.
- The premium for organic is going down
- However, the cost of conventional production is going up
 - For consumers it is expected that any remaining price differential between organic and conventional produce will become a minor issue.

One Term, Many Approaches

Trade in organic produce gave rise to the need for labelling based on common production standards. Standards and labels have the following functions:

- They help differentiate organic from conventional produce in shops
- They can show if products from different origins are cultivated in comparable ways.
- However, there are now diverse organic standards, labels and definitions
- The definition of organic varies from country to country.

The IFOAM global standard

A key standard is the IFOAM common global standard that was agreed upon in 1982. To verify that standards were being met, certification bodies emerged. IFOAM acts as custodian of organic standards and accredits the certification bodies that claim to work according to an IFOAM based standard.

IFOAM because of its global scope and the influence it has on certification bodies such as the Soil Association, is of particular interest. It lists 17 principle aims of Organic Production and Processing in its Basic Standards. These cover social, environmental and farming systems (see appendix 2), although not all of these are given equal weight.

The IFOAM principles are outlined in the box below:

IFOAM's principles for production, processing and distribution

- To produce food of high quality in sufficient quantity
- To allow everyone involved in organic production and processing a quality of life which meets their basic needs and allows an adequate return and satisfaction from their work, including a safe working environment
- To progress toward an entire production, processing and distribution chain which is both socially just and ecologically responsible
- To maintain the genetic diversity of the production system and its surroundings, including the protection of plant and wildlife habitats
- To use, as far as is possible, renewable resources in locally organised production systems
- To minimise all forms of pollution
- To process organic products using renewable resources

- To produce fully biodegradable organic products
- To interact in a constructive and life-enhancing way with natural systems and cycles;
- To encourage and enhance biological cycles within the farming system, involving micro-organisms, soil flora and fauna, plants and animals;
- To maintain and increase long term fertility of soils
- To create a harmonious balance between crop production and animal husbandry
- To give all livestock conditions of life with due consideration for the basic aspects of their innate behaviour

National and Regional Standards

In the late 1980s, governments started to regulate organic agriculture to control fraudulent labelling. This led to the USDA's Organic Food Production Act in 1990 and the European Council regulation 2092/91 a year later. Individual countries now insist on compliance with their own standards. This causes considerable problems for producers in developing countries willing to export to the Northern markets.

Such regulation is a mixed blessing. Positive aspects are:

- A clear and widely agreed definition of organic farming makes it possible for governments to support organic farmers (e.g. the conversion subsidies that have led to a rapid growth in organically farmed land in some countries)

Negative aspects of such regulation include:

- Subsidies are not available for producers in developing countries, and this has given certain European countries in particular a market edge.

Organic farming presents opportunities for small Producers and Developing Countries. Organic production has largely been the preserve of small producers in the past and this has provided some opportunities. E.g. ...

- Although larger producers are increasingly moving into organic production organic certification is still affordable to smallholders (e.g. through group certification) making organic agriculture a viable option in developing countries.

Nonetheless, accessing organic markets can be a problem for Southern producers (see annex 3 - case study on EPOPA).

- Obtaining access to organic markets is made more difficult due to the existence of plethora of standards/requirements.
- An emphasis on meeting the requirements of the regulations, often overshadows the importance of issues that effect the long term sustainability of organic agriculture.

Some technical regulations were developed with temperate agricultural systems in mind and need translating to tropical conditions. Some organic monitors are not trained in interpreting the criteria for different situations. Finally, it is important to note that organic production should not depend on the export market: local markets need to be encouraged, at least as a fall back position to export dependency.

Fair trade

Fair trade – a definition

Fair trade is an alternative approach to conventional international trade. It is a trading partnership which aims at sustainable development for excluded and disadvantaged producers. It seeks to do this providing better trading conditions, by awareness raising and by campaigning. (Def. IFAT).

The main aim of fair trade is to:

- improve the position of disempowered producers through trade, typically with the North.

Fair trade
bananas



A brief history

FT promises a better deal to producers through the longer-term developmental as well as trade-driven relations between buyers and producers. This includes the higher fair trade price which includes a social development premium for producers' groups. The price premium charged to Western consumers for fair trade products contributes to the cost of providing these benefits to producers.

Within fair trade two different types of FT organisation have emerged, namely *alternative trade organisation* (ATO) followed by *fair trade labelling organisations* (FTLO). The first ATOs began to operate in the 1950s and 1960s and these operations purchase goods from disempowered producers with a view to promoting their development. Prominent examples in Europe include Oxfam Trading, Traidcraft, Fair Trade Organisatie, Gepa, CTM, EZA and Twin.

More recently FTLOs have emerged, the first and probably best known is Max Havelaar, based in the Netherlands. Max Havelaar Netherlands is now one of seventeen National Initiatives making up FLO, Fair Trade Labelling Organizations International, which was formed in 1997 to co-ordinate the growing number of FTLOs. FTLOs are not involved in trade exchanges themselves but issue fair trade marks or labels to manufacturers or importers to verify that the production and supply of a particular product has met specified fair trade standards. Other National Initiatives that are part of FLO include Transfair in Germany and the Fairtrade Foundation in the UK. Fair trade labels are issued to some coffee tea, banana, sugar, orange juice and chocolate/cocoa brands, which may be sold by ATOs or mainstream companies. For example in coffee in the UK Percol and the Co-op supermarket have fair trade lines and in the Netherlands almost every coffee roaster in the country has a fair trade line (from Neuteboom, a small family-owned company for which FT lines constitute the bulk of the business to supermarkets such as Albert Hein and Ahold which have one fair trade coffee line) with the significant exception of Douwe Egberts, the market leader. In cocoa, Green and Black's Maya Gold chocolate has a fair trade label. In 2001 there were '100 commercial companies in twelve European countries'

offering one or more Fairtrade labelled coffees. Between them they bought 14,000 tonnes of green beans on Fairtrade terms last year (Fairtrade Organisatie website 2001).



Caption: El Artonal - (check report? Cocoa in Ecuador/brazil nuts/peru?? Is this fairtrade?)

Approaches to Fair trade

Within fair trade two different types of fair trade organisation have emerged. These are the:

- The alternative trade organisation (ATO)
- Fair trade guarantee organisations (also known as fair trade labelling organisations).

The differences between these two approaches are laid out in the table below.

Alternative Trading Organisations (ATOs)	Fair trade guarantee organisations
ATOs developed earlier	Emerged more recently fair trade
ATOs purchase goods from disempowered producers with a view to promoting their development.	FGOs are not involved in trade exchanges themselves but issue fair trade marks or labels to manufacturers or importers to verify that the production and supply of a particular product has met specified fair trade standards.
Prominent examples are Oxfam Trading, now known as the Oxfam Fair Trade Company, Traidcraft and Cafédirect. The first ATOs began to operate in the 1950s and 1960s.	The first of these was Max Havelaar in the Netherlands. In the UK the Fairtrade Mark has been issued to some coffee, tea, banana and chocolate brands. In general marks are awarded to products that aim for mainstream markets and are usually supplied by conventional companies. However Cafédirect is an exception, a product imported by an ATO but which also has been awarded a FTM. The influence of each of these models is felt at different parts of the supply chain.

There is also an important distinction to make between fair trade labels and fair trade brands (see box below).

Fair trade criteria		
	FT labelling	Fair trade brand
Products	coffee, tea, cocoa, honey, sugar, orange juice and bananas	A wide variety including crafts, textiles, fruit preserves, chocolate, nuts and nut butters
Marketing channels	Multiple retailers Wholefood retailers ATO outlets	Mostly ATO outlets (own stores, catalogues, volunteers), though some sold through wholefood retailers; some efforts by ATOs to facilitate sales from partners to conventional companies
Range of producers	Co-operatives, plantations that meet certain criteria	Co-operatives, producer associations, family firms, NGOs
How criteria are set	At product level by a working group from the national labelling initiatives / FLO in consultation with the producers and workers concerned	Individual ATOs have principles that guide their operations. Most ATOs subscribe to the common principles of umbrella organisations such as IFAT or EFTA.
Price	Pricing formulae linked to conventional markets, except when conventional prices fall below a specified minimum when the minimum is paid. A fair trade premium is added to ensure that fair trade prices are always above conventional prices.	Prices are set to give adequate remuneration to producers (at least covering costs of production).
Nature of criteria	Terms of trading and production conditions (including working conditions for private operators)	Terms of trading, trade development, choice of producer organisation
Type of standard	Mostly performance	Mostly process

Source: Anne Tallontire (Forthcoming) Fair trade and development for small scale producers, 'Guide to Developing Agricultural Markets and Agro-enterprises, World Bank.

Concrete examples of brand and label fair trade products are as follows:

- Brand: Oxfam Trading craft products sourced according to Oxfam's new partnership principles; chocolate brazil nuts sold with Traidcraft label
- Label: Cafedirect, Maya Gold chocolate

Fair trade brands can be more flexible in response to their producers' needs, whereas fair trade labelling has clear and fixed rules that buyers must follow which restricts their flexibility. Both labels and brands have in common a clear focus on marginalised producers, and on achieving better terms of trading.

Fair trade is different to the initiatives of mainstream companies.

- Fair trade is an alternative system that challenges conventional trading relations.
- Mainstream companies are primarily interested in the use of worker welfare and human rights codes of practice, but do not attempt to change fundamental issues such as control of the key resources (e.g. land) that would alter the terms of trading.
- Conventional trade is of limited benefit to small producers have limited access to world markets and a weak bargaining position in relation to intermediate traders (middlemen).
- Fair trade initiatives are diverse. The common thread is that they are more consciously developmental than the other options, focusing on delivering benefits to smallholders and marginalized groups.
- The fair trade market is relatively small. Even in successful commodities often the market is not sufficient to accommodate the produce of its larger producer groups. Also there is a lack of evidence to confirm if fair trade is consistently able to achieve its goals, and whether benefits are fairly distributed.



Examples of Fair trade logos



- Fair trade initiatives play a role in catalysing change in other conventional trading chains.

Conservation-driven trade

Conservation driven trade – a definition

Trade in products sourced from ecosystems of high biological diversity in order to provide local populations with economic incentives to conserve them.

Source: E. Millard (Conservation International, *pers.comm*).

The most conspicuous conservation trade commodity is shade coffee. Several large beverage companies in the US have been keen to adopt more environmental friendly products and to boost their corporate images by associating themselves with this conservation friendly product. Other commodities include cocoa, timber, tagua, chicle and edible nuts.

The approach of a leading NGO engaged in promoting conservation driven trade is outlined below.

Conservation International 's approach

Conservation International supports its investments in NTFP enterprise creation through licensing arrangements with companies. Its three main projects are brazil nuts from Peru; *tagua* nuts from Ecuador and Colombia; allspice, soapberry and *cohune* from Guatemala. A specialist department, Conservation Enterprise, determines export quality standards, undertakes market research, develops the products and links the projects to market partners. These partners are licensed to use CI's name, and supported with information and promotion in return for a royalty before plastic.

CI persuaded major garment manufacturers that the new popularity of natural fibres demanded compatible trimmings. With their important clients on board, the button manufacturers signed up. For the seeds, leaves and oils from Peru and Guatemala, CI was able to sign an agreement with Croda, a speciality chemical company whose interest was to identify new rainforest ingredients for the personal care market.

The projects are established only after detailed evaluation of the biological and community situations. The forest must be able to sustain estimated levels of extraction. The community must have the legal basis, as well as the organisational capacity, to manage its resources. NTFP enterprise creation is a coalition of rigorous scientific investigation, marketing flair and community development work. It does not come easily.

Excerpted from Millard 1996, p. 14

There are no formal entry criteria for entry into conservation trade markets. However, its objectives and its current small size make conservation trade fairly exclusive. It is verified by conservation organisations such as Conservation International, Nature Conservancy, and the World Wildlife Fund. Producers interested in entering the trade must be located in an area where one of these organisations operate. If so blessed, producers are welcome to approach conservation organisations with business proposals. However, the trend so far has been for conservation organisations to identify areas where biodiversity is threatened and then to look for existing producers in these areas – mostly this trade deals with traditional products – and to then support the development of conservation trade.

There are currently very few conservation trade buyers. Most are large US or European companies that have high public profiles. They often use the conservation friendly nature of the products to enhance their reputations. The larger buyers expect very high standards with regard to quality of both product and service. Suppliers must be capable of meeting these demands.

Volumes of conservation trade are tiny (especially when compared with the amount of publicity that is currently generated from them). However, the trade will probably grow, albeit at a slow rate. There is no shortage of buyers, finding suppliers who can fulfil the demands imposed both by conservation organisations and by the buyers is difficult.

Prices in conservation trade are generally higher than those in conventional trade. There is no rule of thumb that indicates the price premiums. Prices are usually negotiated directly between buyers and producers. Conservation organisations sometimes give producers guidance on the value of their products. Conservation organisations do broker deals on the producer's behalf, particularly in high profile transactions such as recent shade coffee deals in the US.

The largest sector of conservation trade could be considered ecotourism. Ecotourism is not dealt with directly in this manual since there is a wealth of written information about it already in existence.

The prevalence of long-term contracts tends to create price stability in conservation trade. Although this is generally a good thing, producers must be prepared to keep their contractual commitments, even if this means occasionally turning down more lucrative deals.

There are very few information sources on conservation trade. Currently, the best places to look are the websites of the large conservation organisations. See below:

- Conservation International: www.conservation.org
- Nature Conservancy: www.tnc.org
- The World Wildlife Fund: www.wwf.org

ANNEX 3: Case Studies

A number of case studies are presented in this annex. These have been selected to illustrate the following:

- a) To provide concrete examples of ethical trade schemes.
- b) To highlight some of the issues arising in ethical trading schemes such as their financial viability and social impact.

Case Study 1: Fair trade and livelihoods

Fair Trade Bananas

Volta River Estates Ltd is a Ghanaian-registered plantation company formed in 1988. Disease wiped out its plantations, and when it started to export once more it was hit by the EU Banana Protocol, when countries like Ghana had to buy licences to gain access to EU markets.

A chance meeting with Netherlands fair trade organisations led to VREL supplying the EU fair trade market in 1996 under the Oke label. In 1993 the company had 23 workers, 140 ha of partly uncultivated land and a host of labour and local problems. By the end of 1997, after a year of selling to the fair trade market, it had 280 ha of under production, had largely resolved its labour problems and was employing 900 people. In the words of one VREL manager, 'Fair trade saved VREL'.

Natural Resources and Ethical Trade Programme, NRI 1998. (Ethical Trade and Sustainable Rural Livelihoods). P 12

Solar Dried Fruits

Fruits of the Nile (FON) was established in 1990 and started regular trading in 1993. It is a Ugandan-registered company exporting sun-dried fruit for the health food and fair trade markets.

FON started with the aim of increasing rural livelihoods, and decided upon solar drying after exploring various options that could diversify income-generating opportunities, add value to the community level, use simple and affordable technology, be transportable using existing infrastructure, reduce perishability, and not have a negative effect on other African economies. Fruit drying was chosen because of the potential of the solar drying technology.

The company purchases from about 100 groups and individuals. From 50kg at the outset, FON now exports 36-40 t annually with a net export of about US \$ 130,000.

Source: Natural Resources and Ethical Trade Programme, NRI 1998. (Ethical Trade and Sustainable Rural Livelihoods). P 6.

Case Study 2: Timber certification

Community managed forests

In 1995 Quintana Roo was the first community-managed forest to be certified under the Forest Stewardship Council. The 86000 ha of forest had been returned to community ownership in the 1980s, and the 832 *ejido* that own the forest were encouraged to join together in cooperatives to assist technical and managerial support.

Quintana Roo was already selling to ethical buyers prior to certification thanks to a long programme of assistance from the Mexican government, GTZ, and American environmental NGOs. Certification was

strongly supported by Mexican NGOs and government agencies. Most of the timber is sold domestically or to conventional export markets, but certification has helped Quintana Roo timber access ethical markets, particularly markets for non-traditional timber in the US.

Source: Natural Resources and Ethical Trade Programme, NRI 1998. (Ethical Trade and Sustainable Rural Livelihoods). P7.

Case Study 3: NTFP certification

Conservation International and the Tagua Initiative (TI), Ecuador

The CI project provides 'incentives for forest conservation by supporting sustainable livelihoods for local communities through the export of the ivory-like nut of the tagua palm (*Phytelephas Aequatorialis*)'. Tagua nuts have been used for over a century as a raw material for button making but sales have declined due to the rise in synthetic substitutes. However, increased interest in natural products in northern markets and in conservation, as well as the livelihoods of those living in forest areas has meant that tagua has become a valuable commodity again.

A local enterprise in Comuna Rio Santiago Cayapas, Ecuador was established in 1990. This community enterprise sells tagua nuts to Ecuadorian factories that process them into button blanks and jewellery components for global export. Located near to a protected area biodiversity hotspot, the people in this region are extremely poor and isolated. The Tagua Initiative links these isolated collectors of tagua with national and international markets, aiming to provide incentives for conservation of the forest by promoting income generating activities based on the sustainable harvest of tagua nuts and other NTFPs. Tagua palms grow naturally in this region and the nuts are sustainably harvested according to CI.

The Ecuadorian NGO provides support to development activities with local communities, technical assistance and training for local enterprises, and marketing support for local and national markets. CI in turn provides institutional capacity building support to CIDESA, as well as supporting the tagua marketing and product development activities for regional and international markets. Producers have access to financing for the enterprises through credit facilities but have to pay for the services they receive from the NGOs.

The main markets for tagua nuts are the following:

- Buttons
- Crafts
- Whole nuts for wood working
- Abrasives for industrial purposes
- Ivory substitute in jewellery

Facilities have been developed enabling local people to dry and peel nuts before shipping, thus creating added value and reducing transport costs. By working with local enterprise and existing manufacturers and distributors of buttons who are familiar with the markets, producers have been linked to markets (locally, nationally and internationally). CI has put garment manufacturers in touch with the button distributors who can provide Tagua Initiative buttons. Hand carved buttons are also produced by the community enterprise - hand carved buttons are eight times the price of tagua buttons and so although they form only a small proportion of buttons sold the tagua collectors get back 85% of the wholesale price (as compared to 25% for commercial button blanks).

