

FINAL TECHNICAL REPORT

(DFID project code: R7285)

Assessing the Viability and Potential of Ethical Trade
As a Means of Enhancing and Safeguarding
Income Generating Opportunities for
Forest-dependent Households and
Communities in Tropical Moist Forest Ecosystems

September 2001.

DFID project code: R7285

NRI Code project code: A0797

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Executive Summary

This report presents the findings of the three-year research project on ethical trade and forest dependent people funded by the DFID Forestry Research Programme. The project's aims were aimed to assess the potential of ethical trade for forest-dependent people, and to analyse the background context to ethical trade schemes in forest products (policy, market and other contextual issues). If ethical trade was found to have positive development potential for forest dependent people then the project would test with partners pilot approaches to ethical trade and develop a manual or guidelines on ethical trade. The project has been carried out in partnership with organisations in South Africa (CSIR, INR and Oxfam GB), Ecuador (Care-Ecuador, Jatun Sacha, MCCH), and Indonesia (LEI).

The project has carried out studies of ethical trading in non-timber, agroforestry and timber forest products comparing ethical and conventional trading chains for their social impact and financial viability. The lessons from these were mixed, with different levels and types of benefits accruing to different groups of forest dependent people. An in-depth study has also been completed on ethical trade in non-forest sectors in order to cross-fertilize lessons across different sectors. Background policy studies have analysed the views of the World Trade Organisation on forest certification, developments in sanitary and phyto-sanitary measures, the role of labour standards in forestry and recent developments in forest certification.

Having established that ethical trade in forest products does hold substantial potential within future innovations in sustainable forestry and community development for forest dependent people, pilot approaches to ethical trade were implemented principally in South Africa and Ecuador. The project team produced the draft manual using initial project findings. The pilot approaches were tested in South Africa and Ecuador. Use of the draft manual by project partners was monitored by the NRI project team, which enabled the production of a final manual on 'Ethical Trade, People and Forests'. This manual provides in-depth advice to producers and collectors at the forest level, intermediary organisations supporting forest-dependent people and traders, financial institutions and donors. The manual is a practical and comprehensive guide to decision-making in ethical trade. It does not attempt to provide blueprint answers, but to stimulate those interested in ethical trade to consider both the opportunities and risks involved in ethical trade and to compare the varied paths forward within ethical trade on the basis of full information rather than making blind choices according to the partial information on hand, or the interests of external organisations with specific agendas.

Ethical trade initiatives offer huge opportunities in terms of sustained development impact and benefits for forest dependent people. Maximising these benefits requires learning from others and avoiding oft repeated errors. Ensuring that the business basics are in place is important if ethical trade schemes are to be viable in the longer-term and to provide benefits to poor people. At the same time broader assessment of ethical trade options as they compare to, conflict with and complement other sustainable forestry and development initiatives and processes is required if the longer-term and full role of ethical trade in supporting forest dependent people is to be realised and understood.

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- Comparison of opportunities and benefits for different categories of forest-dependent people under different types of ethical trade and other trade systems through 3 sets of case studies
- Analysis of the production/marketing chain of three ethically traded products from three existing ethical trade initiatives including the viability of the chain and the stages at which value is added.
- Provisional guidelines for establishing ethical trade systems for forest-dependent communities prepared for use in Output 3 year 2.

Output 2: Assessment of the impact of global trading regulations and markets on the viability and potential of ethical trade.

- Watching briefs on policy issues affecting ethical trade prepared
- Current and historical market trends for at least 6 ethically traded forest products analysed in year 2.
- Review of studies of ethical trade markets completed in year 2.

Output 3: Guidelines for implementing ethical trade for the benefit of forest-dependent people.

- Guidelines from Output 1 tested and revised in three ethical trade initiatives for forest dependent people by end of project.
 - Testing the manual in Indonesia
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List of Acronyms

ATOs	Alternative Trading Organisation
BBC	British Broadcasting Corporation
CDC	Commonwealth Development Corporation
CIAT Bolivia	Centro de Investigacion Agricola Tropical
CIFOR	Centre for International Forestry Research
CSIR	Council for Scientific and Industrial Research
DFID	Department for International Development
DWAF	Department of Water Affairs and Forestry
FSC	Forest Stewardship Council
INR	Institute of Natural Resources
ITDG	Intermediate Technology Development Group
JWT	Just World Trading
LEI	Lembaga Ekolabel Indonesia
MCCH	Maquita Cushunchic Comercializando como Hermanos
NCT	Natal Timber Growers Co-operative
NRET	Natural Resources and Ethical Trade Programme
NRI	Natural Resources Institute
NTFPs	Non-timber forest products
SPS	Sanitary and Phyto-Sanitary
TVE	Television Trust for the Environment
UK	United Kingdom
USA	United States of America
WTO	World Trade Organisation

1. Background

Ethical trade is an umbrella term for an array of different initiatives that include social and/or environmental goals alongside financial ones in the management of production and trade: examples include fair trade, forest certification, organic labelling, ethical sourcing and ethical investment. Trade in certified forest products, especially timber, is an aspect of ethical trade that has been widely promoted in recent years and has received support from many sectors including development agencies. However, it is unclear whether, and/or how, such initiatives benefit poor forest-dependent people.

The DFID Forest Research Programme commissioned NRI to carry out a three-year research project looking at whether and in what ways ethical trade can benefit forest-dependent people.

The project, which is part of the Natural Resources and Ethical Trade programme, has three main focus areas:

- a) Whether ethical trade benefits forest-dependent people?
- b) What policy, market and other background issues affect ethical trade?
- c) How can organisations develop ethical trade for the benefit of forest-dependent people?

These three main focus areas are explained below.

a) Whether to do ethical trade: Who benefits?

The project has examined who benefits from ethical trade. It examines the impact of ethical and conventional trade in various commodities on forest-dependent people in Latin America. These commodities include brazil nuts, cocoa, and timber. At the same time, the project has analysed the ethical and conventional trading chains to assess their viability and how value is accrued.

Ethical trade in forest products takes various forms: for instance, trade as part of conservation, trade in products from certified forests, and fair trade of forest products. Ethical trade, especially timber certification, is a major issue in forestry at the present time, prompted by wide consumer concern about the sustainability of forests. Current initiatives often have a limited understanding of both the potential ethical trade offers for enhancing or securing the livelihoods of forest-dependent people, and the conditions under which such people can take advantage of ethical trade opportunities. As the number of initiatives affecting forest-dependent people grows, this lack of understanding is likely to result in the following:

- initiatives that fail to understand the complexity of forest-dependent people's livelihoods and therefore arbitrarily favour one group over another;
- initiatives that exclude or negatively impact upon forest-dependent people in general;
- initiatives that are not seen as an opportunity by forest-dependent people and who will therefore not benefit from any advantages of such trade.

b) Background: What policy, market and other background issues affect ethical trade?

The project has looked at examples of ethical trade from outside the forest sector to see what lessons can be learned.

There are a number of external factors that can alter the impact of ethical trade. For instance, the national and international policy environment can radically alter trading conditions, and there is concern about the way the WTO will view social and environmental standards.

Similarly, conclusions about the profitability or otherwise of trade in particular commodities needs to be understood from a historical perspective so that fluctuations and long-term trends are not misinterpreted or attributed to an impact of a particular approach to trade.

There is also much talk about the ‘ethical market-place’ as a separate entity from the market for conventionally traded products. The project has examined each of these three issues to increase the understanding of ethical trade.

c) How to do it

The project commissioned three pilot studies of approaches to ethical trade in developing countries. The aim of these studies has been to develop models of ethical trade that benefit forest-dependent people in different contexts – for instance, through trade and conservation, through national certification, and through the use of international certification for trade advantage. These pilot studies have been carried out in Ecuador, Indonesia, and South Africa.

The target institutions for the project have been engaged in the project in different ways. The target institutions were outlined at the beginning of the project as:

- International organisations assisting in the development of ethical standards;
- National organisations responsible for developing national standards and assisting local producer organisations;
- Local organisations responsible for developing and incorporating standards in their management regimes; and
- Trading organisations sourcing from forest-dependent people using ethical standards.

The project has worked with local collaborator organisations in Peru, Indonesia, Ecuador and South Africa and the manual which has been produced by this project has an audience ranging from primary producers and collectors/intermediary organisations such as NGOs and standard setting bodies to traders.

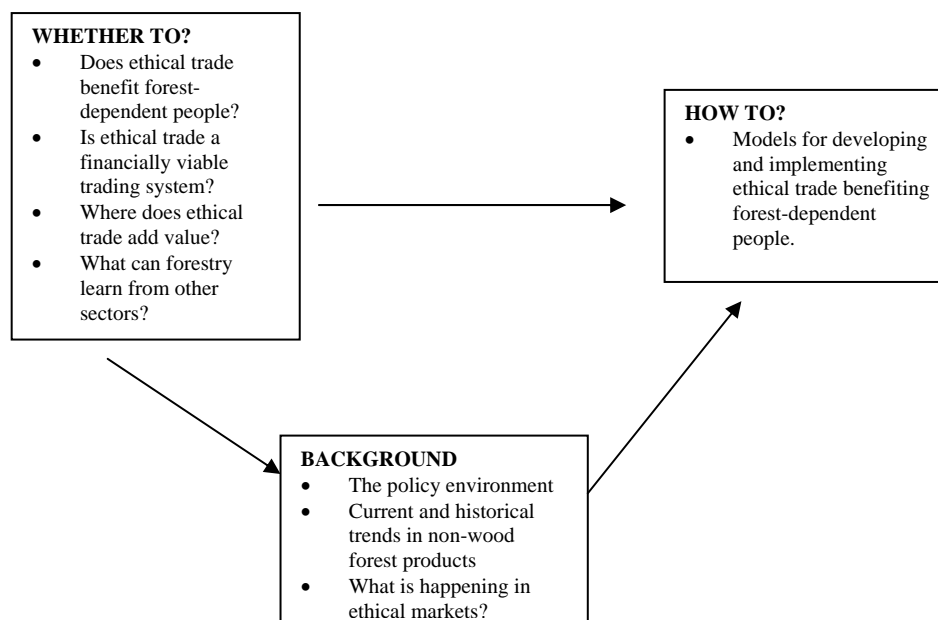
The small business and ethical trade group of the UK Tropical Forest Forum has also provided uptake pathways with buyers and NGOs.

2. Project Purpose

The purpose of this project is as follows:

Viability and potential of ethical trade as a means of enhancing and safeguarding the livelihoods of forest dependent people in tropical moist forest eco-systems assessed and promoted.

The project logic is represented in the flow diagram below. Output 1 asks the question ‘**WHETHER to**’ use ethical trade to benefit forest dependent people?’ and seeks to provide an answer by studying the ethical trading approaches followed in other natural resource sectors. Output 2 adds wider **BACKGROUND** material to the research, while Output 3 takes the lessons from the previous two outputs and asks the question ‘**HOW to** implement and operate forest ethical trade initiatives to the best advantage of poor forest dependent people?’ Once the question of whether trading ethically can benefit forest dependent people had been answered and the answer was positive, and combining lessons from output 1 and 2, the how to part of the project could be undertaken. Testing of draft guidelines/a manual was done in collaboration with project partners in three different continents and a manual on ‘Ethical Trade, People and Forests’ produced.



3. Research Activities

Research activities carried out by the project team are detailed below.

OUTPUT 1: Identification of the potential of ethical trade

Activity 1.1 Project planning meeting

A project planning workshop was held in Peru in February 2000. This workshop was the first opportunity for many project partners to meet and share ideas on the future direction of the project. The workshop identified ethical trade in tagua and cocoa in Ecuador as suitable case studies to complement the brazil nut study in Peru. Complementary lessons could be derived because brazil nuts are collected wild forest products, whereas cocoa is an agroforestry crop. Workshop participants also highlighted a study on forest certification as a priority and it was agreed with the FRP programme manager that timber certification would therefore be included. This meant that the tagua study was not included in the project.

Participants from Indonesia, Ecuador, Peru and the UK explored the concept of ethical trade and representatives gave presentations from each country on their perspectives on ethical trade. A presentation was also submitted from South Africa. Key variables in ethical trade and forestry were discussed and agreement reached on how these were to be tackled by project partners in each country. The methodologies and lessons from the brazil nut financial viability and social impact studies were presented to participants and commodities and locations for the second and third case studies identified.

The workshop provided an excellent opportunity for project partners to discuss the logic of the project and its objectives and to explore ways to make the findings of the background studies on the policy environment and market studies useful to project partners. The scope of the guidelines to be produced under output 3 were also considered by participants with the locations and collaborators finalized and a timetable for action drawn up.

The report of this meeting is included in annex 1.

Activity 1.2 Comparison of trading systems

As explained above, comparative studies of trading systems were identified and carried out comparing ethical and conventional trading in brazil nuts and cocoa, to establish whether and how forest dependent people are benefiting from ethical trade schemes and to explore their financial viability and distribution of value along the trading chain. Schemes were identified that had already been in operation for some time, thus providing an opportunity to learn lessons from the experience of those involved including intended beneficiaries.

A study on **brazil nut trading** was selected as a result of discussions with project partners and Conservation International¹. A **study on ethical cocoa trading**, an important fair trade commodity and a significant forest margins crop was begun in 2000. Relations established with Oxfam Fair Trade in Latin America helped in setting up the second study, because Oxfam is working with cocoa producers in Ecuador and Oxfam staff helped to facilitate links.

The **ethical timber trading study** in the Solomon Islands provided the opportunity to distill generic lessons on the merits of certification from the perspectives of social impact and financial viability. The findings will also contribute to the work of Care (Project Subir) in Ecuador with local communities in Esmeraldas region, and the joint testing of the manual by NRI and Care (ethical timber business planning). Brazil had been suggested as a location for the study, because of the possibilities of comparison across Latin American experience and the importance to a major European buyer of certified timber of certified forests in that country. However, it was found that industry cooperation was unlikely to be forthcoming and so an alternative was found - the Solomon Islands.