By 1990, over 70 million buttons, with a wholesale value of over US \$5 million have been sold through the Tagua Initiative, which has 32 % of the Ecuadorian Tagua market and around 60% of the North American Tagua button market. CI estimated that this has sustained 1000 jobs and created a further 1,800 new jobs. Producers tend to get above the average rate for their nuts and a 5% premium is obtained from whole button sales (something that has been achieved by licensing distributors of Tagua Initiative buttons and materials). By 1997 the wholesale market premium had raised US\$300,000 for reinvestment in community development activities relating to conservation objectives.

By 1997 over 60 major garment manufacturers globally were using tagua buttons (e.g. GAP, Banana

Republic, DKNY, Jones, New York Apparel and J Crew).

- Due to decentralised sourcing many of these companies are unaware of the social and ecological advantages of the TI buttons. The buttons are chosen according to fashion trends, quality and price.
- One fifth of companies do buy TI buttons for ethical reasons
- Less than five % of the market reveal use of the TI buttons however, so customers remain unaware of the nature and source of the product.

KEY LESSONS

- Success so far largely due to strong partnerships between the organisations involved
- The collaboration with local businesses in Ecuador and with button manufacturers and distributors has been essential to enable competitive marketing.
- Distributors added a high quality line to their range, freeing CI and CIDESA of many business negotiations.
- However, the fashion market is extremely predictable. Will sales be maintained? CI felt that this is quite likely precisely because many buttons are not bought for ethical reasons but for their merits as buttons.
- Corporate environmental concern can stimulate demand for a product but is not necessarily the deciding factor in the sales of Tagua Initiative buttons.
- By working with wholesale distributors and a wide range of companies, the Initiative has avoided being sidelined in niche markets and reduced the risk inherent in working with a small number of purchasers.
- Industry involvement increased the viability of the project and enhanced and diversified the tagua products as well as supporting quality control.
- Inadequate testing of the tagua for making buttons in the early years led to some costly mistakes for retailers and distributors.
- External policies threaten the conservation of biodiversity in the area - policies that influence land tenure and management e.g. construction of new roads in the area, leading to an influx of new settlers.

source: IIED Robins N and Roberts S (1997) 'Changing Consumption and Production Patterns. Unlocking Trade Opportunities: Case Studies of Export Success from Developing Countries.'

Case Study 4: Organic Schemes

Support for trade in organic products in Africa: the EPOPA programme¹

The SIDA-funded EPOPA programme, Export Promotion of Organic Products from Africa has been running since the mid 1990s and operates in both Uganda and Tanzania. The Dutch NGO Agro-Eco manages the project on behalf of SIDA. At present there are five projects that have been supported by EPOPA. In Uganda there is arabica coffee in West Nile, robusta coffee in Bushenyi and cotton in Soroti, Lango and Apac. In Tanzania there is robusta coffee in Kagera and cocoa in Kyela. EPOPA is no longer involved in the cotton project, but trade in organic cotton continues. We also give further details of the organic coffee project in Kagera.

The main benefit from the project is the higher price received by the producers, 15-30% higher prices have been achieved over the non-organic price. Over 24,000 farmers have benefited. Most farmer involved in the project are smallholders, especially in the coffee sector, but some farmers are better endowed and have around 10,000 trees on several acres and employ labourers. Many of the farmers involved in the project did not have to face reduced harvests as a result of changing to organic production methods as they were already organic by default as they used little or no chemical inputs. Farmers have also benefited from the introduction of improved farm management practices where they have followed the advice of the project extension staff. However, project evaluations point out the

¹ Summary of EPOPA based on material from Forss and Sterkey 2000;

need for further training of farmers to ensure that product quality is maintained and proper procedures are followed, and of the field staff themselves. On some projects the field workers have spent so much time recruiting farmers to the schemes that they have had little opportunity to carry out thorough training.

The introduction of organic production methods and marketing an organic product do bring extra costs to an exporter or farmer organisation. This includes paying farmers a higher price for the product (at the very least as an incentive to maintain standards), cost of field staff, certification and the maintenance of a separate line for handling organic produce. The costs of certification in Uganda and Tanzania are particularly high compared to other places as there are no local certifiers. Under the EPOPA scheme in the first year most of these costs are borne by the EPOPA programme, in the second year the costs are shared more evenly between the exporter and the programme. In the third year the exporter is supposed to bear all the costs. An assessment of the programme noted that whilst cost sharing was a good idea, the phase out of project support by year 3 was probably too ambitious. It was recommended that in future the exporter contributes to some of the costs from year one, but support from EPOPA continues for a longer period. The cotton project is now self-financing, but the serious decline in coffee prices may mean that this is not feasible for the coffee projects just yet.

The exporters that the project works with have been largely private companies, but some producer co-operatives are also involved, see below on the Kagera Co-operative Union. An evaluation of the programme in Uganda by the consultancy Darudec argued that private companies had been most successful in the programme because of the need for good managerial capacity and access to crop finance. However, questions may be raised about the commitment of some companies involved as one multinational coffee company in Uganda pulled out of the scheme arguing that it no longer saw organic production to be part of its market strategy.

The assistance of the Dutch NGO has been very important to this project as government institutions in neither Uganda nor Tanzania are promoting organic production methods in any way, with the exception of the Uganda Coffee Development Authority. However, the link to fair trade organisations such as Twin has been important to ensure that there is a market that is willing to pay a premium for this coffee.

These projects have assisted both farmers and exporters to gain higher prices for their produce, while assisting the farmers to adopt sustainable agricultural practices, not reliant on expensive inputs.

Lango Organic Cotton

The Lango Organic Cotton Project (LOCP) was set up in Lira and Apac as part of the EPOPA programme. The project has operated through the Lango Farmers Cooperative Union (LCU), a Ugandan regional farmers co-operative, dealing principally with cotton processing and marketing but also with interests in some other crops. The LCU is associated with 156 primary societies (village / parish based groups of farmers) from which the LCU buys crops. The EPOPA programme provided assistance in project organisation, research, extension and training, and inspection and certification costs for the first two years, along with advice on market contacts. Agro-Eco was responsible for technical inputs and has played a significant role in identifying and implementing the project. EPOPA also provided an interest free loan to LCU for operating capital, funds for a project truck and a revolving fund for farmer training, as well as assisting in securing a commercial loan.

The LOCP has aimed to promote organic cotton production techniques in Lira and Apac and to provide monitoring and documentation systems required for certification. Marketing of the crop has been through the primary societies and LCU. EPOPA support to the project was completed in 1997.

Cotton for the organic market must be produced according to organic standards which cover not only crop production but also preparation for marketing, such as ginning, and transport. The Lango Organic Cotton Project has been highly successful in establishing and expanding organic production according to the required standards. In the first three seasons the production of certified organic crops rose from an initial 70 tons (1994/95 season) to 900 tons (1996/97 season) and the number of participating farmers grew from 200 farmers to 5,100 farmers. Participating farmer numbers are now estimated to be 7-8000 with organic cotton now accounting for around 8% of cotton production in the district.

Organic cotton produced from the LOCP is sold to a subsidiary of the Dutch based company African Farmers Trade Associates (AFTA), Farmers' Fair Trade Uganda (FFT(U)). The main objective of AFTA is stated as "to operate effective trade of commodities in national and international markets in Africa and to give fair prices to farmers by way of commercial trade with fixed and limited profit margins". There is a controlled profit margin of 15%. It operates as a fair trade scheme, but unlike most fair trade schemes AFTA does not appear to provide a fair trade premium to farmers as such, relying instead in this case on price premiums achieved through the organic status of the product marketed.

FFT(U) commenced trading in 1995/6 with 60t of organic cotton lint. In the 1996/7 season 450t, representing about 2% of the entire Ugandan cotton harvest, were produced by over 5000 smallholders, although FFT(U) actually exported less than 300t of this. FFT(U) are currently the sole traders in organic cotton in Uganda. The seed cotton is transported in certified lorries paid for by the buyer (FFT(U)) to the certified ginnery (owned by the Lango Cooperative Union) at Ngetta. The costs of ginning are also covered by the buyer. Ultimately the lint is transported by road to Mombasa by the buyer and shipped to the international market.

FFT(U) have been recipients of a loan for crop finance through a joint venture by the parent company AFTA. This arrangement was to allow payment to farmers through their primary societies immediately after harvest, but also to provide for costs of seed cotton, transport and marketing costs, ginnery spares and the organic certification fee. FFT(U) has made an agreement not only to pay farmers cash in hand on delivery but also to provide a second payment to farmers after sale of the cotton has been completed if a higher price than expected is obtained. Such arrangements, previously established under the EPOPA programme, have been highly attractive to farmers particularly in view of the hazards of selling to conventional traders.

In the first year of operation FFT(U) attempted to purchase directly from farmers through the primary societies or through private agents. These tactics created some tensions between FFT(U) and the LCU which perceived that their position was being undermined. However problems were encountered by FFT(U) in accounting for crop finance and FFT(U) reverted to purchasing through the LCU.

Many of the positive outcomes of the scheme are attributable to the LOCP established through the EPOPA programme rather than to the more recently established FFT(U) trading activities. Although effective marketing and provision of crop finance are vital to the continued development of the organic cotton scheme, the entry of FFT(U) as buyer and marketing agent seems not to have attracted particular recognition by farmer participants. Where as many fair trade schemes provide producers with a clearly identified fair trade or social premium for use in social development activities, this is not the case in the FFT(U) scheme which provides only the organic premium. Moreover, the whole scheme appears to be vulnerable due to its dependence on relatively weak institutions which had proved unable to maintain transparency in their transactions. In 1998 a dispute arose between the LCU and AFTA / FFT(U) regarding the fate of a sizable portion of the Dutch bank loan arranged by AFTA and this is threatening the continuation of the scheme. It is unclear at this point if this has been resolved. Moreover, FFT(U) was unable to complete payments to farmers in the 1997/98 season resulting in a reported Ush 32 million debt to farmers with as many as 42% of farmers affected to some degree.

Institutional changes have been made in an attempt to sustain the project, for example a new NGO was established (Lango Organic Farming Promotion (LOFP)) to continue and expand the project activities under an entity separate from the LCU with the intention of seeking independent funding.

The organic scheme had already established a marketing initiative, albeit reliant on external inputs, prior to the advent of the Farmers Fair Trade (Uganda) scheme. FFT(U) potentially could have provided a sustainable form of marketing arrangement to ensure the continued viability and success of the scheme without external inputs. This does not appear to have been achieved.

Nevertheless, there is no doubt that the scheme has brought significant benefits to farmers, raising household income levels in an area where there are few alternative income generating opportunities and where there has been little agricultural development.

Extracted and adapted from Malins and Nelson 1998

KCU's organic project

The Kagera Co-operative Union (KCU) in the north west of Tanzania has recently began its organic coffee project under the EPOPA programme in March 1999. It was already selling to the fair trade market through Fair Trade Organisation and Twin (it is one of the suppliers for Cafédirect) and has also managed to win direct trade links with conventional coffee companies.

The KCU has introduced the cultivation of organic coffees at two primary societies: Ibwera in Bukoba and Kachwezi in Muleba Districts respectively. Two extension workers are employed by the KCU to train members in organic farming, advised by staff from the AgroEco, Around 300 farmers are registered as organic coffee producers, and have been certified as two groups of organic farmers by the Swedish organic certification body KRAV.

The KCU is the first union in Tanzania to export organic coffee (both arabica and robusta) and so far has exported 4 containers (2 arabica and 2 robusta). Organic coffees attract good prices, for instance during 2000/2001 organic coffee was bought at Tshs. 750/kg compared with other coffee sales at Tshs. 400/kg.

The coffee from the project is also fair trade and the premium from both the FT price and the resulting organic certification contribute to the project costs as well as to pay the farmers a higher price for their coffee.

Source: Tallontire, Greenhalgh et al 2001

Organic Farming

Suntrade is a buyer and exporter of organic horticultural produce from Uganda. Over seven years its annual exports have expanded from 1 to 104 t, mostly to Switzerland, but also the Netherlands, the UAE, South Africa, and the UK. It is currently buying from smallholders in different parts of the country whose certification has been organised and paid for by Suntrade.

Conversion to organic farming has been relatively easy because years of domestic conflict meant that farmers had little access to high-input agriculture. Produce is air-freighted, something made viable by the relatively low air costs from Kampala and the green premium on organic produce. Unlike other case studies, Suntrade has had no development agency support.

Source: Natural Resources and Ethical Trade Programme, NRI 1998. (Ethical Trade and Sustainable Rural Livelihoods). P11.

Case Study 5: Financial viability of ethical trade schemes: Brazil nuts in Peru, Cocoa in Ecuador.

Ethical Brazil Nut Trading in Peru

- The Brazil nut trade is a small element of the international edible nut trade with approximately 1.6 % of total market share by volume.
- International Brazil nut prices are determined by basic supply and demand patterns, without the influence of commodity exchanges and futures markets. Prices are also cyclical because low international prices cause collectors to abandon their Brazil nut activities, thereby precipitating a supply shortage.
- The international edible nut trade considers Peru as a Brazil nut origin of last resort due to inconsistency of supply and poor quality.
- **From FOB to consumption the trade pattern does not currently have an ethical dimension.** Furthermore the high degrees of efficiency and competitiveness within the international trade mean that there is very limited scope for introducing ethical innovations.
- Candela Perú is an alternative trade organisation (ATO) and active member of the International Federation of Alternative Traders (IFAT). It has been buying and selling Brazil nuts in the commercially difficult environment of Madre de Dios since the 1980s. Its aims are to bring greater financial returns to *castaneros* (Brazil nut gatherers), improve the transparency of the trade, provide pre-finance to *castaneros* on good terms, to build business and technical capacity among *castaneros*, and to provide a sufficient financial surplus to re-invest in its operations.
- Conditions within Peru's internal Brazil nut export marketing chain are highly competitive. In fact, **there is too much competition**, with too many traders of all types chasing too little product. This has led to fragmentation of the industry, absence of trust between participants, lack of investment funds for modernisation, a short term view of the future, and a high turnover of companies. Overall, there is an inability to exploit economies of scale, a situation that creates poor cost competitiveness, and poor quality of product and service.
- These factors should be acknowledged when appraising the performance of Candela Peru.
- Candela does not pay *castaneros* prices that are higher than those offered by its competitors. Undoubtedly, part of the cause of this is the **small size of the alternative trade Brazil nut market** compared with Candela's overall scale of operations. Two further factors might exacerbate the problem. Firstly, the nature of its development work causes the Candela to be **top-heavy with management**, and technical and research staff, giving rise to high overhead costs. Secondly, Candela's use of electronic weighing scales means that *castaneros* are not cheated through under-declaration of weight, and therefore in reality may receive competitive (or perhaps more than competitive) prices. There is currently no proof to validate either of these explanations.
- Of all sources of credit in the region, Candela offers the most favourable terms, a practice that brings significant improvements to the lives of *castaneros*. The organisation has been a **true innovator** in this context and its competitors are being forced to adopt similar practices.
- Candela and Conservation International were the only organisations that foresaw the problems that would arise from the tightening of importing country regulations on mycotoxin contamination of edible nuts. Subsequently, Candela has been participating in efforts to improve standards within the local industry.
- Candela has made considerable efforts to improve transparency of its shelling service through adopting itemised cost sheets, using electronic scales, and allowing *castaneros* to supervise the

shelling process. However, high levels of distrust between *castaneros* and traders in general, mean that discontent lingers.

- Candela has attempted to build the capacities of individual *castaneros* and their representative organisations. Success has been mixed.
- Candela's experience highlights the problems of delivering financial improvements to a target population while operating in a competitive (or in this case, an over-competitive) marketing chain. However, Candela's presence has encouraged its competitors to improve their business practices to the advantage of *castaneros*.
- Candela's ethical performance has been mixed. The organisation has yet to offer *castaneros* significantly higher prices than its competitors, yet in other aspects, such as credit and transparency, it has introduced innovations that bring substantial benefit to *castaneros*. Despite this, it has yet to gain a perception among *castaneros* that it is significantly different from conventional trading and processing companies. According to its own figures, Candela has only a 5% share of the Peruvian brazil nut export market. At this low volume, Candela is unable to exploit economies scale and pass greater benefits to the *castaneros*.
- Candela's ability to see threats and long term developments puts it in a unique position among local organisations in Madre de Dios. However, the experience with changes to import regulations on mycotoxins shows that its voice goes largely unheard in an atmosphere of short term perspectives and mistrust. The role of protecting the interests of the industry would be better performed by an industry association that contains representatives from all groups involved in the trade.

Cocoa Trading in Ecuador



- Agroexportadora Maquita (shortened here to Maquita), a component of one of Ecuador's largest church based development organisation, Maquita Cushunchic Commercializando como Hermanos (MCCH). Maquita started exporting cocoa in 1992.

Cocoa drying in Ecuador

- **The Ecuadorian economy is currently a difficult environment** in which to conduct business.
- Against this background, **Maquita's business performance has been impressive**. The company has out-performed most of its conventional trade competitors. Its success is the result of high calibre management.
- Maquita's cocoa operations are subsidised to a small extent. Donor grants have provided the organisation with capital to invest both in its marketing operations and in improving bean quality at the farm level. However, such financial assistance has only recently been available and played no part in the company's establishment.
- Maquita trades on a preferential basis with approximately 15% of the smallholder farmers in the two provinces where it concentrates its activities.