The **methodology** for the cocoa and brazil nut studies was developed in discussion with collaborating institutions (particularly Conservation International and Oxfam Fair Trade Programme staff) and with the Peruvian researcher. The fieldwork on brazil nuts (Peru) and cocoa (Ecuador) was completed in 2000 and the reports finalized². The studies employed the livelihoods framework as a useful analytical tool for identifying the broad range of types of impacts of ethical trade schemes. The distribution of impact and benefits was established using stakeholder analysis methodologies. Further, the analytical framework of forest dependency was employed to increase the rigour of the stakeholder analysis and to ensure that forest use and the varying types of relationship to the forest of different social groups was properly explored. Reflections and lessons on this methodology are being drafted and publication of a peer reviewed journal article sought on the impact assessment of ethical trade initiatives in forest products.

These reports have been made available on the NRET website and copies submitted to FRP.

The **studies were presented** at the UK Tropical Forest Forum Small business group meeting held in London (March 2001). The report from this meeting is included in annex 2. The **NRI-BBC World Service** has collaborated on the radio series 'In the Field' (DFID and BBC funded). This series provided an opportunity for the project to disseminate its findings. The aim and content of the series is explained in the box below:

¹ Conservation International (C.I.) is a US based organisation that works to promote conservation of tropical forests and biodiversity. A great deal of support has been provided by C.I. staff members to the project team, for which the project team would like to express its thanks.

² GALVEZ, M. and NELSON, V., with BLOWFIELD, M. (2000) 'Social impact of conventional and ethical trading in Brazil nuts in Peru'. NRET Working Papers. Natural Resources Institute (NRI), Chatham, UK.

GALVEZ, M. and NELSON, V. with BLOWFIELD, M. (2000) 'Social impact of conventional and ethical trading of cocoa in Ecuador'. NRET Working Papers. Natural Resources Institute (NRI), Chatham, UK.

In the Field – Notes to accompany the radio series

'12 programmes were made as part of the series 'In the Field' between January and March 2001. The aim of 'In the Field' is to bring to life and showcase innovative approaches to improving poor people's livelihoods, drawing on projects, which have successfully tackled problems, which are both locally and globally relevant. Almost all of the projects drawn on are funded by the UK Department for International Development (DFID), mainly through the Renewable Natural Resources Research Programme.

Each radio programme has at its core interviews with local people who tell us about how a particular livelihood problem has affected them and how it has been tackled. These interviews were mostly carried out by NRI staff, who, after basic training at the BBC went out into the field as 'barefoot reporters' armed with Sony Walkman Professional tape recorders. It is through the ready cooperation of NRI staff and their in-country collaborators that it has been made possible to make most of the programmes in the radio series and to put together the notes in this booklet.

In addition to the sections on each of the programmes, this booklet contains two sections, which focus on issues basic to the holistic Sustainable Livelihoods approach to development, which has been adopted by DFID in recent years – Access to Livelihood Assets and Vulnerability, Complexity, and Diversification. These sections link closely to the sections on the programmes themselves, showing how the case studies looked at in the programmes exemplify the issues discussed'.

Adapted from 'In the field: Exploring Innovative Improvements to livelihoods around the world': 'Notes to accompany the radio series'.

The programmes were broadcast globally during the week beginning the 14th of March 2000. The programmes are available on the BBC web page for the series where they may be listened to in Real Audio:

http://www.bbc.co.uk/worldservice/sci_tech/features/field/index.shtml. The accompanying notes are available on the NRI website (www.nri.org/Collab/InTheField) and on the DFID Livelihoods Connect website: http://www.livelihoods.org/linksevents_sub/linksevents_field.htm.

The MCCH Ecuador study was chosen as the subject of one of the programmes in this series, because the scheme is fairly successful and the study provides interesting lessons on fair trade in forest products. A programme was made which included interviewing the key commercial manager in Quito and villagers who are working with MCCH in Esmeraldas province (north-west Ecuador).

The accompanying materials are included in annex 3. Copies of the programme cassette have been submitted to the FRP programme manager.

Further, the project team facilitated a programme in the **BBC World TV series 'Hands On'**. The series 'Hands On' is funded by DFID and produced by Intermediate Technology Development Group (ITDG) and the Television Trust for the Environment (TVE). The series presents development projects and initiatives that can be considered success in terms of their social impact at the local level. Many of the programmes feature technologies that have helped poor people and promoted sustainable livelihoods.

One of the programmes focused on forest products and the benefits that can be achieved by people in poverty in different parts of the world. One of the schemes featured was the Ecuadorian ethical cocoa trading scheme that is run by the NGO MCCH. The NRI project team facilitated the making of this programme providing contacts and research findings. The section on ethical trading of cocoa was entitled 'Pepa de Oro' or 'Bean of Gold' after the name cocoa was given early in the 20th century when cocoa trading provided many wealthy Ecuadorians with even greater fortunes. The programme illustrated how the cocoa trade boomed in the early 20th century, but the benefits from the trade decreased in following decades. More recently ethical cocoa trade is now beginning to bring benefits to poor people who grow cocoa in Esmeraldas and Manabi provinces of Ecuador.

The series has been broadcast on a global basis as part of the "Earth Report Strand" on the following dates: 3 July (21:30 GMT), 4 July- (05:30, 08:30, 11:30, 14:30 GMT), 5 July, (01:30 GMT), 8 July (18:30 GMT), 9 July (07:30 GMT)³.

ITDG are now producing a **book** based on all of the experiences, projects and schemes featured in the BBC World TV 'Hands On' Series programmes. This book entitled 'Hands On' includes a substantial section on ethical cocoa trading in Ecuador by MCCH. The book will be published in December 2001.

Information and photos on the Ecuador MCCH scheme and this research project have also been provided to DFID (E. Warham) for inclusion in dissemination materials currently being produced by DFID. DFID and the UK Eden Project, for example are producing a **calendar**, and this includes information on the MCCH scheme.

A **journal article** is currently being produced on the impact assessment of ethical trade schemes in forest areas, which will be submitted to Development in Practice or similar development journal to request publication.

A presentation of the findings on fair trade cocoa (social impact and financial viability) were also presented by project team members to CABI and Imperial College personnel involved in the **sustainable cocoa initiative**. The findings were also presented to the Oxfam fair trade programme when they visited NRI in early 2000⁴.

³ Unfortunately, only one copy of this video has been provided by the programme makers (TVE) despite repeated requests for further copies in order to submit the required number to FRP. Programme materials were produced to accompany the series and have been submitted to FRP.

⁴ BLOWFIELD, M.E., COLLINSON, C. (1999) Presentation on fair trade cocoa to CABI and Imperial College personnel involved in the sustainable cocoa initiative. Chatham. May 1999. (Oral presentations).

A further study was completed in the year 2001 on **ethical timber marketing**. It was completed later than the other studies because of the political instability in the Solomon Islands during the project period. Timber trading had been included because of the interests of project partners, in particular Care-Ecuador. Their Project Subir focuses on sustainable forest management in Esmeraldas region of North-west Ecuador. Certification had been planned as a means of obtaining premium prices to recoup some of the costs/maintain the rationale for sustainable forest management by the community forest network. There was concern that the costs of such an operation would outweigh the benefits to the local communities and therefore a study on the impact and costs and benefits of forest certification would be of real and immediate use. Due to the unavoidable delays in the Solomon Islands the study findings were not available for the development and testing of the manual in Ecuador. However, the findings have been of use to Care and the Project Subir as they further develop their business plan and will be of wider use to other organisations attempting to engage in ethical timber trading.

Two schemes were chosen in the Solomon Islands - KFPL, a plantation operation producing 4,000m³ or more of exotic species round wood logs per month, and the SWIFT operation, that produces 200m³ per annum of local species from natural forests, there seems little room for useful comparison. The two schemes are quite different in scale but they do highlight some of the common advantages and problems of timber production and marketing. The study was completed in 2001⁵ and is included in annex 4.

Activity 1.3 Review of approaches to ethical trade

A **review of approaches to ethical trade** was completed in February 2000⁶ and placed on the NRET website. The review identifies a typography of approaches to ethical trade (changing the climate, from the top, from the grassroots, developing the toolkit) and considers the impact of ethical trade (direct, indirect and negative). Comparisons between forests and other sectors are made and lessons distilled. A discussion focusing on the application of ethical trade lessons in new sectors concludes the report. Copies of this report have been submitted to FRP.

Activity 1.4 Analysis of production and marketing chain

The **methodology** for the analysis of production and marketing chains was developed in consultation with project partners. The studies were carried out on brazil nut trading in Peru and cocoa trading in Ecuador. The social impact and financial viability studies have been carried out on the same schemes to provide findings that can be compared and lessons learned. These were completed in 2000 and placed on

BLOWFIELD, M.E., BURNETT, D. and NELSON, V. (2000) Presentation of findings on social and economic aspects of fair trade in NTFPs. UK Tropical Forest Forum Small Business Group. London. 23 March 2000 (Oral Presentations).

⁵ MAYNARD, W.B.(2001) Study of certified timber marketing in the Solomon Islands: Synopsis Of Lessons. Natural Resources Institute (NRI), Chatham, UK.

⁶ BURNS, M. and BLOWFIELD, M (2000) Approaches to Ethical Trade. Natural Resources Institute (NRI), Chatham, UK.

the NRET website⁷. Copies of these reports have been submitted to FRP management.

The success of ethical trade depends on its viability as a trading system and its capacity to offer tangible benefits to producers. These benefits may go beyond the financial, and the ways that increased value can be delivered to producers is an important element. The project therefore explored:

- Who are the stakeholders in the production and marketing chain?
- How is value accumulated along the production/marketing chain? Do ethical trade initiatives alter this pattern?
- Who benefits and who loses under ethical trading systems? Does ethical trade increase the number and type of beneficiaries, particularly amongst the poor and otherwise marginalized?
- The analysis will be carried out in conjunction with Activity 1.2 (comparative studies on social impact), using in-county data from that activity, and supplementing these with data from further along the production-marketing chain.

Data was gathered from key operators along the chain. Existing NRET contacts with the UK private sector were used to obtain this information, as were the partnerships developed with collaborators engaged in trade (e.g. Conservation International) and contacts obtained through the project consultative group and the UK Tropical Forest Forum. Information was obtained through face-to-face and telephone interviews in both producing and buying countries, plus participation in relevant trade fairs. A project team economist worked with in-country economists in Ecuador and Peru to obtain data on the ethical and conventional production-marketing chain for the commodities identified under activity 1.2 (social impact studies). The study included market margins analysis, calculating the returns to different groups of market actors such as retailers and wholesalers. It also assessed the financial returns to different types of forest dweller by cash flows examination, cost-benefit analysis, break-even point analysis, and calculation of the payback period for investment. Sensitivity analysis of the main parameters was also carried out.

The **third study – timber certification** in the Solomon Islands used the sustainable livelihoods framework to assess the impact of the scheme on social, natural, financial, human and physical capital assets of the poor. As such there is limited financial viability analysis of the trading chain, due to the delays in the study being undertaken. When the study was finally carried out in year 3 it was not possible for the project economist to participate in the study. Instead the study was carried out by the NRET forest timber certification expert and completed in 2001 (see annex 4).

⁷ COLLINSON, C., BURNETT, D. and AGREDA, V. (2000) Economic viability of ethical and conventional brazil nut trading for forest dependent people in Peru. NRET Working Papers. Natural Resources Institute (NRI), Chatham, UK.

COLLINSON, C., and LEON, M. (2000) Economic viability of ethical and conventional cocoa trading for forest dependent people in Ecuador. NRET Working Papers. Natural Resources Institute (NRI), Chatham, UK.

Activity 1.5 Provisional guidelines

Following the completion of the studies on brazil nuts and cocoa trading, a **provisional ethical trade manual** was drafted using the lessons from the comparative studies and other NRET research. The manual was then ready for testing by project partners. The provisional guidelines (later titled 'ethical trade, people and forests: a manual' and forthwith referred to as the manual) were developed by the NRET forestry team and were taken to Ecuador and South Africa, where comments were obtained from partner organizations and the guidelines/manual were tested in practice.

In Ecuador the manual was used to support the process of **ethical timber trading business planning**. In **South Africa the draft manual** was read and **commented on by Oxfam GB** and their partners in KwaZulu Natal. Many of the ideas in the manual have been of use to Oxfam's team, which is developing market linkages and the potential for ethical trade markets as part of a project to support the livelihoods of vulnerable people in the Nkandla district of the province. Prior to this project activities in South Africa with CSIR and INR on forest certification helped provide case studies for use in the final version of the manual. In **Indonesia the development of a social typology** to inform experts and certifiers had already begun but findings from this work were used to develop the manual.

Activity 1.6 UK project consultative group

Meetings of the UK Tropical Forest Forum Small Business Group provided a project consultative group for the project. An initial meeting was held in 2000 with presentations made by three NRET project team members. The report of this meeting is included in annex 2.

The presentations outlined the logic and scope of the project and the findings of the four social impact and financial viability studies on ethical brazil nut and cocoa. Trading. Attendance at this meeting was high with representation from the Body Shop, Oxfam, Traidcraft, and various other NGOs, ATOs and small businesses and provided useful feedback for the project, for example, raising issues which could be further explored and identifying uptake pathways for further project findings. The meeting also provided the project team and participants with an overview of recent developments in terms of ethical trading impact assessment and contributed to the recognition by ATOs and NGOs that impact assessment is a vital part of any ethical trade scheme if more equitable benefit distribution is sought.

Following this meeting, exchanges have been supplemented by internet/email news updates. For example, visits have been made by Fair Trade Labelling Organisations International (FLO), Twin Trading and Oxfam Fair Trade staff to NRI to discuss NRET activities and providing opportunities for further dissemination of project findings.