- Maquita runs a **transparent marketing system** that reduces transaction costs for both growers and traders.
- Under its preferential buying programme, Maquita pays a **price premium** of between 8 and 15% over the standard buying price.
- Maquita **has provided training** in cocoa cultivation, post-harvest issues and farm management to its target smallholder growers. The impact that this recently implemented programme has had on grower incomes has yet to be measured.
- **Fair trade cocoa** helped Maquita to establish itself. Since 1996, Maquita has sold only a very small part of its cocoa through fair trade channels.
- Maquita's impressive commercial performance has allowed it to deliver **substantial financial benefits to its target smallholder cocoa producers**. This has only been possible because Maquita's management has excellent commercial skills.
- Maquita's **managers combine ethical awareness with business acumen**.
- Cocoa is an **appropriate commodity for ethical trade**. It has been traded for many years, is consumed in large quantities, and has all the necessary infrastructure to support its trade. Furthermore, it is processed into luxury items that have few substitutes and have a high profile in consumer's minds.



*Chocolate - fair trade and organic
- on sale in the UK*

- With the current low level of fair trade cocoa sales and in the absence of a recovery in international cocoa prices, one of the few paths to widespread increases in producer incomes is to improve marketing skills and efficiency within countries of origin. Maquita has achieved this in Ecuador.

Some Key Lessons

- Ethical businesses can not thrive in unhealthy commercial environments.
- Top quality management and a lean operation (one that minimises costs) create financial surpluses that can be distributed to target poor people.
- Business growth makes delivering benefits to poor people much easier.
- Fairtrade can help new ethical businesses to grow but will not sustain growth for long.
- Some commodities are more appropriate for alternative trade than others. If you have a choice, trade a commodity that is luxury item (or is a key ingredient of one), with few or no substitutes.
- Do not just think in terms of increasing prices to poor producers. Providing credit on good terms, improving transparency and building business and technical capacity among the target group are also worth considering. They can also persuade conventional traders to change their business practices for the better.

Case Study 6: Social impact of ethical trading: Brazil nuts in Peru, Cocoa in Ecuador, Cotton in Uganda, Fruits of the Nile, Ghana etc

Comparative studies were completed of brazil nut and cocoa trading in Peru and Ecuador. Ethical trade schemes in forest products were selected for comparative research on their social impact. Candela, a Peruvian alternative trade organisation, engages in the ethical trade of brazil nuts. In Ecuador the NGO Maquita Cushunchic (MCCH) established an export company to support the ethical trade of cocoa.

Impact assessment was taken to be 'the systematic analysis of the lasting or significant changes – positive or negative, intended or not – people's lives brought about by a given action or series of actions' (Roche 1999). A key issue in impact assessment is always 'who judges'. In this study a participatory research methodology was adopted to base findings on the perceptions of diverse social groups at the local level.

More often than not impact assessments are not integrated into a scheme or project but are carried out once the project has finished or not at all. However, this creates a problem in that baseline information is not collected against which impact can be monitored and lessons learnt as the project progresses. Although baselines can be recreated this is a tricky task. Impact assessment should involve participation of those affected by a project or scheme, but should be view as part of a systemic learning cycle rather than as an external assessment aimed at justifying monies spent.

These comparative studies were snapshot studies that looked back over the course of the scheme and asked those affected by the scheme for their perceptions of its impact. Once the geographical area in question had been zoned according to livelihood systems and degree/type of forest dependency then areas were selected for fieldwork. Focus group discussions were then held with different groups engaged in the collection of brazil nuts or in the cultivation of cocoa. Interviews were also held with others that might have been affected by the scheme along the trading chain and in the local area.

So what do fair trade schemes offer?

- Fair trade schemes offer a marketing niche to importers and help to guarantee business reputations by showing 'good' impact.
- Fair trade schemes can attract the support of other development agencies to an enterprise or group (honeypot syndrome).
- Fair trade schemes offer benefits to producers (the extent and distribution of the benefits varies though).



Cocoa trees in Ecuador

What services are offered to smallholders?

Fairer prices – fair trade organisations try to offer higher prices than the conventional trade.

- In both of the cases studies however the difference in price offered was limited.
- In Ecuador a higher price was offered to smallholders (including associates and non-associates of the scheme). At times when the increase has been small this is because other local traders were forced to raise their prices thus benefiting many more cocoa growers. Under its preferential buying programme, Maquita does manage to pay a price premium of between 8 and 15% over the standard buying price. The type of product clearly influences the degree to which benefits can accrue to small producers or collectors. Cocoa, an agroforestry crop, is an appropriate commodity for ethical trade, because there is a history of cocoa trading and because it is consumed in large quantities meaning that the necessary infrastructure exists to support its trade. Furthermore, it is processed into luxury items that have few substitutes and have a high profile in consumer's minds. Fair trade cocoa sales are currently low and the current decline in international prices means that MCCH have followed one of the few options for increasing producer incomes – namely through improving marketing skills and efficiency within countries of origin.
- As the economic analysis of the same scheme has shown (see case study xx) the conditions within Peru's internal brazil nut export marketing chain are highly competitive. A situation of too many traders of all types chasing too little product which in turn has made it difficult for Candela to offer price premiums.
- Another factor that has made it difficult for Candela to offer higher prices to the brazil nut collectors is the small size of the alternative trade brazil nut market compared with Candela's overall scale of operations. In Ecuador MCCH have managed to

Fairer weighing in both Peru and Ecuador

- More transparent systems of weighing and grading the brazil nuts and cocoa have been introduced in both schemes. In Ecuador farmers when interviewed said that the fairer weighing system meant that not only were they being offered a better price but that this price extended to the full quantity they were offering (of the right quality) rather than the usual scenario when intermediary traders use inaccurate scales and grading is non-transparent.
- Candela in Peru has introduced electronic weighing scales which means that brazil nut collectors are not cheated through under-declaration of weight, and therefore in reality may receive competitive (or perhaps more than competitive) prices. According to its own figures, Candela has only a 5% share of the Peruvian brazil nut export market. At this low volume, Candela is unable to exploit economies scale and pass greater benefits to the *castaneros*.

Credit

- In Ecuador MCCH began by establishing shops in the areas where it now engages in ethical trade of cocoa. These shops were community shops in remote rural communities and were attempts to help smallholders avoid the exploitative '*el fiado*' credit system which sees smallholders rapidly indebted to shopkeepers and traders. However, the shopkeepers began to rebel and refused to buy their cocoa so MCCH began to look at ways to buy up their cocoa as well.
- Candela attempts to offer alternative credit opportunities. In Peru the *habilito* credit system is widespread in which market goods are supplied on credit at inflated prices, to be paid for in extractive products – in this case brazil nuts. This system – known as *aviamento* in Brazil, where rubber and brazil nuts are the commodities question – has resulted in the rubber tappers constantly being 'in a state of debt peonage to the petty rubber merchants and *patraos* (owners of the rubber trails). This system is still widespread and exists in many forms throughout the Amazon Basin. It is very difficult to replace as it does offer a means by which groups in

remote areas can have access to outside markets'¹. In Peru Candela has been providing pre-finance to the brazil nut collectors on good terms.

Technical advice and capacity building

- MCCH has provided technical advice to smallholder cocoa growers through the establishment of a 'cocoa school'. MCCH promoters work with cocoa growers providing advice on improving crop production, post-harvest and marketing.
- In Peru Candela and Conservation have been active in raising awareness on the problems likely to arise from the tightening of importing country regulations on mycotoxin contamination of edible nuts. Subsequently, Candela has been participating in efforts to improve standards within the local industry. However, the lack of trust pervasive in the Madre de Dios brazil nut economy has meant that the influence of Candela to change quality standards has been limited and for concerted action an industry association that contains representatives from all groups involved in the trade is required. However, Candela's presence in the area has had a knock-on effect on the activities of other traders (e.g. in terms of encouraging more transparent weighing and grading systems and demonstrating that greater transparency can be achieved in shelling services by using cost sheets, electronic scales, and introducing brazil nut collector participation in supervision of the shelling process). It can also play a role in taking a more long-term view of the industry compared to the short-term vision prevalent in the industry.
- In terms of capacity building and group organisation Candela has played a supportive role in the Conservation International project in the same region which is building local processing capacity.
- In Ecuador MCCH is buying from individual smallholders, a cooperative and traders. MCCH buys from preferred sellers – smallholder growers that are associates of MCCH. MCCH has also worked with a cooperative in one region that also receives support from an external donor. Where there are no local farmer organisations, MCCH promoters are also helping to encourage their formation.
- Access to complementary development interventions is facilitated by the presence of ethical trading schemes, since the schemes provide exposure on an international level. In Peru Candela in the past has collaborated with Conservation International (e.g. in the construction of local processing centres). In Ecuador, support from a Canadian development agency has run side by side the MCCH ethical trading scheme.

Who benefits?

- It is therefore not possible to assume that all groups will benefit or will benefit equally.
- Whilst financial viability is a priority for such ethical trade schemes since so many founder after just a few years, it is important for such schemes to integrate impact assessment into their operations. Viewed as a participatory and systemic learning cycle – impact can be monitored whilst a scheme is in operation in order to feed back changes which are required to make improvements. The studies carried out by NRET are of a detailed nature and were also snapshot studies. For longitudinal impact assessment – measuring change over time - impact indicators need to be developed that highlight who is benefiting from the scheme and who is not, the types of benefits accruing from the scheme and the sustainability of the activities underpinning the trade.
- Until recently few ethical trade schemes engaged in impact assessment, something which can render claims of benefits accruing to small producers open to question. For those selling the final products it is important that the labels that claim that benefits are returned to producers

¹ Richards, M. (1993). 'Commercialisation of non-timber products in Amazonia. NRI socio-economic series 2. Natural Resources Institute, Chatham, UK.

have evidence to back them up, otherwise there are possibilities that media reports will affect consumer confidence in those claims.

Forest dependent household in Esmeraldas, Ecuador



- Carrying out a stakeholder analysis is important in order to develop a social typology of the people living in a given forest area or of those participating in the scheme and their neighbours who may be positively or negatively affected by its operations. Equally, such an analysis will enable NGOs to assess whether the scheme is benefiting poor producers or rather small producers in poor countries.
- The need for such an analysis was clearly demonstrated by the stakeholder analysis carried out in Peru and Ecuador. In Peru it was found that there is a diverse set of primary stakeholders at the local level with differences of origin (indigenous and colonist groups), occupational groups (shellers, porters, brazil nuts concession holders).
- Women play an important role in the brazil nut extraction activity, as they crack the fruits collected by the men, separate out the nuts and prepare them for home consumption. They also shell nuts for sale working on their own account, for other traders and for Candela – in their factory. The male porters spend weeks in the forest carrying out the arduous task of collecting the brazil nuts and carrying them on their backs for many kilometres to the river for transportation. Neither of these groups appeared to be benefiting directly from the ethical trade scheme which focused primarily on the brazil nut concession holders. Both of these groups were invisible to the scheme since they are a seasonal labour force without political representation. When efforts were made by the female brazil nut shellers to form their own organisation it collapsed due to lack of external support and at times negative pressure from other players in the industry.
- In Ecuador the commodity is different in nature – as an agroforestry crop, cocoa is grown on-farm and so there are less obvious invisible groups although the level of gender awareness in operations was not particularly explicit. Not all of the ethnic groups (Chachis, Afroecuadorians and colonists) living in the regions where MCCH works can benefit from the scheme however because the Chachis do not traditionally grow cocoa, whilst others live in areas where MCCH promoters do not operate.
- Access to basic resources is required to participate in ethical trade. Although this may seem an obvious statement it is important to note in assessing the degree to which an ethical trade scheme is benefiting local communities. In a review of forest product studies², it was found that in a number of cases access to fruit tree products are restricted by tenurial claims, often based on land claims or on active management. In Orissa, India, for example, access to trees in village lands is highly dependent on class and caste status. This situation is echoed in the Peruvian brazil nut industry where many brazil nut porters cannot afford or do not have the capacity and connections to obtain concession titles. The concession holders, who tend to be better off than the porters, are the ones that benefit the most. Whilst this is clearly drawing a simplistic picture of what is in fact a complex social structure, it is important to try and tease out the positive and negative impacts of ethical trade schemes, as well as their intended and

² Townson, I.M., (1994) *Forest Products and Household Incomes: A review and annotated bibliography*. Oxford Forestry Institute, University of Oxford.

unintended impacts. There is a risk that those that are already marginalized and who cannot make good claims over land, trees and other natural resources may be further marginalized by an ethical trade scheme, since those in a better position may consolidate their situation, whilst others are increasingly vulnerable.

- Gender awareness was found to be fairly low in both schemes, with assumptions made that benefits trickle across the intra-household level. MCCH does carry out some gender training of promoters.

Key Lessons

- Destructive harvesting activities can result from rapid market commercialisation with negative impacts on resource quality in a number of cases. In the Peruvian Amazon a study in Iquitos found that over 163 fruit species are regularly traded locally and 120 species of these are exclusively wild harvested. However, destructive harvesting methods are leading to the rapid depletion of many of these fruits as market pressure begins to build. The increase in these destructive harvesting techniques is directly linked to the commercialisation of the products³. In the case of brazil nuts it is not clear whether overharvesting is occurring since at the time of the impact study few ecological monitoring studies had been carried out. It is suggested that in the case of the Brazilian Amazon land reform may result in more sustainable land management practices.
- The harvesting of brazil nuts is complementary with the seasonal harvesting of rubber production. Brazil nuts are harvested in the rainy season while rubber is extracted in the dry season. This complementarity contributes to the importance of brazil nuts in the extractive economies of Brazil, Peru and Bolivia. In terms of the vulnerability of individual smallholders, collectors and their families the trade in brazil nuts provides an important source of income some of which covers subsistence needs and some of which may be reinvested in other income generating activities.
- Collectors and farmers in Peru and Ecuador are engaged in many different livelihood activities. NTFPs are typically one of a number of income generating activities. Often in ethical trade the starting point of the scheme has been the commodity, not the livelihood strategy, and by encouraging production of a single commodity may have unnoticed impacts on producers. It can be argued that the producer is free to weigh up the opportunity cost of concentrating on a single commodity. However, this ignores the often unequal power relations that exist within the household or community, and that a benefit for one member may be a disbenefit for another.
- Since thorough impact assessments have not been carried out on ethical trade schemes in the past the lasting and significant outcomes of the scheme have not been assessed. For example, cocoa growers do not invest any of the extra income gained from the cocoa fair trade scheme in cocoa, but in other activities. In Peru, the brazil nut collectors in Peru invest the money they earn from selling nuts to Candela to in other income generating activities (e.g. buying a motortaxi).
- Historically, the fortunes of extractive industries have followed a boom-bust pattern, with rapid expansion of production being followed by a more or less rapid decline in production from the forest. Given this history of boom and bust cycles it may be a wise strategy that the collectors and farmers are investing in other diverse livelihood activities.
- The support from Conservation International to Candela and the association of brazil nut collectors is driven by a desire to provide incentives for forest conservation, and to promote local livelihoods that benefit local people. This conservation driven trade can help to promote conservation but only as part of wider changes to alter land use change and forest clearance.

³ Vasquex, R. and Gentry, A.H., (1989) The use and misuse of forest-harvested fruits in the Iquitos area. *Conservation Biology*. 3(4) 350-361

- Many of the barriers facing smallholders and collectors in their attempts to commercialise cocoa and brazil nuts are common to both ethical and conventional schemes. A key question then is how far can fair trade schemes assist farmers and collectors to overcome these barriers? MCCH buys cocoa in Manabi and Esmeraldas provinces in northwest coastal Ecuador. The smallholder growers live in remote areas, and in many areas transportation is purely river based. In Peru the brazil nut concessions are scattered across large areas of forest and access is difficult with infrastructure being limited – again much travel is undertaken along rivers. Fair trade schemes cannot possibly fund infrastructural development, but it may be that complementary support can be attracted from donor agencies (the honeypot syndrome). However, the physical dispersion of collectors and cocoa growers means that infrastructural development funds required to cover all of these areas would be extremely large. Local processing centres are also costly to construct and are likely to require external support (as has occurred in Peru with assistance coming from Conservation International).
- Lack of access to market information is often a barrier for small farmers. In Ecuador the MCCH office in Guayaquil obtains prices from New York and then disseminates this throughout the regions in which it operates via its promoters.
- Finally, the studies show that there can be clear tensions between the developmental end goal of ethical trade schemes and the tool of trade used to try and achieve these. Returning a premium to producers and collectors is one of the most well-known benefits of ethical trade schemes, but where there are no economies of scale for example in the brazil nut industry in Madre de Dios region of Peru and with certain commodities (fair trade markets for brazil nuts are tiny) then opportunities to do so may be limited. The distribution of benefits is also something that has been neglected with gender and wealth biases occurring perhaps because the demands of international markets and the necessity of having access to a certain level of resources to be able to participate in the first place.

Case Study 7: Sustainable Forest Standards for small scale timber growers

South Africa is in the process of developing a national standard for sustainable forest management. The National Forests Act (No. 84 of 1998) empowers the Minister, on the advice of the Committee for Sustainable Forest Management, to determine and enforce a set of national standards (comprising principles, criteria, indicators and standards) regulating forestry operations in South Africa. Once the standard is developed and implemented into the national legal framework, voluntary certification schemes will take this as the basis of their own standards.

The importance of a comprehensive set of national standards towards achieving sustainable forest management, together with the weight of punishment for breaching the standards (any person found in breach of the standards and who is not implementing remedial action may be fined up to R50 000 in sentence) makes it essential that the promulgated national standards clearly take into consideration all sectors of the forestry industry. However there is little understanding of what smallholders understand about sustainable forest methods, nor what they would be able to achieve in terms of meeting a national forest standard.

Moreover, the consultation process in drawing up the South African National Standards (not FSC standards) is to date predominantly concentrating on large plantation management, with little consideration of smaller producers. However while individually the impact of each small grower may be very small, across a watershed the impact may be highly significant. For example, one of South Africa's largest timber companies (Sappi) estimates that one third (approximately 200 000 tonnes) of its production in the near future may be derived from small growers.

The forestry production industry in South Africa is largely dominated by a number of private sector companies viz. Sappi and Mondi, and Safcol, which is a State run forestry enterprise (which is currently being privatised). Between them they control the large majority of the forest growing industry in the country. In addition, there are a number of independent growers producing trees on farms with

areas of between 50 ha and 3000 ha. These growers supply timber to either Sappi or Mondi, or to marketing co-operatives such as NCT. In addition there are the large number of independent 'small scale' producers growing trees on communal tenure land. It is estimated that there are approximately 14, 000 individuals operating in out-growers or other small grower schemes. These small grower holdings can be substantial (well over 50 ha), but the vast majority are likely to be under 5 ha or even as small as ½ ha. These growers also attempt sell their timber to Sappi or Mondi, or through co-operatives such as NCT. Sappi and Mondi have out-grower schemes called Sappi Project Grow and Khulenathi respectively.

Through these schemes the companies assist small growers in the rural areas to establish plantations, by providing extension services and seedlings and training in a range of basic forestry skills in the first cycle. At the end of the growing cycle the companies then purchase the timber at a negotiated rate. These small growers therefore have greater security than the independent small growers in terms of support and information during the first growing cycle, as well as inputs and a market on felling. However many small growers either do not qualify or are not able to join out-grower schemes, or voluntarily elect to develop their plantations independently.

Small scale forest growers face the potential of being squeezed out or denied access to the market place if they are unable to meet the new national forest standards. However their ability to meet the standards could be limited if the standards demanded of them do not recognise their specific needs and capabilities.

The Institute for Natural Resources undertook a study to:

- To examine the ability of small growers to reach the required standard.
- To see what objectively verifiable proof it is realistic to expect from small growers to prove compliance with national standards.
- To inform the national standards regarding the capacity and operations of small growers.

The main conclusions and recommendations were:

- There should be a single-tier set of standards developed for the forestry sector, rather than a 2-tier system with a separate set of standards developed for the small grower sector. It is important a single tier set of standards are designed for the forestry industry, rather than a 2-tier system that differentiates between large and small growers, as they all compete in the same market and operate in the same natural environment.
- However this single-tier standard should be interpreted flexibly in terms of what constitutes compliance. Assessment needs to focus on output rather than process the end product environment reflects the extent compliance and success
- Attention should rather be paid to the development of capacity among small growers in order for them to meet the standards
- Given the dynamic context within which the standards will be applied, i.e. changes to social, natural and economic environments, the standards and in particular the indicators and verifiers will need to be constantly reviewed and modified in order to remain relevant.

Other more general issues that arose regarding the implications of certification for small growers in these small grower communities were

- The potential contradiction between FSC principles that attempt to protect indigenous rights and those which require actions that contradict current traditional practices.
- The FSC requirements for technical inputs and operations that are beyond the capacity of small growers.
- The development and implementation of management plans and monitoring strategies that would meet FSC standards, and would be achievable for small growers.

Source: Adapted from Lewis and Ngubane 2001

CASE STUDY 8: Fair trade coffee: Issues from recent studies

The experience of the East African coffee co-operatives highlights some of the benefits but also the challenges associated with fair trade. European fair trade organisations (particularly Twin Trading, Gepa and Fair Trade Organisation) began to develop partnerships with coffee co-operatives in the early 1990s in Tanzania (Kagera and Kilimanjaro) and Uganda (Banyankole and Mbale). Co-operatives in East Africa have been significantly affected by liberalisation of the coffee sector that began in the early 1990s. Moreover, the current slump in world coffee prices is creating severe problems for all organisations involved in coffee production and trade. Many producers, both co-operatives and private traders, are facing major survival challenges. However the challenges faced by farmer organisations as opposed to private traders, who are frequently subsidiaries of multinational coffee companies, are much greater because of for example structural limitations and limited connections to the international market.

East African fair trade coffee producers differ in many ways from the Latin American co-operatives that were first linked to the fair trade movement, and with whom fair trade first developed the fair trade coffee system. Recent evaluations of the East African co-operatives raised a number of concerns about how well the co-operatives in East Africa were operating, especially about the extent to which the benefits of fair trade were getting through to members. Specifically, it was noted that the large size of the producer organisations made it practically impossible to identify direct benefits from the fair trade relationship at the farmer level. However, previous studies fail to recognise the differences between Latin American and East African coffee co-operatives. In East Africa:

- Co-operatives are much bigger and so the secondary level co-operative is institutionally so much further away from the farmer; whether this matters or not depends on the strength of farmer representation and the delivery of services to the farmer;
- In the not too distant past they have been led by government as opposed to being autonomous farmer-owned institutions;
- Despite now being farmer-owned, they are highly politicised organisations;
- They have suffered considerably from liberalisation in terms of a) the competition from private traders and subsequent loss of volume, b) reduced financial support from government institutions and c) their own inability to adapt to the competition
- Some co-operative unions have collapsed completely
- Some new farmer organisations are beginning to emerge at the grass roots level that are not linked to unions and union export services.

In many ways these differences highlight the need for continued support from fair trade organisations to enable the co-operatives to become more responsive to their members needs and to also become more responsive to the market, and indeed become more proactive in developing new markets.

FT has brought a variety of benefits to the co-operative movement both in Tanzania and Uganda. All studied co-operatives expressed a wish to strengthen fair trade relations with their European partners. At a general level the benefits of fair trade to co-operative institutions include:

Market access

FT has opened gates for farmers' groups/co-operatives to export direct to consumers. The Tanzanian co-operatives in particular are involved in the export business because of their links to foreign markets facilitated by fair trade organisations. They have been supported technically, financially and for capacity building in the export business. Each of the co-operative unions in Tanzania --KCU, KDCU and the KNCU -- has developed in stature but there is much more that they could achieve if they ventured more into the commercial market and promoted themselves as effective trading partners as well as suppliers of good quality coffee.

Whether selling to the fair trade market or not, the existence of fair trade contracts enables the Tanzanian co-operative export offices to participate in the Tanzanian auction, and thereby influence the prices of all coffee from the co-operatives

Fair trade organisations have enhanced access to coffee market information which is accessible by producers in the form of bulletins and weekly reports

Networking

Fair trade has created a forum for producers to meet and learn from each other. However, the extent to which the opportunities for exchange of experience may not yet have been fully realised.

Premium price

The price premium provides the co-operatives, and in some cases their members, a fund for special projects that might not be available under other circumstances. The higher price and premium enhance co-operatives' financial capacity. Co-operatives engaged in fair trade are surviving partly because of financial boost from coffee sales under fair trade terms.

Increased profile

Co-operatives dealing with fair trade are known domestically and internationally through publications and regular visits by fair trade people and promoters. This may lead to them winning other development projects, the 'honey pot tendency'.

Farmers are likely to benefit from co-operatives in a variety of ways, whether they are members and sell to societies or not. The direct benefits of co-operation and fair trade linkages include better prices and services for farmers. There are also indirect benefits, such as general price effects and capacity building. For example, the action of the Tanzanian co-operative union export offices in the auction is argued to have an effect on the general level of auction prices, which ultimately benefit all farmers. In addition, some qualitative benefits such as increased confidence of the export managers, as a result of their experience in the auction, have been noted. However, to date this theory has not been tested.

However, there is much that can be done to improve the benefits from fair trade, and conventional trade, for co-operative members. Recommendations have been made in relation to the strategy of fair trade organisations, the international market, exporter organisations (i.e. the co-operative unions), and the relationship between the co-operative unions and primary level farmer organisations

Fair Trade Strategy:

- greater co-ordination between fair trade organisations to avoid confusion and administrative hassles on the part of producer organisations and that there is greater openness between fair trade organisations.
- to make sure that producer organisations and fair trade organisations are aware of their mutual obligations under their fair trade partnership
- To take advantage of the new growth in NGO activity with respect to enterprise development and there is considerable potential to work with the NGOs supporting co-operatives and farmer groups

The Market

- to explore opportunities outside fair trade and to find ways of adding value to the product
- to improve promotion of East African coffee to the different markets

Exporter organisations

- to promote their own image as reliable suppliers of coffee as well as promoting the coffee.
- To consolidate lessons on price risk management
- To ensure autonomy of export offices both from the procurement operations and the Management Committee so that decisions, especially on price and contract conditions, can be made on the basis of the business environment.
- co-operative union boards and top management to develop a deeper understanding of the role of the export office and the impact of risk on the business,
- explore opportunities for export offices to offer services to other co-operative entities that wish to sell to the FT market but do not have the capacity to set up such an operation themselves.
- More coherent strategic planning is required in terms of developing relationships with outside organisations, developing internal capacity or setting goals for the business. They could begin with strategic planning on the use of the fair trade premium

- to increase transparency as regards their business, both in relation to their members and to their partners in the FT organisations.

Co-operative-farmer relations

- To identify what primary societies can do for themselves and what the union should take responsibility for. This may lead to the identification of training needs if primary societies are to take on more responsibilities.
- to improve smallholder's production and quality;
- to rethink communications in terms of the messages being communicated and the media used. A related issue is linking information about prices and quality to incentives to improve quality.
- to increase awareness of fair trade in societies that are more directly linked in to fair trade organisations.
- efforts to integrate greater gender-awareness into co-operative organisations.

This study highlighted the importance of understanding the context in which a fair trade partner is operating in order to understand the challenges that it is facing, in terms of the institutional environment, the competition and cultural norms. It also highlighted the way in which recent history can affect how new ideas are taken on board and the pace of change. Many of the recommendations that were made to the fair trade organisations and the co-operatives in East Africa are as valid to conventional trade as they are to fair trade, such as the emphasis on efficiency, quality and seeking new markets. What the introduction of fair trade adds is the need for transparency and to consult with farmers and the concern with ensuring that co-operatives become more efficient so that benefits are channelled more effectively to farmers.

Case Study 9: Developing an ethical business plan for timber exporting operation in Ecuador.

The need for an ethical business plan

Proyecto Subir is a CARE-Ecuador initiative with funding from USAID. The geographical focus is the province of Esmeraldas, in north-west Ecuador, where the project has worked since 1991. Although the aim of the project is biodiversity conservation, the project leaders realise that project sustainability depends on finding timber trading opportunities that will encourage the impoverished Afro-Ecuadorian and indigenous Chachi local landowners to exploit their forest resources in a sustainable manner.

USAID's support for the commercial aspects of the project has depends on clear demonstration that sustainable timber extraction practices are employed. Consequently, the creation of forest management plans has formed a major part of the project's activities. However, the commercial case for the plans is not clear, given that their implementation and operation impose heavy costs on local communities yet, in the best of cases, the immediate financial benefits are only marginally greater than those received from unsustainable timber extraction. The Proyecto Subir commercialisation team therefore looked to forest certification for a solution, in the hope that unsatisfied world demand for timber from certified forests would create greater returns for the target forest communities. Yet the commercial case for forest certification still had to be made.

The profitable sale of certified timber onto world markets required the existence of an exporting operation that was effective enough to gain the best possible returns from overseas buyers and efficient enough to ensure that the target communities realised benefits from certifying their forests. At about the same time as the Proyecto Subir team was considering how to test the financial viability of such an organisation, staff from the Natural Resources and Ethical Trade (NRET) programme of the Natural Resources Institute were developing ideas for creating ethical business plans. CARE and NRET staff, who were already familiar with each other's work, joined forces to analyse the viability of the exporting operation using the principles of ethical business planning outlined elsewhere in this manual.

How the process evolved

Using advice and a template supplied by NRET (similar to the one that appears in this manual), the CARE-Ecuador team soon realised that it possessed insufficient in-house skills to complete the task on its own. A local consultant, whose full time job was managing a highly successful ethical cocoa exporting company, was therefore contracted to advise CARE on the following:

- ◆ Options and recommendations for the exporting operation's structure
- ◆ Costs and benefits
- ◆ Methods for maintaining strong business ethics
- ◆ A marketing plan
- ◆ How to manage the growth of the business in order maintain viability
- ◆ Optimal support from donors

The CARE team also lacked information on overseas markets for certified timber. To remedy this, NRET contacted a number of UK and European timber buyers to gain an idea of the marketability and value of the timber coming from the target communities, and also the trade's reaction to the certified timber export initiative.

From the start of the exercise, CARE and NRET realised that Ecuador currently produces insufficient quantities of certified timber to support the trading activities of exporter dedicated to exporting only certified timber. However, CARE expects much greater volumes to be available in the next few years. The ethical business plan was therefore not intended for immediate implementation.

Lessons learned on the process and the outcome

The consultant made several key recommendations:

- ◆ Management of the exporting operation should be high calibre and experienced in commodity exporting
- ◆ The number of managerial and support staff should be pared down to the minimum required to run an effective operation
- ◆ Profitability will depend on achieving sufficiently large traded volumes. The consultant recommended trading with conventional suppliers of certified timber as well buying from the target communities on a preferential basis
- ◆ Financial controls should be very tight to ensure that operating expenses do not run out of control.
- ◆ Contracts should be drawn up for every sale and the terms of payment should be clearly stated. In particular, minimising the payment period is essential in order to maximise cash flow.
- ◆ Successful timber exporting is achieved by gaining a reputation for regularly supplying buyers with the required quality and at the right time. Honing operating skills on the domestic market before venturing on to the international is a good way of preparing an enterprise for successful export operations.
- ◆ Regular contact with buyers is essential to establish and maintain the sort of business relations that reassure buyers and fill order books.
- ◆ Regular contact with the target beneficiaries is also essential. In the initial stages, the operation may not be able to offer significantly better prices than its competitors. However, the target beneficiaries will feel more inclined to sell to the ethical exporter if they can see that their support will pay off in the long run.
- ◆ Communities will also be more inclined to sell to the ethical exporter if they can see that their transactions are more transparent than those with conventional traders.

Unfortunately, the feedback from the European buyers was not encouraging. The type of wood that the target communities can extract in the greatest abundance is unlikely to find significant demand. This underlines the importance of buying not only from the target communities but also with more conventional suppliers of certified timber in order to maintain the viability of the operation and the ability to deliver genuine financial benefits to the target beneficiaries.

Two main lessons emerged from the process of compiling the ethical business plan. Firstly, using expert advice is essential for planning a complicated operation such as a timber exporting enterprise. Secondly, gaining feedback from potential buyers helps to avoid expensive mistakes in the future.

Case study 10: Impact of Forest certification – Lessons from Bolivia etc

In a study by Markopolous (1998)⁴ the impact of forest certification is explored. The positive impacts of certification on the communal forest enterprise of the Lomerio Chiquitano are outlined below.

- Without certification the communal forest enterprise of the Lomerio Chiquitano would not have been able to continue or would have been seriously weakened.
- The certification process highlighted internal conflicts in forest management and weaknesses in enterprise management and administration.
- Promotion of mechanisms to resolve internal conflicts in forest management and flaws in enterprise management.
- Opening up of commercial opportunities which will increase timber processing efficiency and profitability and therefore increase the viability of the initiative.
- Positive consequences for forest management by indigenous peoples in the rest of Bolivia. The first enterprise to be certified in Bolivia and run by indigenous people rather than the private company this sends a signal to the Bolivian state and private sector that indigenous communities should be part of the equation in quality forest management.

However, several elements of the Lomerio example mean that it is not possible to generalise the findings too widely. These are that the project received substantial external support, for example, and had a revenue system based on stumpage fees. Further at the time of writing, Markopolous (1998) reported that Lomerio was about to pass through a period of considerable change, and that the possibility of obtaining more secure land rights could either promote certification of forest management but could also undermine it.

- The certification process may have encouraged a clearer focus on the social problems engendered by forest management, but at the same time there is a risk of adding to dependency rather than promoting conflict resolution via internal mechanisms.
- The pace of change forced by certification may be too rapid for local forest management initiatives. In this case Smart Wood responded by extending the period of compliance. Markopolous argues that it should be the responsibility of the certifiers to tailor the demands of certification to the local context.
- Meeting international production and quality demands can be difficult for small community enterprises with knock-on consequences for credibility in the market place.
- The sawmill cannot always retain a skilled and experienced management team partly due to the cultural differences between a market-oriented business and the culture of the Chiquitano.
- Lomerio managed to obtain a price premium for its product at the time of the research but as more certified timber enters international markets it is not clear whether this would continue.
- The study found that more radical changes might be required in the future to take advantage of certification including privatisation and partnerships with other certified communal enterprises. Commercial intermediaries have been established in other parts of Latin America and the Caribbean for indigenous peoples or other groups involved in timber production. These marketing organisations buy and sell timber from local producer groups and provide drying, processing and storage facilities.

Key issues that require further consideration were identified by the study:

- The demands of certification on local resources (time, labour etc). Significant costs and information requirements are usually required, often in turn requiring external support.

⁴ Source: Markopolous M (1998) 'The impacts of certification on Community Forest Enterprises: A case study of the Lomerio Community Forest Management Project, Bolivia. IIED Forestry and Land Use Series No.13

- Implications of certification for community enterprise development. Technical and administrative difficulties are increased by the demands of international export markets. The distribution of benefits is not always equitable – the Lomerio sawmill has absorbed many of the revenue from certification in the early days, leaving some communities disappointed. More accurate assessments of the costs and benefits (magnitude and impact on local incomes) is required.
- Relevance of certification to local land management strategies. The focus needs to shift from the ‘forest’ to the ‘landscape’ for community forest certification to reflect local perceptions of space and territory. The subsistence agriculture of the Chiquitano, for example, is a sophisticated and productive use of the forest ecosystem. However, the conditions of chain of custody certification conflict with forest management certification. The former emphasizes sustainable ‘forest’ management by prohibiting the use of timber from sources outside the area of the management plan such as the cultivation plots of the Chiquitano. The latter include the promotion of a ‘sustainable landscape management’ by emphasizing integrated land-use planning at a community level. Timber from anywhere within a sustainably managed landscape would therefore be eligible for certification.
- The social and developmental roles played by certification – certification will have little impact in situations where there are serious social injustices or conflicts. These circumstances will automatically disqualify an enterprise or forest management unit from certification.