At the **second meeting held in 2001** the draft manual was presented to the UK project consultative group. The UK Tropical Forest Forum convened the small business group and participants came from NGO and alternative trading organizations, as well as the Body Shop. The FRP programme manager attended both of these meetings. Valuable comments were obtained from this group, and these assisted the NRET forestry team to turn the draft manual into a more readable guide to ethical trade. Comments from the participants focused on the need to improve readability, and included suggestions for decision-making trees and clear indications of what ethical trade schemes may offer to different groups (e.g. producers/collectors, traders, and intermediary organizations).

Research Activities

Output 2: Assessment of the impact of global trading regulations and markets on the viability and potential of ethical trade.

Activity 2.1 Watching briefs

Recent and ongoing studies have been reviewed in order to produce the policy watching briefs. The topics for the watching briefs were identified in consultation with project partners and the project consultative group. Four policy watching briefs have been produced and placed on the NRET website and distributed to the project partners. The **policy watching briefs** produced by the project have focused on the following topics:

- Forest Certification in the eyes of the World Trade Organisation
- SPS measures and trade in forest products
- Labour standards and social codes of conduct: What do they mean for the forest industry?
- Recent developments in the certification of forest products

Policy **watching brief 1** (October 1999) explored how the World Trade Organisation (WTO) and the following round of trade negotiations (scheduled for launch at the Ministerial Meeting in Seattle, 30 November to 3 December 1999) might affect the trade in timber from certified forests; in particular from forests where the Forest Stewardship Council or the ISO 14000 series approaches have been applied⁸.

Policy-watching brief 2 focused on recent policy developments relating to sanitary and phyto-sanitary measures (SPS measures) and highlighted those issues of particular significance to trade in forest products. SPS measures are a general term for a variety of regulations on trade in foodstuffs and feed and other natural products to protect human, animal and plant health in the importing country. It is mostly used in the context of the WTO⁹.

⁸ TALLONTIRE, A.M. (1999) WTO and the Seattle Round. Policy Watching Briefs No.1. Natural Resources Institute (NRI), Chatham, UK.

⁹ TALLONTIRE, A.M. (2000) SPS Measures and trade in forest products. Policy Watching Brief No.2. Natural Resources Institute (NRI), Chatham, UK.

Policy-watching brief 3 explored labour standards and social codes of conduct. In recent years labour standards have moved up the policy agenda. Conventions agreed at the International Labour Organisation, some many decades ago, have acquired an increased resonance. This paper discussed core labour standards and the statutory and voluntary mechanisms by which they are being implemented. The debate on labour standards was considered in the context of trade policy and their relevance to the forest sector¹⁰.

The fourth and final policy-watching brief outlined recent developments in the certification of forest products. It aimed to give an overview of forest certification of forest products, both timber and non-timber. It outlined the main certification schemes highlighting recent developments in both individual schemes and the dialogue and collaboration that are happening between schemes. This is set in the context of both the market for 'ethical goods' (on the part of the commercial buyers and final consumers) and policy objectives of governments, multilateral organisations and civil society regarding sustainable forest management and livelihoods¹¹.

The policy watching briefs have been posted on the NRET website (www.nri.org/NRI/NRET.htm) and the project partners have been sent them in electronic version. Copies have been submitted to FRP management. Following the production of the policy-watching brief on the WTO and ethical trade, a **presentation** was made at the **Development Studies Association Annual Conference**¹². Requests were made by the DSA to turn this presentation into **article**¹³. This article was **highlighted by the research website ID21**. ID21 produced a digest of this article and highlighted it in its email newsletter. This newsletter reaches a wide audience of development academics and practitioners.

Activity 2.2 Analysis of current and historical market trends for selected NWFPs

A **market analysis of non-timber forest products** was completed in 2000. The current and historical market information on various products was researched with the aim of assessing the extent to which market conditions contribute to the success or failure of ethical NTFP trading initiatives. Products included were rattan, brazil nuts, tagua nuts and chicle. Products were selected therefore that are traded ethically and for which archived market information exists. Geographical location and the value of the trade were also factors that had a bearing on selection of products.

Activity 2.2 and 2.3 were carried in conjunction and completed in 2001. See annex 5.

¹⁰ TALLONTIRE, A.M. (2000) Labour standards and social codes of conduct: what do they mean for the forest industry? Policy Watching Brief No. 3, Natural Resources Institute (NRI), Chatham, UK.

¹¹ TALLONTIRE, A.M. (2001) Recent Developments in the certification of forest products. Policy Watching Brief. No. 4. Natural Resources Institute, (NRI), Chatham, UK.

¹² TALLONTIRE, A.M. (1999) Will the WTO prevent the growth of ethical trade? Implications of the international policy environment for ethical trade schemes. Proceedings of the Development Studies Association, Annual Conference. 12-14 September 1999.

¹³ TALLONTIRE, A.M and BLOWFIELD, M.E. (2000) Will the WTO prevent the growth of ethical trade? Implications of potential changes to WTO rules for environment and social standards in the forest sector. Journal of International Development, Volume 12, No. 4, pp 571 – 584.

Activity 2.3 Review of the size and demand of market for ethically traded products

This study was carried out in conjunction with activity 2.2. See annex 5.

OUTPUT 3: Guidelines for implementing ethical trade for the benefit of forest dependent people.

Activity 3.1 Development and testing of guidelines for ethical trading initiatives

The testing of the manual formed a key activity for the collaborating organizations. The findings under Output 1 and 2 helped to identify the factors that determine the viability and potential of ethical trade for forest-dependent people. The development and testing of the manual involved refining this analysis, and testing and revising the factors influencing ethical trade viability and potential based on an observation of their appropriateness in **three examples of forest-community ethical trade initiatives**. The three initiatives were finalized at the project planning workshop and this process is explained further below.

Each initiative has used the manual developed by the NRI project team. The project team have then monitored the use of the manual and the outcomes, assessing their effectiveness as a planning and implementation tool. Project team members have visited each of the three initiatives and presented the draft manual to project partners. Support was also given to each partner organisation using the findings of outputs 1 and 2 according to priorities identified at the project planning workshop.

This direct support was crucial in ensuring that the advice was appropriately tailored and since the development of the manual was an iterative process. Comments were obtained from the project partners on the draft manual and several draft versions shared with collaborators. A draft version of the manual was also presented at the UK Tropical Forest Forum Small Business group meeting (March 2001).

At the project planning workshop representatives from each country and the NRET/NRI team divided into groups to elaborate on what was required under output 3.

It was agreed that the project should develop guidelines/a manual appropriate to different situations, and that this would require different approaches. The situations can be categorized as follows:

- A model for using ethical trade for forest-dependent people to build on certification of forests according to international standards (Ecuador);
- A model for incorporating ethical trade for forest-dependent people into national forest certification schemes (Indonesia);

- A model for optimizing the benefits from ethical trade in NTFP through the fair trade market.