Annex 4: Policies

Policies influencing ethical trade, people and forests



A fair trade chocolate bar - 'Maya Gold' from Belizean cocoa growers.

Policy dialogue may seem worlds away to producer groups or people collecting and marketing forest products or NGOs assisting producers develop producers in marketing and organisational development. This is partly due to the fact that such processes are often long and tedious and rarely provide opportunities for public participation.

In the context of globalisation, an awareness of policy issues is ever more important. Whilst a single organisation may not be able to control or even influence many aspects of policy, understanding significant aspects of policy can be very important in terms of anticipating and preparing for changes in the operating environment, for better or for worse.

For example, decisions made in the European Commission about acceptable levels of aflatoxin can significantly affect the opportunities to market of Brazil nuts collectors.

The importance of understanding policies are neatly summed up by the following quote:

'.....policies that affect forests are a reflection of the dramas being played out on dozens of stages at the same time. It is difficult, and perhaps meaningless, to attempt to understand what is happening to forests and the people who depend upon them without seeing the bigger picture of political and economic realities - from pressures for local control, to globalisation of markets, capital flows and technology, to rising inequality'

*Policy That Works for Forests and People EXECUTIVE SUMMARY OF SERIES OVERVIEW
James Mayers and Stephen Bass.*

So what is policy?

- Policy content (in the form of policy statements and policy instruments)
- Policy as process - policy making, implementing and reviewing.... And policy is not only the business of government - but of civil and private organisations too. 'Real world' policy (in contrast to formal policy documents) is the net result of a tangled heap of formal and practical decisions by those with varying powers to act on them." Mayers and Bass (1999).



A variety of fair trade and organic coffee and teas on sale in a UK supermarket

What policies may affect the ethical trade in forest products?

These are outlined below:

- Forest policy, including certification
- Environmental policies
- Tariffs and trade policies
- Trade facilitation policies
- Development policies
- Technical and safety standard policies

Although an NGO may be working with producers at the local level, policies at many different levels may affect operations, especially if the export market is targeted.

International, national and sectoral level policies that may of relevance are outlined below. These policies will be implemented in different ways and have different impacts at the local level in different areas and for different types of ethical trading.

1. International trade policy

Trade policy impediments to trade

Trade policy debates that may affect ethical trade in forest products

• Ecolabelling and certification

There has been considerable debate in the committees of the World Trade Organisation about the impact of eco-labelling schemes, including certification, upon trade. This has revolved around whether or not eco-labels are 'protectionist' and impede trade. Some WTO members are pushing for clarification on these issues, others want the WTO's scope to be formally extended to cover eco-labels, whilst others again do not believe this is a matter for the WTO to decide at all.

• Liberalisation

Some Member states in the WTO have been keen to promote liberalisation in the trade of forest products. Positive and negative elements to this. The main argument against liberalisation measures in the forest sector is that the resulting increased trade will mean that logging rates will increase and forests will be exploited unsustainably. Trade barriers have been seen as an essential part of the strategy to protect forests, especially in the context of increasingly degraded forests throughout the world and growth in demand for wood products over the last 25 years (Bourke and Leitch, 1998). In addition to concerns about liberalisation increasing the incentives to deforestation there is a fear of standards declining to the lowest common denominator.

Many environmentalists oppose the liberalisation measures for fear that the removal of trade barriers will hasten deforestation. After all, the removal of trade barriers tends to increase trade and many countries would be keen to take advantage of the lowering of tariffs and non-tariff barriers. However, the environmental argument against liberalisation in the forest sector is not so cut and dried. Indeed the removal of subsidies in the forest sector may increase the opportunity cost of logging compared to conservation measures.

▪ Labour standards

One key area of concern of the ILO forest sectoral office is health and safety as forestry is one of the three most dangerous occupations in most countries. All segments of the forestry workforce -- but in particular contractors, self-employed and forest farmers -- are exposed to high accident risks including many fatalities and serious health problems. The ILO has recently published a code of Code of Practice for the design and implementation of safety and health management at all levels from country through enterprises to the forest enterprise. ILO Codes of Practice are not legally binding. They are international guidelines based on the technical expertise of representatives from industry, workers' organisations and governments in the most important producer countries.

<http://www.ilo.org/public/english/235press/pr/1997/21.htm>

Steps have been taken towards strengthening the labour rights within FSC, symbolised in a motion at the FSC General Assembly to include core labour rights. Trade unionists are becoming involved in the development of FSC national standards in the UK.

- trade and quality standards e.g. Sanitary and Phytosanitary

The profile of SPS measures has risen in recent years partly as a response to increased consumer vigilance and concern about environment and food safety issues. It is also because liberalisation in the agriculture sector has reduced tariff barriers; some countries are looking to non-tariff measures, such as import regulations, partly to compensate for the loss of trade protection through traditional means. There has been a proliferation of technical measures, especially in the North. The European market is becoming increasingly difficult for developing country exporters to access partly because of SPS requirements and the way in which they are being enforced. Indeed, Henson and Loader suggest SPS measures could well be the 'most important impediment to agricultural and food exports to the EU' (2000: 26).

In the forest sector, SPS measures impede trade in non-timber forest products (NTFPs), especially:

- foodstuffs, e.g. mushrooms and nuts (especially Brazil nuts)
- products that may be used in the pharmaceutical industries, e.g., rubber, oils and herbs
- substances used for medicines.

Some technical regulations also affect timber products such as wood panels (where formaldehyde adhesives may be used) and there are regulations on the use of some preservatives and chlorine-based chemicals

There may also be environmental policies which affect trade such as CITES, an international agreement on endangered species.

b) Environmental policy

- UN Commission for sustainable development
- Convention on Bio diversity
- CITES – trade in some products may be proscribed or restricted: certain timbers, plants.
- Policies to encourage the production and consumption of goods with positive environmental attributes
- Trade opportunities to be captured by means of adapting to new, environmental, requirements such as
- Rising environmental expectations among consumers
- tightened product regulation
- increased use of economic instruments
- product information (such as eco-labelling).
- Public procurement policies incorporating environmental criteria

2. National level

Areas of national level policy that may affect forest people and ethical trade schemes include the following:

- Forestry policy, laws and action plans
- Land policies including land use planning, land tenure
- employment law
- registration of associations
- health and safety regulations
- Taxes and subsidies

National forest policies

A key question for those engaging in ethical trade in relation to forestry is whether there are national forest standards that must be met by forest managers.

At a national level the process of setting standards has most often been started by FSC groups in a particular country with the specific objective of supporting the certification process. This has not been an exclusive approach, in Indonesia they are developing standards that will support the regulatory process.

Status of national forest standards

Some national level organisations have begun to develop systems for forest certification. These include:

- **Indonesia**

From 1993, the Indonesia Ecolabel Working Group (Lembaga Ekolabel Indonesia) has been developing a certification system for Indonesian forest products. LEI is working closely with FSC.

- **Canada**

The Canadian Standards Association (CSA) is a not-for-profit, independent standards writing organisation. It initiated a Sustainable Forest Management (SFM) Project in June 1994. It is funded and supported by the Canadian forest industry. The system is based on the ISO environmental management systems standard (ISO 14000).

<http://www.sfms.com/standar.htm>

- **UK**

The UK Woodland Assurance Scheme (UKWAS) is a voluntary scheme for the independent assessment of forest management in the UK. Forest and environmental organisations were involved in the development of the scheme, partly as a response to the growing consumer demand for timber products from sustainably managed forests.

It has been designed to operate in association with credible international certification schemes such as the Forest Stewardship Council (FSC).

<http://www.forestry.gov.uk/UKWAS/ukwas.html>

More detail on certification and access to schemes can be found on the comprehensive Certification Information Service site, currently hosted by the European Forest Institute.

<http://www.efi.fi/cis/english/intro.html>

Annex 5: Business Basics

All businesses, even the most ruthless and unscrupulous business - can improve its performance by following some basic fundamentals of good management planning. Within the ethical trade arena the same rules apply. The following maxim should be borne in mind:

The first rule of ethical trade should be “good intentions are no substitutes for sound business practices”.

In this section we highlight the business basics that you need to know about:

- Marketing chains and markets
- Marketing your product
- Contractual requirements and procedures
- Risk management techniques
- Sources of market information
- Writing a business plan

We then highlight the ‘ethical trade extras’.

What do I need to know about marketing?

It is important to understand markets for the following reasons:

- Understanding a bit about the structure and function of markets should help people make decisions based on realistic expectations.
- The attraction of ethical trade is the opportunity to move from being primary producers into traders and market operators.

The difference in the price paid for a commodity in the forest and the price paid by the end consumer in a shop always seems vast and the attraction of trying to capture some of that additional value is great.

However, the absolute value of the piece of wood or bit of fruit does not change as it moves across the world yet the monetary value changes as it moves along the marketing chain.

The importance of understanding the market and the needs of customers is illustrated by the experience of the handicraft producer, Kibo handicrafts, a client of Traidcraft’s partner Amka in Tanzania.

Meeting the market and clients’ needs

Kibo Handicrafts had been trying to penetrate export markets for several years but did not win any orders. On reflection, they realised that they had displayed any product which they thought had potential without researching other areas of interest to buyers. They often did not have thorough information on production capacity, quality consistency, delivery times, legal requirements or modes of payment. They had also not considered the need for sales material such as brochures, catalogues, price lists and business cards.

However, Kibo have recently been much more successful. After export training and a market awareness tour arranged through Amka, they decided to narrow the product range to avoid confusing buyers. Kibo summarised their experience by identifying lessons for any small business interested in exporting:

- Products should be made to satisfy the needs of customers
- Delivery must be on time
- The price must be competitive
- Good quality is essential
- The right packaging has to be used

- Products should be properly labelled with all the required information
- Good communication is needed with the buyer to build in trust and confidence
- Investigate the best means of transport
- Ensure continuity in developing new products
- Be willing to share and learn
- Be flexible to keep pace and ready to make a change if necessary

Source: Humphrey 2000; summary is taken from a presentation by Paul Njau of Kibo Handicrafts given at a product development workshop organised by Traidcraft's Tanzanian partner, AMKA in July 1999.

In identifying and evaluating marketing strategy a business or non-profit organisation will need to consider the market for ethical trade products including:

- Market niches or relatively small market segments
- These are defined by factors such as age, social class, spending power, attitudes, social awareness and education.
- In marketing terms, this is 'focused' strategy, where the business or organisation selects and concentrates on a narrow, more specialised market sector.

Understanding the value chain and the implications for prices

The institutions involved in trade differ according to a variety of factors including the commodity, country, culture, the amount of processing that takes place in the country of origin. Some commodity chains like that for cocoa illustrated in Figure XX are incredibly complex with numerous intermediaries between the grower and the merchandiser or retailer. In contrast the value chain for horticulture (specifically vegetables exported from Southern Africa to Europe) is much simpler, with fewer intermediaries involved.

For the majority of organisations, such as farmers groups, that are moving from being purely involved in primary production to a more active role in trade it is likely that the volumes will be small and the type of transactions will be simple. Nevertheless, even if producers enter into simple transactions the commodities they sell may then pass through very complex trading mechanisms before they reach the end consumer.

An attraction of ethical trade chains is that they are relatively transparent and simple, i.e. more like the horticulture example in the diagram below rather than the conventional cocoa chain.

However, they do take place in the wider context of the international markets and these international commodity markets have a major effect on the price within the ethical market place.

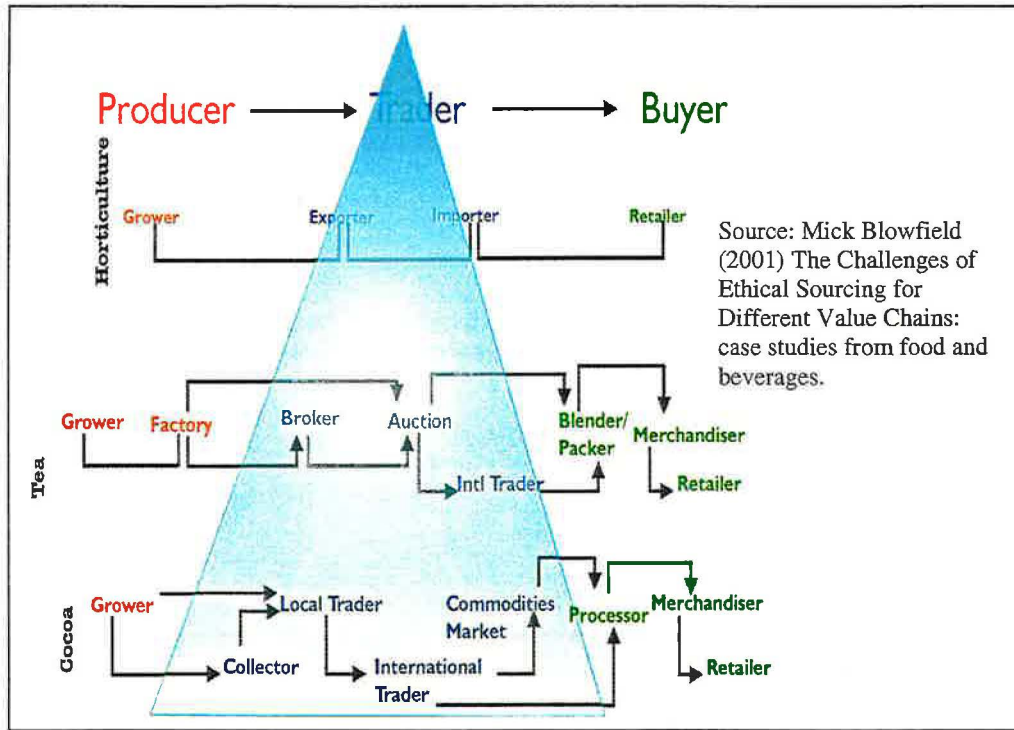
It is important to understand the existing or potential marketing chain. Analysing the marketing chain requires analysing the key stakeholders (or players) in the chain.

The key market participants in transactions along the value chain include the following:

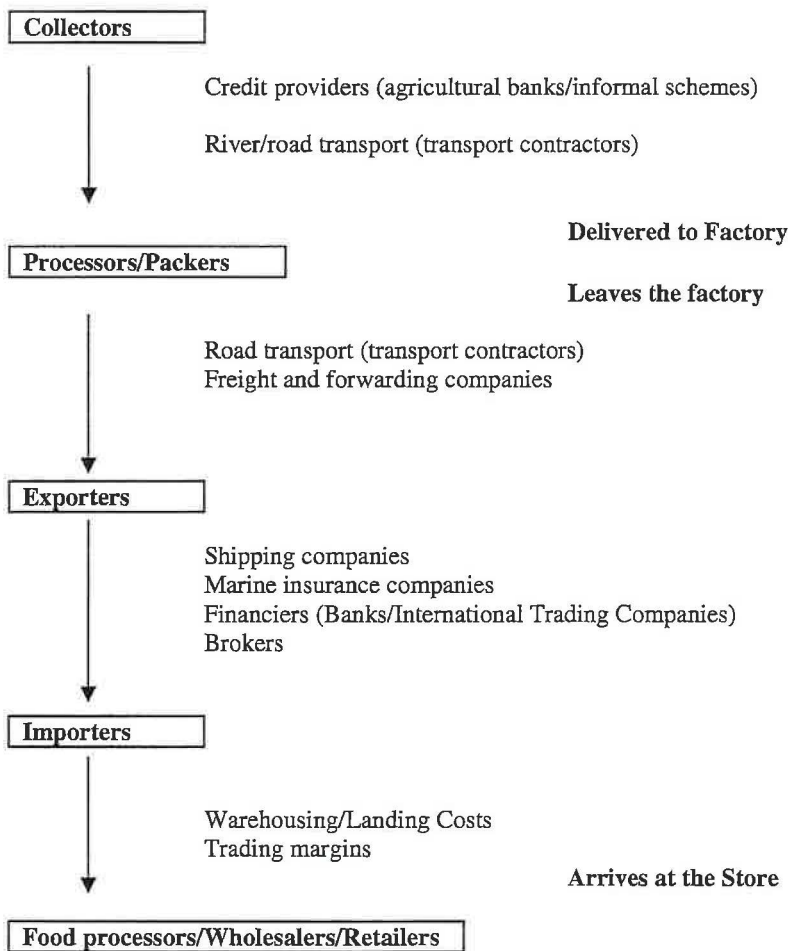
- producers
- middlemen at origin
- processors
- exporters
- international traders
- buyers of raw materials and semi processed goods.

Attached to the marketing chain are various service participants such as:

- warehousing companies
- shipping companies
- insurance companies
- banks and superintendence
- inspection companies



Analysing the marketing chain – an example (Brazil nuts in Peru)



What are the different types of trading that exist?

Even if producers are only involved in a simple transaction with a local buyer, it is useful to be aware of the different kinds of trading that exist, for example:

- physical trade
- auction trading
- futures and options trading.

Some coffee farmer organisations that learned to trade in the export market through links with fair trade organisations are now able to sell their own coffee in local auctions, or engage in direct sales with overseas traders.

These different types of trading are further explained below.

Physical Trade

Physical trade – a definition

Trading in "physicals" refers to the buying and selling of tangible commodities as opposed to futures contracts.

Physical trade can be carried out on a spot basis or on a forward basis.

- *A spot basis* - immediate availability of the commodity for delivery or shipment
- *A forward basis* - availability of the commodity at some time in the future.

Most physical commodity trading relies on a high degree of integrity and trust as the initial "deal" is usually negotiated and concluded on the telephone, with subsequent confirmation of the terms of the trade confirmed by telex/fax/e-mail before the eventual issue of a formal contract.

These trades can be carried out on a *back to back* or *speculative* basis.

- *Back to back* is the most common form. A commodity is bought and sold simultaneously, with all foreseeable elements of the cost of the trade (e.g., buying price/ warehousing/ transport/ currency exchange/ bank charges/ interest/ insurance/ losses due to weight-quality/ brokerage/ profit margin) calculated in the final selling price.
- A *speculative trade* results if the buyer or seller has not sold or purchased, simultaneously, an equivalent commodity and calculated the costs associated with the contract. There is a greater risk associated with this type of trade - the speculator is therefore likely to expect larger margins or profits on any deal. The prices offered to the primary producer are likely to be lower and the sale price may be higher, there is extra reward for bearing the extra risk.

Auction Trading

Auction trading – a definition

Auction trading – auctions, which act as a price determinant point and transparent and reliable market place, have served commodity trades such as tea, coffee, spices, tobacco and rubber, very well historically and continue to be supported by many market participants.

There are disadvantages to auctions in a modern trading environment:

- The lack of hedging facilities for both producers and buyers/consumers means the price on the day is unpredictable, and there is no room to negotiate the price.
- Dominance of spot ex- warehouse/ ex- farm contracts which lack flexibility for overseas buyers

- Lack of flexibility due to the pricing of many auctions in the currencies of the producing countries, when the international commodity trade is conducted, primarily, in US Dollars.

However, despite the increase in sales outside auction systems, the auction system will continue to play a pivotal role in certain commodities, particularly tea.

Futures and option trading

Futures contracts – a definition

A futures contract may be defined as " an agreement for a seller to deliver a specified quantity of a particular grade of a certain commodity to a predetermined location on a certain date."

The contract must be standardised so that the only negotiable part of the contract is the price. Futures contracts are traded on internationally recognised futures exchanges, the main purpose of which are:

- To bring together buyers and sellers
- To provide a location with a trading floor allowing participants to trade through open outcry or, increasingly, electronic trading systems.
- To supervise and regulate market participants
- To collect and disseminate price and volume information
- To provide an independent clearings house (clears trades/takes opposite side of all trades and guarantees contracts) and, therefore, ensure the security of transactions.

The role of a futures market is to enable

- price discovery
- the transfer of risk from one market participant to another
- liquidity, i.e. to generate sufficient trading volume to allow participants to move in and out of the market at will
- the standardisation of commodity contracts in terms of volume, quality, and delivery
- hedging and speculation to take place.

In recent years the options industry has developed as a trading tool through careful regulation linked to established futures exchanges and are well established, although trading volume are low compared to futures. Option contracts exist in most of the main commodities traded on futures exchanges and may be defined as follows:

Options trading – a definition

The buyer of a commodity option contract will acquire the right, but not the obligation, to buy or sell an underlying futures contract at a pre-determined price by a defined date. The seller of the contract (option writer) is obligated to take the opposite side of the underlying futures contract if the buyer chooses to exercise the option.

A convenient analogy is with the paying of an insurance premium. A buyer of an option contract knows his maximum price exposure and his risks are known and finite.

The objectives of these different forms of markets serve distinct functions. Not all of the different types will be available but when considering the options available consider the objectives of the organisation's overall strategy. Certified teak and maranti logs that have been sold at open auction have established very high premiums, but there is no guarantee of a good return and it is a high-risk strategy.

The main function of options and futures markets are to try and remove some of that risk by smoothing out the peaks and troughs of demand. Long-term contracts can give even more certainty but remove the possibility of gaining any premium if the open market increases its price.

Trading contracts

As an independent trader, you will have to engage in trading contracts. The key elements of a comprehensive trading contract are as follows:

- Description

- Quantity – tolerances and allowances
- Quality- tolerances and allowances
- Price and basis/ f.o.b , Cif etc
- Delivery/shipment period
- Payment
- Arbitration clause
- General terms

Usually buyers draw-up the details of any contracts and there will be little room for manoeuvring by individual sellers.

It is vital that all parties to any contract have a good understanding of the salient points. Get legal advice to ensure that there is a clear understanding of commitments and undertakings being entered into.

Remember the following:

As has been highlighted throughout, the expectations within the ethical trade chain are the same as in conventional business and compliance with written contracts is no exception. Enter into contracts only when you know you can fulfil them.

What affects the price?

Successfully anticipating price movements is a major objective of those involved in the international trade in commodities.

Common factors influencing commodity price movements are summarised in the box below:

Factors influencing commodity price movements

The fundamental components of all markets, being supply and demand.

- Supply is composed of current crop, imports and any carryover from previous crops including stored surpluses.
- Demand is composed of domestic usage, exports and any reserves that may be required (particularly in the context of national food security and/or strategic considerations).

Seasonal influences on production

- E.g. weather

Artificial influences on supply and demand

- International commodity agreements restricting production through buffer stocks/quotas/retention schemes
- Compensatory financing schemes in producing countries to encourage exports and the earning of foreign exchange
- Government strategic stockpiles.

Technical analysis through the use of charts

- Defined as the anticipation of the direction of price movements by examining market action and relating it to past and current price movements. Technical analysis is particularly prevalent in those commodities for which active futures markets exist, e.g. cocoa, coffee. It can result in self-fulfilling prophecies, particularly in the short term.

Speculation

- The buying or selling of a commodity without an equivalent purchase or sale. Known as taking a position in the market. Whilst particularly prevalent in commodities with active futures markets, speculation takes place in all commodity markets.

There is a great deal of specialist knowledge and jargon involved within the marketing. The transition from supplying local markets on an *ad hoc* basis to becoming involved in international exports markets with all the rules and regulations and contracts has been very difficult for many small producer groups. It is the area where the biggest clash of cultures can take place and the biggest disappointments and misunderstanding. Successful organisations have all seen the need for specialist staff with specific skills to handle a dedicated marketing department. The problem is often to know at what point to set up a marketing division. Make it clear in a timeline within the business plan.

Sources of Market information

Many of the stakeholders within the trading chain depend on superior market information to assess the level of risk they are exposing themselves to. Speculators make assumptions based on their market information all the time, exposing themselves to higher levels of risk only when they are sure of the data they have and hedging when there is uncertainty.

Primary producers are less able to do this, especially producers of perishable goods. They are often locked into the price and conditions that the market is offering on a particular day. One way to get around this is to enter into longer-term contracts, but the basis on which to enter those contracts must be good market information. No one is sure what the market price will be in one year's time but there are a number of sources of information that can give a guide and it is certain that all the major players along the trade chain will have access to that information.

Market Information Sources

Reuters	See the business pages of this information service http://www.reuters.com/
Public Ledger	a commodity market information source giving up to date prices for commodities such as Grains; Seeds & Pulses; Oilseeds, Oils & Fats; Forest Product http://www.public-ledger.com/s
Trade journals	E.g. <i>Coffee and Tea International</i>
Financial press	E.g. <i>Financial Times, Wall St Journal</i>
On-line information	Any more examples???
International organisations e.g. FAO	Www.fao.org

What can you do with market information?

If you have access to market information you have greater opportunities to plan when and how to sell your product so that you get the best deal for your organisation. Additional knowledge of the market can give you greater flexibility: you can decide whether to sell now or to wait a while. For example....

- The market trend for the price of rosewood has been on a steep upward trend and looks as if it will continue. By delaying harvests of rosewood for another year the market price may double.
- It looks as though new European Union rules might reduce the price of Brazil Nuts, try to set the contract price to the present market value. Though there is little room for manoeuvre use any advantage that you do have.

One key area of advantage may be in the relative scarcity of a particular product that is certified. Demand outstrips supply in many areas of this particular market. The success of niche marketing depends on having good information. This is important not only when setting up a venture but all the time. Trends can go up as well as down, ethical trade is a current vogue that might go out of fashion. This is a good reason to ensure that the whole organisation does not just rely on its ethical name but also has its basic business fundamentals in place.

Business planning

Developing a business plan can help those embarking on new ventures to have a clear idea of the objectives, feasibility and activities required for success. Equally, a business plan can be used as a marketing tool to convince others that they should support the initiative.

A business plan is therefore of use to the following:

- Whenever an organisation is planning anew venture it is important to develop a proper business plan.
- Ethical business plans are similar to conventional business plans – the fundamentals remain the same but there are additional elements that need to be taken into account when considering ethical options. For example, social and environmental issues need to be integrated into the development of the business plan.

What are the functions of a business plan?

- **internal consumption** – It should be flexible and updated as a business and circumstances change, but it should also provide a frame of reference so that the overall concept of a business venture stays on track. Assists in time management and focusing efforts on key activities.
- **external consumption** - The Business Plan is the shop window for potential investors, collaborators and donors (many of whom are unfamiliar with the specific conditions or circumstances of the venture). It needs to capture the imagination of people who may be on the other side of the world and should balance detail (of conditions and expectations) with length (so it is readable). It will be partly projection and speculation, but it should be grounded in as much fact and quantitative information as possible.

It is worth spending enough time to do a thorough business plan and getting help to do it well. The discipline of going through the whole exercise methodically will be less of an investment than starting an operation without full consideration and then failing.

- It may hold the key to the future of the organisation or the viability of a specific venture so it is worth investing time and effort in ensuring it is comprehensive.
- More donors are now likely to invest in the preparation of a good plan.
- Creative means of communicating a business plan are being developed (e.g. videos, power point presentations, scale models of products and many other aids are now being used), which help to show that an organisation has a comprehensive understanding of the market they wish to enter.

What are the key main elements of a business plan?

An example of the contents of an Ethical Business Plan currently being used in Ecuador by an international NGO is shown in the box below. The full template is included as the next annex - number 6.

Ecuador Ethical Business Plan

Executive Summary
Background
Key partners involved, and their respective roles
Product to be offered
Market Strategy
Social Analysis
Environmental projections
Financing requirements and Profitability projections

To produce a document that detailed all 10 of the above areas in any depth would take a substantial investment in itself and the product would be fully comprehensive. For many of the areas the organisation may already hold this information and it is a question of filling in the gaps. It is more likely that for a small organisation that the template can act as a checklist and many of the points need only considered very briefly.

Ethical Trade Extras

All of the business fundamentals that are relevant to conventional trade also apply to ethical trade.

However, there are several extra aspects of running an ethical business that must be considered. These are outlined below:

- *Transparency*: Ethical markets separate ethical and conventional products. To do this, the organisations that oversee ethical trade insist upon greater openness from producers and traders than is usually expected in conventional trade. Participants in the value chain have to report all their trading transactions - an added management task, but once recording and reporting systems are in place compliance becomes more straightforward.
- *Dealing with external scrutiny*. Most forms of ethical trade require compliance with a set of externally approved rules. Complying with these rules involves planning and, in some cases, capital investment. Managers will receive formal visits from external scrutinisers who check on compliance.
- *Dealing with other stakeholders*. Being ethical usually means acting responsibly towards people who are either directly or indirectly affected by your business activities. This may require precious management time, when it involves an open dialogue with poorly educated people in remote communities.
- *Business structure*. To ensure compliance, managers must structure their businesses to cope with the extra demands of operating "ethically". This might mean introducing greater democratic accountability within a business, or employing environmental specialists to ensure the sustainability of timber extraction.

Commercial costs and benefits of ethical trade

Before engaging in ethical trade it is important to make a careful assessment of whether the commercial benefits outweigh the costs. Building these in early at the design stage of establishing a business will mean there is no need to change management structures later on entering an ethical market.

The answer is not often obvious.

For example:

Forest management certification requires businesses to implement a potentially expensive sustainable forest management plan, yet the commercial benefits may only amount to marginal increases in prices and access to buyers.

If possible use an expert to assess the costs and benefits. This expert should be:

- thoroughly familiar with international trade
- familiar with the type of business being appraised
- familiar with its geographical location.

If it is not possible to use an expert then it is essential to consider the following questions: (the various sections of this manual should help to provide some of the answers).

Regarding costs, will compliance...

- Involve a lot of planning in the establishment phase?
- Increase the number of managers that have to be employed?
- Increase the amount of capital that has to be invested?
- Increase the number of workers required?
- Increase the cost of employing a worker?

Regarding benefits, will compliance...

- Provide an overall framework, guidance and discipline?
- Lead to higher prices?
- Reduce the time that managers have to spend finding buyers?
- Help to stabilise prices?
- Improve the cash flow of the business (this means increasing the speed that money enters the business while reducing the speed that money leaves)?
- Encourage stable relationships with buyers?
- Reduce the cost of borrowing money?
- Reduce the time that managers have to spend finding money to borrow?

If access to additional capital is not important then there is no need to consider the last 2 questions.

The answers to all of these questions will not always be readily available. If the premise of the whole business strategy is that marketing through an ethical trade scheme will lead to higher prices then it will be important to check that it will be the case.

The answers to these questions will help a business to get a feel for whether a particular type of ethical trade is likely to make commercial sense. If the feeling is positive, then it is time to look at the financial figures more carefully, but as mentioned above, this is a job for experts.



Once these figures are available, and assuming that benefits outweigh costs, they can be incorporated into an ethical business plan. This is merely an extension of a conventional business plan and includes the entire extra costs and benefits of operating as an ethical business (see section xx on Business Planning).

Buying organic fresh fruit and vegetables in one of the outlets of the largest supermarket chains in the UK.

Annex 6: Template for an Ethical Business Plan

The following business plan was developed by NRET and Care International as a template for the development of a full business plan for ethical timber trading by a community forest network in Esmeraldas Province, North-West Ecuador.

1. Executive Summary

Include a very brief (2 pages) summary of the key points from the Plan, for example:

Background

General context to how the idea for the Ethical Business Plan originated
Ethical trade/Environmental/Social (whichever is relevant) motivation/principles, and how they combine with commercial realities.

Key partners involved

Their respective roles
Commercialising entity, producer association, facilitating organisation

Product

Product to be offered
Type of timber product/NTFPs
Ethical aspects to the production and commercialisation

Market Strategy

Target Market
Desired image/profile
Size, growth trend, and accessibility of the market

Social Analysis

- Context
- Rationale for social measures to be adopted
- Key stakeholders in the trading chain, others likely to be affected at the local level.
- Key livelihoods issues to be addressed by this initiative
- Analysis of capacity building requirements of key stakeholders
- Monitoring and evaluation process specified
- Potential risks and assumptions

Environmental Analysis

- Context
 - Rationale for environmental strategy to be adopted
- Environmental or conservation objectives
(relating to the sustainable management of the forest resource)

Social projections

Social measures to be adopted; to include policy statement, social objectives & targets outlined.
Types of benefits to whom and negative effects expected
Process factors (Consultation and participation of key stakeholder groups)

Environmental projections

Results of an Environmental Impact Assessment

Financing requirements and Profitability projections

How much money is needed from donors or investors, and what is the expected profitability of the planned operations?

Exit Strategy

Proposed exit strategy for facilitating organisation and investors (or donors) (including projected ROI)
When or on what basis will the facilitating organisation and any investors or donors pull out? What is the projected Return on any Investment?

2. Company (or Association) Description

Vision and Mission statements

This should be for the timber-commercialising entity

Current Status

Overview of current activities (related to the extraction and commercialisation of timber, not to the other Proyecto Subir activities)

Description of existing resources (staffing, capital, equipment, institutional links...)

Legal status and background of each Key Partner

Product Description - Description of Product to be offered (features, benefits...)

Ethical trade rationale

Outline of the particular ethical/social/environmental approach to be taken, in more detail than that presented in the Mission/Vision

Rational for opting for one specific scheme, ie FSC not ISO or Fair Trade

Outline the expected benefits of this approach, and to whom they will accrue

Market Analysis

Description of the Industry

- Number of timber-exporting firms in Ecuador
- Type of actors involved in the industry (no. of contractors, no. export agents etc)
- Principal firms and players involved (domestic and foreign)
- Trends in the industry in recent years

- Barriers to entry to the industry
- Government regulations and controls...
- Are there other ethical traders in the timber industry in Ecuador? Or in neighboring countries? If so, what is their profile?

Targeted markets

- Define the intended clients in some detail (profile, location, who are their customers)
- If there are potential clients that you have been in touch with, include details here
- Ethical and Conventional export market (size, growth trends, accessibility, clients...)

Marketing Research

- Present the findings and conclusions from the research you have conducted to identify the target markets. Use primary sources (questionnaires, visits, interviews etc) or secondary (journals, books, government statistics, Internet findings...)

Barriers to Entry

- Any barriers that exist (quality, monopoly/cartels, government interference or regulations, informational barriers etc)

Competitors (Conventional and Ethical)

- What other firms (in Ecuador and abroad) are competing for similar target markets in terms of client, product, quality, and ethical image (if applicable)?
- What degree of competition do they represent?
- What are the respective weaknesses and strengths compared to this initiative? How do you plan to win business from them, or will you generate new business (and if so how will you compete with others to keep this new business?)

3. Social analysis

Context

- Relevant policies, institutional and political factors (e.g. the new Forestry Directives, land rights, natural resource policies, workers' rights, legislation) identified.
- Institutional –key findings of stakeholder analysis particularly at the local level (institutions for managing resources that may require strengthening). Identification of who will benefit at the local level of the different social groups, how, roles and interests of stakeholders etc
- Key findings of gender analysis
- Historical – key events and trends from the past that may be relevant to today and the future operation of an ethical trading initiative.
- Contractual (including payment and credit) arrangements between 'producers' and buyers

Rationale for social measures to be adopted

Key livelihoods issues to be addressed by this initiative (including vulnerability and seasonality considerations if relevant). Outline of who will benefit and who may be disadvantaged.