The location of testing of the draft manual and priorities for testing it were identified at the project planning workshop. The priorities identified for testing in Indonesia, South Africa, and Ecuador are outlined below. Peruvian partners also identified their priorities for follow-up.

Project planning workshop options identified: Indonesia

Various options were identified for how the project could assist Lembaga Ecolabelling Institute (LEI) and its national forest certification work. The various options were taken by the LEI representative at the workshop to his colleagues for further debate and a UK team member made a follow-up visit. The options were:

- Development of standards for community managed forests
- Typology of social conditions (testing and developing)
- Improving social and environmental criteria and indicators (natural forest)
- Methodologies for obtaining information for certification and impact assessment (cost effective)
- Partnership building in regional communication forum

The typology of social conditions was eventually selected as the focus on the NRI-LEI collaboration under the remit of this project.

Lembaga Ecolabelling Institute has a well-developed system of criteria and indicators for assessing responsible forest management practices in commercially exploited natural forests. The assessment process begins with a pre-assessment by an expert panel made up of individuals and organisations with adequate background knowledge of forest management, local conditions and certification (Expert Panel 1). Expert Panel 1 decides whether an application for certification should be processed, and the degree to which the concessionaire should address specific criteria and indicators for certification.

In order to assist the Expert Panel, LEI wished to develop social and ecological typologies of Indonesian forests that show what weighting needs to be given to specific issues. Thus, for instance, if the concession applying for certification is in an area where there are no local communities or forest dependency is low, the Expert Panel will not insist on a high degree of attention being paid to criteria concerning local communities. But if there are many local communities dependent on the forest resource, criteria such as community access to the forests, community exploitation of the forest resource and recognition of cultural and human rights will be given a stronger weighting, and any concessionaire would be expected to be implementing clearly defined policies to address these issues.

Following the project planning workshop in February 1999, LEI identified the development of a typology of human interaction with the forest as a priority. Although such a typology could be developed as part of the certification process (i.e. through the implementation of many assessments), it would speed-up and increase the

efficiency of LEI's work if a typology could be developed without having to wait for a critical mass of assessments to be reached.

In the context of the FRP project, the typology development process is relevant to other countries wishing to develop national standards of responsible forest management, and to FSC. It has already been discussed with the FSC team that has been working alongside LEI.

Project planning workshop options identified: Ecuador

At the project planning workshop it emerged that the main concerns in Ecuador were to use ethical trade to add value to forest certification and make it attractive to forest-dependent people. This would involve demonstrating to forest-dependent people the benefits of certification, building in-country partnerships involving forest-dependent people, NGOs, the timber industry and government. Activities for consideration included:

- Dissemination of experiences with ethical trade and its impact on forest-dependent people elsewhere by NRET/NRI
- Developing stakeholder working groups
- Designing community and consumer guidelines on forest certification
- Develop a general instructive on ethical trade for forest communities
- Building understanding of and disseminating information on the advantages and disadvantages of forest certification.

Ethical business planning for timber trading in Ecuador became the main focus of collaboration between NRI and Care-Ecuador and this provided fertile ground for testing the draft manual. Comments were obtained from Care staff and also from D. Thomas at the organisation, Jatun Sacha that also supports Project Subir.

Experiences of ethical trade and its social impact on forest dependent people have been circulated to all project partners, including Care in Ecuador, with the studies on brazil nuts and cocoa made available. Further information has been shared through project newsletters including information on new funding sources (e.g. for Eco-enterprise development in Latin America, World Bank) and through the policy watching briefs. The manual will also be sent to all project partners in electronic form. The findings from the Solomon Islands have been shared with Care-Ecuador and should inform their decision-making regarding ethical timber business planning and enterprise development.

Project planning workshop options identified: Peru

Peru was not included in the project memorandum, but the Peruvian participants were keen that the relationships developed during the comparative studies under Output 1 be continued. It was explained that the project could not extend its work to Peru without additional funding, and following the workshop NRET/NRI has explored some of the possibilities for additional funds, both in Peru and elsewhere.

The focus of the project in Peru would be fair-trade and forest-dependent people, and the following elements were identified:

- There is a lack of non-governmental institution appropriate for co-ordinating the project – a network is suggested – network of sustainable alternative products.
- There should be a manual establishing standards for ethical trade in NTFPs for the fair trade market. This manual would have three components: principles and indicators, based on the factors identified at the workshop.
- The network should be placed within the movement of registers of fair trade and other initiatives in Europe and the USA.
- The manuals should consider the necessary market conditions (assumptions).

No additional funds have been sought for establishing a network. This is primarily because of project team time constraints and also the fact that significant changes have occurred in terms of restructuring within Oxfam and Oxfam Fair trade. Although a meeting was held with the Oxfam fair trade programme managers (based in the UK) and various areas of potential support from NRET identified due to the internal changes within Oxfam and consequent lack of time of their programme staff it has not been possible to follow up as yet.

However, the manual fully explores the principles and indicators identified at the workshop (see table 1) by project partners and collaborating organisations and should therefore be of use to them and their partners. The manual has three main audiences (producers/collectors, intermediary organizations and traders) who are interested in engaging in ethical trade or to those already trading ethically who wish to improve certain elements of their scheme. The manual includes timber certification, organic schemes, non-timber forest product ethical trading, conservation driven trading and fair trading. Whilst these schemes have varying priority objectives in fact all of them involve some elements of improving social and environmental performance.

Table 1: What is ethical trade? Principles and indicators identified at the project planning workshop by the project team (NRI and project partners).

Ethical trade has fundamental principles which allow it to have a positive social and environmental impact	Ethical trade requires a favourable policy framework	Environmental costs recognized and taken into account	Strengthening the participation of producers in the commercial chain	Normative role of the state favourable for ethical trade	Equity and viability through efficient management	Attitude of transparency and trust between those forming the ethical trade chain	Mechanisms which facilitate and ensure the functioning of the ethical trade
Contributes to sustainable social development	Participate in national and international legislation	Internalises environmental costs	Training prioritising the producer link	Effective role of the State as a service provider	Should be profitable	Promote an environment of trust and dialogue	A system of monitoring which ensures the fulfilment of principles
Guarantees rational management of natural resources			Strengthening the organization of producers		Flexible strategies to respond to different production and commercial scenarios	The ethical chain is not just producers	
Offers social and environmental benefits			Recognition of non-financial benefits such as improving capacity		All the actors involved should gain benefits	Transparency between all those involved/participating in the commercial chain	
Support human rights			Better price, market information, stable buyer, producer relations, access to markets, financial resources, entrepreneur training			Ethical attitude throughout the chain	
Supports sustainable livelihoods			Access to information			Good faith between actors	
Improves the lives of poor people			Access to new markets			Meeting defined ethical standards (labels)	
Should guarantee dignified employment			Should not generate negative impact on the local market				
Responsible use of the natural resource base							
Should ensure consumer responsibility.							

As requested, the manual also includes substantial information on non-timber forest products drawing on the existing literature, the original research carried out by the project and contributions from other organizations, such as Conservation International.

Conservation International has provided a case study on pot pourri ethical trading in Guatemala (see annex 6). This was not received in time for inclusion in the manual submitted to FRP, but can be included if and when the manual is professionally edited in preparation for publication (and given Body Shop approval, which has already been sought). Despite early success the scheme has now ceased trading. As a case study it provides useful lessons on why such schemes may fail.

Project planning workshop options identified: South Africa

Materials were submitted to the project planning workshop by CSIR/Environmentek on the role of ethical trade in South Africa, as they were not able to send a representative in person. These materials formed the basis of discussions in the follow-up NRET visit (see annex 1: project planning workshop report).

The key conclusions of the submission were that:

- The policy and legal environment in South Africa is changing fast, and is set to offer some significant opportunities to forest-dependent communities. The key issue is how communities can benefit from ethical trade rather than following the conventional trade route which looks to be continuing the same dominant role that the private sector plays at present.
- While the Department of Water Affairs and Forestry (DWAF) is establishing a committee to examine criteria and indicators for sustainable forest management, work has not yet begun and there is opportunity to promote some ethical trade principles into all three sets of ecological, social and economic criteria.
- Rather than using South Africa as an example of non-ethical trade, the country is more suited for a study of changing trade relationships; this would require a dual approach. A number of forest dependent groups could be scoped for potential commercially exploitable products (from timber to non-timber products – a very good South African example of groundnut taungya production exists), and from there work would focus on comparing possible production and marketing systems. At both levels, national policy frameworks and objectives would have to be borne in mind, as the target institutions would be DWAF and possibly some of the forestry companies.
- It is difficult to determine at this preliminary stage what level of support would be required. The project would be very process-based in the effort to keep target institutions involved. In an attempt to allow findings to feed constructively into the new national processes under way, the work would ideally be completed by December 1999 (preferably before then).
- A proposed country steering committee is suggested with representatives from: The Development Bank of Southern Africa, IUCN, TRAFFIC (organization monitoring trade in natural products), SAPPI (private sector) and DWAF (policy).
- Research could be conducted by researchers from a South African University in collaboration with Environmentek CSIR.

The main focus on the NRI collaboration with project partners in South Africa became the exploration of the **applicability of Forest Stewardship Council**

Standards to small growers and support to improving the direct representation of small growers in the development of these standards. This was later complemented by dialogue with Oxfam GB on the relevance of the Manual.

Following identification of priorities by project partners for testing the manual, the testing was then undertaken. The processes undertaken are outlined below.

Testing the manual in Indonesia

Lembaga Ekolabel Indonesia (LEI) decided to develop social typologies of forest-dependent people for integration into the national certification process. LEI and FSC have been harmonising their certification systems so that in Indonesia the LEI system is recognised by the FSC. LEI will move to function as accreditor and let the certification service be offered by private companies/institutions. In September 1999 a workshop on the training system for certification implementers had been held.

Prior to the visit by the NRET project team member, the LEI team developed a theoretical framework that formed the basis for field-testing. This was discussed over a three-day period in Bogor, before a two-week testing period on a forest concession in East Kalimantan.

The purpose of the field-testing was:

- To test the variables of forest dependency and interaction identified in the theoretical framework for appropriateness, usability and comprehensiveness.
- To document the process of using the variables.
- To transform the variables from static to dynamic tools (i.e. by identifying change agents).
- To identify potential new variables for future field-testing.

The NRI-LEI project needs to be understood in the light of the project's overall goal and the specific mission of LEI. LEI is developing a national forest certification standard, and the visit followed a period of intensive discussion with the Forest Stewardship Council, SGS/Qualifor, Smartwood and GTZ which resulted in an action plan to achieve the mutual recognition of LEI and FSC standards for natural forests. LEI is also at the early stages of developing standards for community forests and plantation forests.

The development of the standard needs to be accompanied by a number of accompanying activities covering such areas as improvement of the assessment process, increasing stakeholder awareness of the benefits and otherwise of certification, and institution building both within LEI and in the forest areas where certification will take place.

The fieldwork took place between 23 September and 8 October 1999 in Samarinda and at the Limbang Ganeca concession (part of the Kayu Lapis Indonesia company), East Kalimantan. This is also the site of the GTZ-funded Sustainable Forest Management Project, which in addition to providing a rich source of secondary data, created an additional uptake pathway for project outputs.

Within the concession, five villages were visited, each representing a different community composition (Tabang, Ritan baru, Long Lalang, Longbleh, Kembang Janggut) (see map).

NRI provided a researcher with 10+ years in Indonesia to work with a team of four LEI social scientists and assessors. The primary aim was to strengthen societal aspects of LEI's assessment process, in particular the development and testing of a social typology of forest use and dependency.

In addition, the project provided an opportunity to identify possible areas of future project collaboration; to promote the project to other interested parties, and to identify possible uptake pathways and future funding for this work in Indonesia; to discuss with LEI FRP support for uptake of project findings; and to feed the project work into DFID's forest strategy for Indonesia.

LEI have a well-developed system of criteria and indicators for assessing responsible forest management practices in commercially exploited natural forests. The assessment process begins with a pre-assessment by an expert panel made up of individuals and organisations with adequate background knowledge of forest management, local conditions and certification (Expert Panel 1). Expert Panel 1 decides whether an application for certification should be processed, and the degree to which the concessionaire should address specific criteria and indicators for certification.

In order to assist the Expert Panel, LEI wishes to develop social and ecological typologies of Indonesian forests that show what weighting needs to be given to specific issues. Thus, for instance, if the concession applying for certification is in an area where there are no local communities or forest dependency is low, the Expert Panel will not insist on a high degree of attention being paid to criteria concerning local communities. But if there are many local communities dependent on the forest resource, criteria such as community access to the forests, community exploitation of the forest resource and recognition of cultural and human rights will be given a stronger weighting, and any concessionaire would be expected to be implementing clearly defined policies to address these issues.

Following the project planning workshop in February 1999, LEI identified the development of a typology of human interaction with the forest as a priority. Although such a typology could be developed as part of the certification process (i.e. through the implementation of many assessments), it would speed-up and increase the efficiency of LEI's work if a typology could be developed without having to wait for a critical mass of assessments to be reached.

In the context of the FRP project, the typology development process is relevant to other countries wishing to develop national standards of responsible forest management, and to FSC. It has already been discussed with the FSC team that has been working alongside LEI.

LEI staff developed a theoretical framework that was refined in discussion with the project team and was field tested on a forest concession in East Kalimantan.

The LEI report on the project concluded that, “the PT Limbang Ganeca case study provided us with information on how to predict the relationship between different types of forest-dependency and forest management in order to better prepare assessors and expert panels prior to certification. For instance, empirical evidence about the impact of natural disasters such as fire and flood, economic crisis as well as rapidly changing society during the reformation era have enriched our understanding on this issue. This has allowed us to introduce new variable into our social typology as well as question some of the existing ones. However, in proposing new variables, it must be noted that most of them still can only be regarded as site-specific. Nevertheless, some of variables are obviously have a strong relation with national level incidents. “Some of the variables which significantly influence the relationship between local communities and PT Limbang Ganeca are the degree of forest dependency of the community, the impact of macro events (e.g. national economic crisis) on the regional economy, the impact of natural disasters (e.g. fire, floods), accessibility and communication from and to the concession and the surrounding villages, and government policy on land use.