Potential risks and assumptions

'Process factors'

- Ethical/social measures taken in existing operations
- Degree of stakeholder participation facilitated
- Setting of mutual expectations among stakeholders
- Monitoring and evaluation process specified

Capacity Analysis

- Human resource requirements in the direct stakeholders (producer communities/RFC/export enterprise/CARE, for example)
- Links to external markets (experience, flexibility, exposure, contacts)
- Capacity building requirements for each stakeholder along the chain
- Cost of this capacity building
- Availability of /Access to capacity building inputs

5. Environmental analysis

Relevant content here could include:

- Level of forest degradation and use
- Local participation in monitoring of ecological change and broader changes in livelihoods and land use management.
- Environment trends – degradation of key resources, pollution
- Environmental Impact Assessment

6. Operational Strategy

The strategy for implementing the Business Plan and for ensuring ethical practices are followed

6.1 Operations

Production and Marketing Plan

- Location
- Equipment needed and building structures, location
- Purchasing policies
- Management Information Systems and Inventory Control

Staffing and Training

- Number and roles of employees
- Salary/Incentive structure (if relevant)
- Training needed (initial and ongoing)

Purchasing practices

- Prices
- Credit relationship (if any)
- Type of contracts/arrangements

Major milestones & Plans/Timeline

- Timeline of key events over the period of the Plan (3-5 years)

Organisational chart

6.2 Partners and Stakeholders

Key Partners

- Who will be key partners and what are their respective roles?
- Agreeing mutual expectations and objectives (particularly with primary producers)

Stakeholders

- Who are the principal stakeholders (consumers, producers, government etc)? Draw a stakeholder diagram/chart.

6.3 Marketing Strategy

- What will be the marketing strategy (client and perhaps also donor)?
- Who will carry out marketing and client relations? At what cost?
- Can an ethical image be created, and if so will this be of benefit?

- Which organisations or persons will be targeted?
- How will products be priced (on what basis)
- Through what distribution channels will products be exported?

6.4 Systems

Management Information Systems and Reporting requirements/frequency

Management systems to measure quality and ethical practice/Monitoring and Evaluation System

- Identify M&E requirements for particular ethical approach adopted
- Identify a system that will achieve this and also involve stakeholder participation
- Baseline social, environmental and financial data to be collected
- What are the costs of the M and E system? (Can it be kept appropriate/realistic?)

6.5 Future plans

[Long-term, after the period covered by this Business Plan]

7. Management Team

Background and responsibilities of the Management team

For each position:

- title
- responsibilities
- Previous experience – criteria (including commercial experience and skills, understanding of social issues and negotiation capacity).
- previous successes

Board of Directors

- Positions/Roles, Backgrounds, Fees paid (if any), Contributions expected
- Governance issues (role, election process, representativeness of stakeholders etc)

Advisors (Board of Advisors and/or consultants and/or others)

- Names, Backgrounds, contributions expected, type of relationship

8. Projections

8.1 Financial and Operational

Financial performance over the recent period (1 –3 years)

- Income Statements, Balance Sheets, Cash Flows

First year projections by month or/and quarter

- Income Statements (income projections), Cash Flow forecasts

Three-year forecast (annual)

- Income Statements, Balance Sheets, Cash Flows

Financial Assumptions

- explain how the numbers used in the financial performance indicators/reports were calculated, in particular those related to projected volume of production, and rate of growth of production and sales

Break-even Analysis

- This determines at what point income matches expenses and overhead.
- (see supplementary documentation for an explanation of how to calculate this)

Ratio Analysis

Useful indicators include:

- Return on Investment (= Net Income/Total Assets)
- Internal Rate of Return (rate at which benefits are equal to investment costs)
- Profit Margins (= Net Income/Net Sales)
- Profitability (= 1-(Total Income-Total Costs))
- Current Liquidity Ratio (= Current Assets/Current Liabilities)
- Inventory Turnover (= Cost of Goods or Inventory sold/Average Inventory)

Current Ownership Summary and Exit Strategy

Proposed Legal Form

- Ownership
- Share structure
- Voting rights
- Use of profits

Funding Request (if any)

- The types of funds needed should be set-out, for example if a donation is needed to cover certain initial costs, and a loan to cover ongoing costs.
- How the donor/investor will recoup their money (if relevant) should also be outlined

Sources and Uses of Funds

- Construct a simple table with Sources of Funds in the left hand column, and use of funds in the right hand column (using general headings, not too much detail)

Cost-Benefit Analysis to compare ethical versus conventional timber production and trade¹

8.2 Social

Key objectives and targets to be outlined

- Contractual
- Prices received
- Credit arrangements (transparency, cost...)
- Payments (promptness, in cash...)
- Use of cash obtained from trade in developing livelihoods (who decides?)

Security of trading relationship

- certainty of orders
- Capacity building (what training will be provided...)
- other benefits (e.g. increased external contacts, provision of information etc)
- Which social groups will not benefit?
- Will any social groups be negatively affected or marginalised?

Note that the distinction between an ethical and conventional production system/ trade will need to be contextualised and defined; less easy to identify costs if its not certification – i.e. In certification one obvious cost is certification.....may be better to compare the costs/ benefit along a continuum of ethical approaches / ways of showing that you are being ethical, e.g. more or less social analysis/ capacity building and /or more or less external verification.

Improved negotiating position on the trading chain, through (for example):

- improved technology (and product quality)
- increased awareness of bargaining power and end-uses of products
- increased number of buyers
- Higher prices offered by commercialising entity...

8.3 Environmental

[Relevant standards for environmental indicators include:

- *FSC certification standards*
- *USAID requirements*
- *national forestry legislation]*

9. Critical Risks

Analysis of significant risks associated with achieving projections

- Risks external to the firm: competitors, monopolistic practices in the timber industry, national instability, inflation, political obstacles etc
- Risks external to the country: international economic depression, changing priorities concerning ethical and certified wood, competitors from other producer countries, import barriers etc
- Internal risks: staffing concerns, how to motivate workers...
- Cost of ethical practices not matched by a premium on prices received, or by lower acceptable quantities of timber exports
- Volumes of production insufficient or variable
- Quality of production unreliable or deficient
- Producers fail to meet orders on time
- Difficulties in ensuring that producers operate in compliance with sustainable forest management plans
- Areas of vulnerability: cheaper products from competitors in the future (e.g. certified wood from plantations), cyclical trends in the market, seasonality of products etc
- Risk of small producers developing dependence, consider vulnerability and seasonality issues

Potential mitigating actions

10. Appendices

For example:

Letters expressing an interest in buying products
Questionnaires used to collect research information and data
More detailed information on CARE and other key partners
Ethical trade principles and guidelines
Certification Indicators agreed with Smartwood
Resumes of the key management team and key advisors
Promotional brochures
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MILLARD, E., (1996) Export Marketing for a Small Handicraft Business An Oxfam Basic Guide, 1996 second edition. Oxfam Publishing, Oxford, UK.

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PARNELL, E. (1995) Reinventing the Co-operative; enterprises for the 21st century, Plunkett Foundation, Long Hanborough, Oxfordshire.

SAVE THE CHILDREN/PACT PUBLICATIONS (2000) 'Managing the Double Bottom Line', Pact Publications, US (website: www.pactpub.com).

STRINGFELLOW, R., COULTER, J., LUCEY, T., MCKONE, C., and HUSSAIN, A., 1997, Improving the access of smallholders to agricultural services in Sub-Saharan Africa: farmer co-operation and the role of the donor community, Natural Resource perspectives. No. 20, London, Overseas Development Institute, UK.

ANNEX 8: SOURCES OF INFORMATION – WEBSITES AND CONTACT DETAILS

Marketing

<http://www.mango.org.uk/>

Mango, a Non Governmental Organisation that provides financial management services to the aid sector in the field. It provides experienced financial staff on secondment to development NGOs and is also developing best practice tools for management accounting and encourages debate about best practice financial management.

www.itdg.gov.uk

Intermediate Technology /IDRC work on NGOs and small enterprise (have a page on their website 'designing and delivering high-impact, cost effective business development services.

tammy_newmark@tnc.org

The Eco-Enterprise Fund

Nature Conservancy's Ecoenterprise Fund. This fund looks for commercial investments in business initiatives that promote conservation in Latin America.

www.oxfam.org.uk

Contact the Fair Trade Programme of Oxfam GB.

Tel: 00-44-1865-311311

www.raise.org

RAISE

USAID Programme for economic and environmental added value

Information on

Forestry

Email: j.r.palmer@gre.ac.uk

Department for international development, Forest Research Programme

John Palmer, programme manager

Tel 44-1634-880088

www.nri.org/TFF/tffframe.htm

UK Tropical Forest Forum

NTFP and Forest certification

<http://www.fallsbrookcentre.ca/programs/International/certmark/certmark.html>

Falls Brook Centre, Canada.

www.fscoax.org

Forest Stewardship Council - providing an incentive in the market place for responsible forestry.

<http://www.panda.org/>

WWF has been developing links with industry aimed at promoting certification of forest management through the Forest Stewardship Council (FSC). This initiative has led to the formation of Forest and Trade Networks (formerly known as Buyers' Groups) - partnerships between environmental groups and industry, whose members are committed to purchasing forest products from well-managed forests and to supporting independent certification. More than 600 companies now make up this growing global network in 18 countries worldwide.

www.foe.org.uk

Friends of the Earth – an international environment NGO.

www.greenpeace.org.uk

Greenpeace

www.greenpeace.org/-forests/

Greenpeace Pacific Programme

www.efi.fi/cis

The Certification Information Service (CIS) is a service provided by the European Forest Institute. The CIS is currently funded by Development [DGVIII] of the European Union. The principal goals of the certification Information Service are to provide African, Caribbean and Pacific (ACP) countries with information on the progress of forest certification and the development of national and international certification schemes; and to provide European countries with information on progress of certification within ACP countries. Progress on certification schemes and related activities will be monitored, analysed and documented by CIS and this information will be disseminated widely throughout the two target areas. The CIS aims to provide the most comprehensive and up to date point of reference for any individual or any organisation seeking information or news about forest certification.

www.panda.org/forestandtrade/index.html

Global Forest and Trade Network: Leaders for responsible forestry. Coordinated by the worldwide conservation organisation WWF, the Network is committed to producing and purchasing forest products from well-managed forests and to supporting independent certification.

www.web.net/~fbcja

Falls Brook Centre. A Canadian based NGO whose mission is to communicate knowledge and skills and help to communities with developing appropriate systems of sustainable development. They have a number of programmes including Analogue Forestry, Forest Stewardship, Climate Change Initiative, Climate Change Initiative and work on Non-Timber Forest Products. The Falls Brook Centre have hosted meetings on the Certification of Non-Timber Forest Products. They publish an 'Introduction to the Certification of Non-Timber Forest Products' in conjunction with the Estudios Rurales y Asesoría Campesina A.C. of Oaxaca Mexico.

www.forestrycenter.org

The Community Forestry Resource Centre is a US based NGO funded by the Institute for Agriculture and Trade Policy. It actively supports forestry cooperatives and provides advice, technical support and marketing know-how as well as advice on forest certification.

www.ffi.org.uk/conservation_programmes/soundwood

Fauna & Flora Soundwood Programme

www.LEI@indo.net.id

Lembaga Eko-labelling Indonesia.

www.pefc.org

Pan-European Certification Process

www.cepi.org

There are details of all the different schemes produced by the Confederation of European Paper Industries at

Conservation trade

www.conservation.org

Conservation International is a US based conservation NGO. The website details its strategies, programmes, and conservation regions. There is information on CIs work, publications, information about partnerships and grants.

www.cepf.net/he/home.htm

Critical Ecosystem Partnership Fund

A joint initiative of conservation international and the Global Environment Facility at the World Bank. The Fund currently focuses on critical ecosystems in the biodiversity hotspot regions of Madagascar, West Africa (Ghana, Cote d' Ivoire, Liberia, Guinea, Togo and Sierra Leone) and the Vilcabamba-Amboró, Corridor located in Peru and Bolivia in South America. Each subsequent year, the CEPF will invest in ecosystems in a minimum of five additional hotspots. The Critical Ecosystem Partnership Fund (CEPF) is intended to act as a catalyst to create strategic working alliances among diverse groups, combining unique capacities and eliminating duplication of efforts for a comprehensive, coordinated approach to conservation challenges. Investments support such projects as managing of protected areas and coordinating biodiversity corridors; training; transboundary planning; encouraging local dialogue with extractive industries; engaging in conflict resolution; priority setting and consensus building; strengthening indigenous organizations and facilitating partnerships between the private sector and protected areas.

www.starbucks.com

The El Triunfo Biosphere Reserve in Chiapas, Mexico is a mountainous region, rich with such rare species as the jaguar and quetzal, is known for its high-quality coffee produced on farms in a buffer zone surrounding the reserve. The reserve is part of the Mesoamerica hotspot, one of 25 global biodiversity hotspots inhabited by the world's highest concentrations of unique species under extreme threat. CI assists small-scale farmers in Chiapas, Mexico, who grow coffee in the buffer zone of the El Triunfo Biosphere Reserve. The reserve's wildlife habitats forests, and streams are more easily protected when coffee is grown in the shade of the forest canopy. Starbucks provides financial support to the Chiapas project for training in agricultural techniques, and offers technical expertise to help farmers to raise the quality of their product. Starbucks expanded the program in 2000 by providing \$200,000 a year for three years to support CI's Conservation Coffee Program and to develop five new model projects in Latin America, Asia and Africa. Starbucks is currently offering "Shade Grown Mexico" coffee through its retail stores and online.

Organic Certification and Marketing

www.soilassociation.org

The Soil Association is a membership charity which has been researching and promoting organic farming as the key to sustainable agriculture since 1946. It is the UK's leading campaigning organisation and certification body for organic food and farming. It campaigns against issues like GMOs in food and the routine use of antibiotics in conventional farming. A comprehensive information and education service is available for both consumers and producers alike, through publications, leaflets and an annual programme of events. The Soil Association's wholly owned subsidiary, Soil Association Certification Ltd, is the largest and most respected of the UK organic certification bodies. It licenses commercial food production to the highest organic standards and its distinctive certification symbol is now widely recognised as a consumer guarantee of organic quality. Our organic expertise has also been applied to developing forestry certification.

www.ecoweb.dk/ifoam or www.ifoam.org

The International Federation of Organic Agriculture Movements (IFOAM)
Head office: c/o Okozentrum Imsbach, D-66636 Tholey-Theley, Germany.
Tel: +49-6853-5190, Fax: +49-6853-30110

Email: IFOAM@t-online.de

See this website for links to KRAV, SKAL, and OKE organic certification.

Alternative Trade Organisations

www.equalexchange.com

Equal Exchange

www.eftafairtrade.org

European Fair Trade Association

www.fairtradefederation.org

Fairtrade Federation

www.ifat.org

International Federation for Alternative Trade

www.lasiembra.com

La Siembra Cooperative

<http://store1.europe.yahoo.com/oxfam-uk/>

Oxfam GB Fair trade shopping on line.

www.caa.org.au

Oxfam Australia – Community Aid Abroad

www.peoplelink.org

People link

www.servv.org

SERRV

www.tenthousandvillages.ca

Ten thousand villages

www.twin.org.uk

twin

www.cafedirect.co.uk

Café Direct.

Fair trade labelling organisations

www.fairtrade.net

Fairtrade Labelling Organisation - FLO

www.transfair.or.at

Transfair Austria

Email: transfair.a@magnet.at

Tel: +43-1-5330956

www.maxhavelaarfrance.org

Max Havelaar France

Email: info@maxhavelaarfrance.org

Tel: +33-1-42877021

www.maxhavelaar.be

Max Havelaar Belgium
Email: info@maxhavelaar.be
Tel: +32-2-2133620

www.transfair.org
Transfair Germany
Email: info@transfair.org
Tel: +49-221-9420400

www.transfair.ca
Transfair Canada
Email: fairtrade@transfair.ca
Tel +1 – 613-5633351

www.fairtrade.org.uk
Fairtrade Foundation, UK
Email: mail@fairtrade.org.uk

www.maxhavelaar.dk
Max Havelaar Fonden Denmark
Email: info@maxhavelaar.dk
Tel: +45-33-11-1345

www.citinv.it/equo/homefair.htm
Transfair Italy
Email: transfai@intercity.it
Tel: +39- 049-8750823

www.fair-mark.org
Fairtrade Mark Ireland
Email: info@fair-mark.org
Tel: +353-1-475-3515

www.maxhavelaar.no
Max Havelaar Norge (Norway)
Email: maxhavelaar@maxhavelaar.no
Tel: +47-23-010330

www.transfair-jp.com
Transfair Japan
Email: transfair@wakachiai.com
Tel: +81-3-36347867

www.reilukauppa.fi
Reilun kaupan edistämisyhdistysry
(Finland)
Email: reilukauppa@reilukauppa.fi
Tel: +358-9-72686630

Transfair Minxa Luxemburg
Email: transfai@pt.lu
Tel: +352-350762

www.raettvist.se
Foreningen for Rattvisemarkt
Sweden
Email: handla@raettvist.se
Tel: +46-8-668-0350

www.maxhavelaar.nl

Stichting Max Havelaar
The Netherlands
Email: maxhavelaar@maxhavelaar.nl
Tel +31-30-2334602

www.maxhavelaar.ch
Max Havelaar Stiftung
Switzerland
Email: postmaster@maxhavelaar.ch
Tel: +41-61-2717500
www.transfairusa.org
Transfair USA
Email: transfair@transfairusa.org
Tel: +1-510-6635260

General sources of relevant information

www.actionaid.org/pdf/coffee.pdf
Action Aid

www.aidtoartisans.org
Aid to Artisans

www.amnesty.org.uk
Amnesty International

www.ethics.ubc.ca/resources/business/
Business Ethics links

www.web.net/ccic-ccci
Canadian Council for International Cooperation

www.web.net/-ccchurch
Canadian Council of Churches

www.igc.org/trac/feature/sweatshops/codes.html
Codes of conduct

<http://quotes.ino.com/chart>
Coffee, Sugar and Cocoa Exchange Inc – coffee prices

www.bioetica.org/comercio_justo1.htm
Comercio justo – fair trade site in spanish.

<http://csf.colorado.edu/>
Communications for a sustainable future, Colorado

www.envirolink.org/boycotts/
Consumer boycotts

www.sweatshops.org/
Coop America's sweatshop.org

www.corpwatch.org/
Corporate watch

www.ethical-junction.org
Ethical junction

www.transfair.ca/other/eu-communications-pr.html
European commission studies of fair trade

www.starvingwriters.org/eThis/Think/Mar/enviro2.html
fair trade coffee klatching – March 2001

www.foe.org
Friends of the Earth, USA

www.foe.org.uk
Friends of the Earth, UK

www.globalexchange.org
Global Exchange

www.greenpeace.org.uk
Greenpeace UK

www.igc.org
Institute for Global Communications

www.web.net/~icchrla
Inter Church Committee for Human rights in Latin America

<http://www.ilo.org/public/english/employment/ent/papers/design.htm>
International Labour Organisation

<http://iisd1.iisd.ca/>
International Institute for Sustainable Development

www.sugarinfo.co.uk/ISO.html
International Sugar Organization

www.intracen.org/
International trade centre, Geneva

www.sustain.org/bulletins
Labels Bulletin

www.onevillage.co.uk
One Village

www.ridgways.co.uk
Ridgways tea company

www.unsystem.org/
Search for United Nations materials

www.shared-interest.com
Shared Interest Society Limited

www.uksif.org
Social investment (UK)

www.socialinvest.org
Social investment (USA)

www.sustainablebusiness.com
sustainable business

www.consumercouncil.com

The consumer council of Canada

www.craftscenter.org

The Crafts centre

www.ictsd.org

Trade Digest IATP

www.wcc-coe.org

World Council of Churches

www.nri.org/nri/NRET.htm

The Natural Resources and Ethical Trade (NRET) programme (of the Natural Resources Institute) specialises in improving the social and environmental benefits of business in developing and emerging economies. The site provides information on the services offered (Building better standards, Integrated supply chain management policy information, producer-market linkages and learning and leveraging. Publications from the programme are available online.

www.iied.org.scati

The International Institute of Environment and Development (IIED) has a Sustainable Consumption and Trade Programme. The website has information on fair trade issues and developments.

Livelihoods

www.livelihoods.org

The DFID Livelihoods Connect website is a comprehensive site, regularly updated learning platform aimed at creating sustainable livelihoods to eliminate poverty. With papers, articles and guidance notes on livelihoods and regular updates and enquiry service.

www.dfid.gov.uk

Department for International Development website, UK government.

www.oxfam.org.uk

Oxfam GB website.

ANNEX 9: Basic Terms (mini-glossary)

Auction trading	Auctions, which act as a price determinant point and transparent reliable market place, have served commodity trades such as tea, coffee, spices, tobacco and rubber, very well historically, and continue to be supported by many market participants.
Back-to-back	This is the most common form of physical commodity trading – a commodity is bought or sold simultaneously, with all the foreseeable costs of the trade calculated in the final selling price. An alternative is speculative trading.
Biodiversity	Biological diversity is all the variation among living organisms and includes the variety within species, between species and ecosystems.
Business	The term 'business' refers to all entities engaged in commercial production or trade of goods and services, including limited liability companies, family lots, producer co-operatives and many others.
Business development services	The provision of information, knowledge and skills, as well as advice, on the various aspects of business (ILO 1999).
Business Structure	Choice of legal form (e.g. ownership, capital structure, management structure) (def: E.Millard, Conservation International).
Capacity Building	An approach to development rather than a set of pre-packaged interventions. So while there are certain basic capacities (social, economic, political and practical) on which development depends' ...[it is important to] ..support organisations working for sustainable social justice ...a detailed focus on each specific situation with a broader and longer term strategic vision' (Oxfam GB definition, Eade, D. (1997).
Certification	Key elements of certification are a standard (a set of principles, criteria, and indicators) which represent 'good' and 'acceptable' practice, and the custodian of the standard, auditors and monitors and an award to the producer or trader acknowledging that they have achieved the standard. There may also be a label to inform consumers.
Communication practices	Communication is a two way process and capacities are determined by power relations. Inequitable power relations mean that some people have no voice. Changing this is a key part of transformative participatory processes.
Conservation driven trade	Trade in products sourced from ecosystems of high biological diversity in order to provide local populations with economic incentives to conserve them (def. E.Millard, Conservation International).
Cost-benefit analysis	A method used by economists to try and compare the achievement of objectives with the costs incurred (Higman et al 1999).
Environmental impact assessment (EIA)	An EIA identifies actual and potential impacts on the environment as a result of operations, and plans to minimize or avoid negative environmental impacts and maximize positive environmental impacts. (Higman et al 1999).
Custodian body	Sets standards
Ethics	An ethic can be defined as 'a set of moral principles' and ethics are the 'moral principles governing or influencing conduct'. Morals are standards of behaviour or principles of right and wrong. (Def: Concise Oxford Dictionary, Oxford University Press (1999).
Ethical Trade	Ethical trade is the trade in goods produced under conditions that are socially and/or environmentally as well as economically responsible. There is no definitive approach to ethical trade. Rather, ethical trade is a generic term applicable to a variety of initiatives which apply sets of social/environmental values to aspects of the production and marketing

	process. These initiatives include fair trade schemes, the in-house codes of practice of corporations, organic production, environmental codes, forest certification, and in the ethical sourcing initiatives of major Western retailers. (Definition NRET, NRI)
Export trade	Non-domestic sale of products, i.e. products sold internationally.
Fair Trade	Fair trade is an alternative approach to conventional international trade. It is a trading partnership which aims at sustainable development for excluded and disadvantaged producers. It seeks to do this providing better trading conditions, by awareness raising and by campaigning. (Def. IFAT).
Forest and timber certification	Trade in products from forests that are certified that they are managed in an environmentally and socially responsible way.
Forest dependency	The degree to which different social groups rely on the forest for their livelihoods. People have different relationships to the forest and there are wider trends affecting forest sustainability. Examples of forest dependent peoples are hunters and gatherers, shifting cultivators, nearby farming communities, wealthier farmers and landowners, artisans and entrepreneurs, forest industry employees.
Forward basis	Physical trade can be carried out on a spot or forward basis. A forward basis refers to the availability of the commodity at some time in the future.
Gender	Sex is the biological difference between men and women. Sex differences are concerned with men's and women's bodies. Sex is a fact of human biology and sexual differences are the same throughout the human race. Gender is not. The experience of being male or female differs dramatically from culture to culture. The concept of gender is used by sociologists to describe all the socially given attributes, roles, activities and responsibilities connected to being a male or female in a given society. Our gender identity determines how we are perceived and how we are expected to think and act as women and men, because of the way society is organised. (March, C. et al 1999).
Gender analysis	Explores the relationships of men and women in society, and the inequalities in these relationships, by asking: 'Who does what? Who has what? Who decides? How? Who gains? Who loses? Which men? Which women? Gender analysis considers the gender division of labour, the status and position of men and women in society, men and women's relative access to resources and the degree to which policies and planning take into account gender issues. (March, C. et al 1999).
Gender relations	These are the social relationships between men and women. – and how power is distributed between the sexes. (March, C. et al 1999).
Gender division of labour	Men and women are assigned tasks in society, but these vary from one society and culture to another, within each culture and over time. In most society gender relations are skewed in favour of men, so different values are ascribed to men's and women's tasks. (March, C. et al 1999).
Impact assessment	Impact assessment is the systematic analysis of the lasting or significant changes – positive or negative, intended or not – in people's lives brought about by a given action or series of actions.
Label or logo	A label or logo is a mark on a product that demonstrates compliance with standards, although products can be produced ethical conditions but be sold on conventional markets without a specific label.
Futures	A futures contract may be defined as 'an agreement for a seller to deliver a specified quantity of a particular grade of a certain commodity to a predetermined location on a certain date'.
Intermediary Organisation	Organisations supporting primary producers and collectors of forest products. They may play different kinds of roles in supporting producer organisations and collectors such as acting as an intermediary trader, facilitating links to commercial buyers, providing advice on business development or building the capacity of community groups. Other intermediary organisations could include banks, financial institutions, investors, donors, extension workers, academics and development

	practitioners.
Marketing	<p>'Marketing is the process of selecting a target market and preparing the product or service that market's requirements. It is a lot more than selling', which is just the end task in marketing. Marketing deals with:</p> <ul style="list-style-type: none"> - what is the product? Where will the enterprise distribute it? - At what price can it be sold? - What type of promotion will be needed to achieve sales. <p>Thus it involves 'analysis, strategy (marketing plan), product development, linkages to market partners, representations, advice on negotiating agreements, licensing, including royalty agreements' (E. Millard, Conservation International forthcoming).</p>
Market led trade	Market demand is the starting point for this kind of trade and NGOs work with producers based on their potential for success (Humphries, L. 1999).
Non-timber forest products	<p>'all the biological material (other than industrial roundwood and derived sawn timber, wood chips, wood-based panels and pulps) that may be extracted from natural ecosystems, managed plantations, etc., and be utilised within the household, be marketed or have social, cultural or religious significance. Thus non-timber forest products include plants used for food, forage, fuel, medicine, fibres, biochemicals, etc.; as well as animals, birds, fuel, fibres etc</p> <p>Anon 1991/2, <i>Non-timber forest products defined</i>. <i>Unasylva</i>, 165(42) 3.</p>
Operations	Diagnosis, organisation, support with certification, linkages to external resources etc (E. Millard, Conservation International, Forthcoming).
Options trading	The buyer of a commodity option contract will acquire the right, but not the obligation, to buy or sell an underlying futures contract at a pre-determined price by a defined date. The seller of the contract (option writer) is obligated to take the opposite side of the underlying futures contract if the buyer chooses to exercise the option.
Organic Agriculture	Trade in products that have been produced according to organic production criteria. Organic farming involves managing the agroecosystem as an autonomous system based on the primary production capacity of the soil under local climatic conditions (UNDP 1992).
Participation	There are different definitions of participation. Two common and differing examples are: participation is a process that aims to empower local people, or local people are consulted about projects that have been selected elsewhere and are invited to participate in their implementation.
Participatory methods	These include all techniques that facilitate the democratic participation of group members in a process of reflection and analysis.
People centred	External support focuses on what matters to people, understands the differences between groups of people and works with them in a way that is congruent with their current livelihood strategies, social environment and ability to adapt.
Physical trade	Trading in 'physicals'
Power relations	In any group and between a group and wider society, there are a diverse set of power relations at play. Social division in society falls along different lines including gender, ethnicity, class etc. Participatory approaches attempt to help people to use the power they have to positively change power relations and to lead to a more equitable world.
Price premium	The price premium refers to the higher price that can be charged and obtained for products. In the case of ethical trade, price premiums are paid by consumers willing to pay more for products that are produced in 'good' social or environmental conditions.
Primary producers and collectors	People at the local level living or depending on the forest that produce crops from the area such as cocoa, coffee, or tea, and who may collect non-timber forest products (e.g. essential oils, chicle, tagua, brazil nuts).
Producer organisation led trade	Producer organisations have developed products that can be supplied under 'fair trade' or ethical terms.
Responsible Business	A responsible business is one that is aware of its social and environmental

	impact, and actively manages its operations to minimize and offset negative consequences, and optimise positive ones.
Quality assurance	Monitoring and evaluation systems, industry best practices, certification, voluntary standards (E.Millard, Conservation International, forthcoming).
Social Impact assessment	In relation to forestry, SIA aims to identify actual and potential impacts on people as a result of operations and to minimize or avoid negative impacts and maximise positive impacts on stakeholders and others..It involves collecting information about stakeholders and their interests, and then considering the actual or possible impacts of forest operations on these interests in order to propose mitigation measures. (Higman et al 1999).
Sourcing	Products are sourced – this means literally means that they are obtained.
Speculative trading	When a buyer or seller has not sold or purchased simultaneously an equivalent commodity and calculated the costs associated with the contract. Prices offered to producers are often low due to the risks that the speculator takes on.
Spot basis	Physical trade can be carried out on a spot or forward basis. Spot basis means there is immediate availability of the commodity for delivery or shipment.
Stakeholders	In relation to forest the people and organisations interested in, or affected by, forest management and operations are the stakeholders. Stakerholders may include government agencies, communities in and around forest areas, (men/women/children, young/old, occupational groups, ethnic groups) indigenous people, employees, investors and insurers, customers and consumers, environmental interest groups, general public.
Staff	The people that will be required for a successful scheme.
Strategic planning	A process in which an organisations works out its objectives and the means (or strategy) by which it will achieve this.
Suppliers	Those that obtain or produce products of a specific standard and in sufficient quantities, and maintain a relationship with exporters.
Sustainability	Sustainability of supply and markets is something that is of key concern to companies – whether conventional or ethical. Companies want to able to rely on producers to supply them with high quality produce year in, year out, without being threatened by environmental degradation or conflict. A broader definition of sustainability relates to sustainable development – ‘development that meets the needs of the present without compromising the ability of future generations to meet their needs’ World Commission on Environment and Development, 1987.
Sustainable Forest Management	The process of managing forests to achieve one or more clearly specified objectives of management with regard to the production of a continuous flow of desired forest products and services, without undue reduction of its inherent values and future productivity and without undue undesirable effects on the physical and social environment. (Def: ITTO Criteria and Indicators for Sustainable Management of Natural Tropical Forests, 1998).
Sustainable Forest Management Policy	This policy publicly expresses the commitment of the forest organisation to SFM. It provides an undertaking that forest management will be carried out in ways that are environmentally responsible, socially beneficial and economically viable (Higman et al 1999). Policies for other types of ethical trade organisation may differ slightly in the priorities of their content but have the same function – i.e. expressing commitment.
Sustainable harvesting	If production of timber is to be genuinely sustainable, the single most important condition to be met is that nothing should be done that will irreversibly reduce the potential of the forest to product marketable timber – that is, there should be not irreversible loss of soil, soil fertility, or genetic potential in the marketable species. (Higman et al. 1999).
SWOT analysis	A method for working out the key strengths, weaknesses, opportunities and threats facing an organisation or scheme (e.g. an ethical trade scheme).
Traders	Those that buy and sell products from producers and other traders and may sell to buyers.
Trading contracts	These include description, quantity, quality, price and basis, delivery and

	shipment period, payment, arbitration clause and general terms.
Third Party Verification	When certification is checked by a third party that has not been involved in the production or monitoring process – this provides added credibility.
Trading Chain	In route which products take as they traded – a chain is formed as the product is passed from one person to another beginning with producer and ending with the final consumer. The chain can many different groups including, for example, producers, suppliers, exporters, importers, retailers, consumers.
Transparency	Transparency in trading means that anyone in the trading chain is able to state clearly where and how the products have been produced and handled. When people discuss transparency in relation to ethical trade they are often referring to the degree of access to the certification process and its findings.

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ANNEX 11: ACRONYMS

AFTA	African Farmers Trade Associates
ATO	Alternative Trading Organisation
CIFOR	Centre for International Forestry Research
CI	Conservation International
CITES	Convention on International Trade in Endangered Species
CSA	Canadian Standards Association
EFI	European Forest Institute
EPOPA	Export Promotion of Organic Products from Africa
FAO	UN Food and Agriculture Organisation
FDP	Forest dependent people
FLO	Fair trade labelling organisation
FFT(U)	Farmers Fair Trade (Uganda)
FMP	Forest management plan
FSC	Forest Stewardship Council
FT	Fair trade
IFAT	International Federation for Alternative Trading.
IIED	International Institute for Environment and Development
IPF	Inter-governmental panel on forests
IPM	Integrated Pest Management
IFOAM	International Federation for the Agriculture Movement
ISO	International Standards Organisation
ITTO	International Tropical Timber Organisation
IUCN	The World Conservation Union
KCU	Kagera Co-operative Union
LEI	Lembaga Ekolabel Organisation
LCU	Lango Farmers Cooperative Union
LOCP	Lango Organic Cotton Project
NGO	Non-governmental organisation
NTFP	Non-timber forest product
NTFPs	Non-timber forest products
SFM	Sustainable Forest Management
UKWAS	United Kingdom Woodland Assurance Scheme
UNDP	United Nations Development Programme



What is ethical trade? Can ethical trade help poor people, forest dwellers, and producer groups? And if so, how? Which kind of scheme can help forest producers and collectors get better returns for their product? What are the financial benefits? What other kinds of benefit do ethical trading schemes offer? What is the impact of these schemes and how can it be improved? This manual provides answers to these questions.

Trading is an integral part of human life and social fabric throughout the world. Trade can bring economic benefits, but often with social and environmental costs and the benefits are not always shared equally. Can ethical trade offer an alternative? Can ethical trade offer social, environmental and economic benefits? And for whom?

This manual is targeted at forest producers and collectors, NGOs that wish to assist them and traders. It helps you to identify the opportunities and limitations of trading ethically as well as the requirements of the market. It provides a guide through the complex world of ethical trading to help you decide if ethical trading is an option, and the best route to follow to achieve your objectives.

The manual distills the key lessons from ethical trade, to help you understand the options available and to maximise benefits and avoid common pitfalls. The manual also tackles how to promote a more equitable distribution of benefits and to increase the financial viability of your ethical trade scheme.

There is detailed information on everything from how to properly understand the social context and implications of trading for development, the different ethical trade schemes on offer, getting the business basics right, how to do thorough ethical trade business planning, capacity building, identifying possible roles, policy analysis and impact assessment. It is jam packed with examples and case studies. It indicates where you can get further information from the internet, literature and relevant organisations, and also gives a brief explanation of the the ethical trade jargon!

For further information contact:

The Natural Resources and Ethical Trade Programme at NRI on nret@gre.ac.uk

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