“To build a solid and empirically based typology, a wider scope of research is certainly needed, and we hope that a series of four or five similar studies like this will be carried out. Beside field activity, a study to determine and formulate variable of typology should be carefully done. It must consider a set of conditions such as easy to detect, clearly defined and applicable in wide variety of sites.”

Testing the manual in Ecuador

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 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 and 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 the NRET programme 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.

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:

Testing the manual in South Africa

The work programme for South Africa was designed to inform the development and testing of guidelines for designing and implementing ethical trade initiatives with forest-dependent people. It was also designed so that the process would be relevant to stakeholders in the forest sector in South Africa. The programme has focused particularly on small timber growers and other communities living close to plantations in KwaZulu Natal.

The South African Government is in the process of developing a set of national standards for sustainable forest management that will be administered by the Department of Water Affairs and Forestry (DWAF). While South Africa has a number of factors that make it different to other developing markets, there are also a number of general issues that are raised in the study (relating to small growers, indigenous land use practice and resource control), which have relevance to the development of standards in a number of other countries.

The main output from the work in South Africa for the FRP project was a case study of small-scale timber growers in Kwa-Zulu Natal. The case study aimed to assess the understanding of small-scale timber growers of social and environmental issues in the light of the requirements of the Forest Stewardship Council standard for responsible forest management. This study was designed in collaboration with Jeremy Evans of CSIR and was undertaken by Patrick Addo and Fonda Lewis of the Institute of Natural Resources at the University of Natal. The FRP project activities also led to the development of a second case study on small-scale timber growers that was undertaken by INR and funded by the DFID Southern Africa geographic desk.¹⁴

People involved in the project (from NRI, INR and CSIR) participated and contributed to a stakeholder workshop organised and written up by IIED and CSIR. Two papers were presented at the May 2000 workshop organised by IIED as part of

¹⁴ LEWIS, F and NGUBANE, S (2001) An Assessment Of Standards For Sustainable Forest Management By Small Scale Forest Growers A Case Study In Kwazulu-Natal, South Africa, Institute for Natural Resources, Investigational Report 222

their project Instruments for Sustainable Private Sector Forestry at Kwalata Game Ranch, Hammanskraal, 14 to 16 May 2000¹⁵.

Lessons learned from the case studies as well as experience from dialogue with a variety of stakeholders in South Africa, particularly in Kwa Zulu Natal were fed into the Manual on Ethical Trade for Forest Dependent People.

The NRET team made a number of visits to South Africa to develop the case studies and to engage with various stakeholders in the forest sector. At early stages in the process the main aim was to ascertain the key features of ethical trade in forest products in a South African context. Over time our concern was to identify suitable partners with whom we could test the Manual that the NRET team in the UK were developing.

The initial terms of reference for the NRET team were very much an open canvas to ensure that the way in which the models of ethical trade being explored and the testing of the guidelines reflected the needs and understanding of key stakeholders in South Africa (the same approach was adopted in Ecuador and Indonesia).

The activities to be undertaken and partners with whom the project worked have changed during the course of the project as the project has moved closer to forest dependent people and some of the key issues that they are facing in grappling with ethical trade.

Initially the project collaborated primarily with CSIR, which was a useful entry point for understanding the forest policy context, especially the debates within the Department for Water Affairs and Forests. However, the research work was eventually commissioned from the Institute of Natural Resources (INR) as they had more experience of small timber growing communities.

A good working relationship was also developed with the Natal Timber Growers' Co-operative in Pietermaritzburg who are making steps to ensure that their services are more appropriate to their small timber grower members. They were instrumental in facilitating access to timber growers researched in the INR studies. Finally we established a relationship with Oxfam GB working in the Nkandla district of Kwa-Zulu Natal. The development of relationships is discussed more in the section below on building partnerships.

There were two over-arching objectives behind the work commissioned from INR and CSIR and the dialogue held with various stakeholders in the forest, environment and development sectors in South Africa:

¹⁵ LEWIS, F. and ADDO, P (2000) Implications of Forest Stewardship Council Certification on Small Scale Timber Growers, A case study of small growers in KwaZulu-Natal, South Africa, Institute of Natural Resources. Council for Scientific and Industrial Research (CSIR), Pretoria and Natural Resources Institute (NRI), Chatham, UK.

TALLONTIRE, A. and MAYNARD, B. (2000) Ethical trade and forest dependent people: How can small growers benefit from ethical trade? Natural Resources and Ethical Trade Programme, Natural Resources Institute, UK.

- a) To inform the development of guidelines for designing and implementing ethical trade initiatives with forest-dependent people (FDP).
- b) To inform the Committee for Sustainable Forest Management of the Forestry Advisory Council to the Minister (Department of Water and Forestry –DWAF) in the formulation of national standards, criteria and indicators in the forestry sector.

It was originally envisaged that up –to three consecutive case studies would be undertaken, to build up an understanding of the issues facing forest dependent people in the context of ethical trade. It has been the aim to feed the lessons from these studies into the debates of the Forest Advisory Council, which is developing the new forest standard. Two separate studies have been undertaken and efforts have been made to pass on the key lessons to the relevant policy makers.¹⁶ Copies of the South Africa reports have been submitted to FRP¹⁷.

The first study focused on small-scale timber growers and their perceptions of environmental and labour standards. Fonda Lewis and Bill Maynard designed the second case study. This took into account the findings of the first study and feedback on the project papers at the IIED workshop (a summary of the case study and reflections on the potential benefits for small growers from ethical trade, especially forest certification).

Preparation of draft manual/guidelines

NRI project team members and project partners undertook monitored use of the manual. The draft manual was presented to project partners by NRI staff on visits and strategies for using the manual developed and the contents discussed. Over time comments were obtained from project partners and the manual gradually improved drawing on these lessons and in-depth comments from independent experts (e.g. E. Millard, Conservation International) and from the Small Business Group convened by the UK Tropical Forestry Forum.

Work in progress was fed back to the project from project partners and advice given through direct visits and by email. For example, in Ecuador an initial NRET visit identified the need for ethical business planning and a second team visit by a social development specialist and economist assisted Care-Ecuador by drawing up options for further ethical timber trading (see annex 7 - Aide Memoire of visit to Ecuador) and by drawing up the template for a comprehensive ethical business plan (see annex 8 - ethical business plan template)¹⁸.

¹⁶ It was hoped that a third study would have been facilitated and paid for by Sappi, focusing on similar issues with participants in the Project Grow scheme. Environmental Managers had initiated a process to approve funds, but internal problems led to this being cancelled.

¹⁷ ADDO, P., LEWIS, F, and MANDER, J. (2000) Forest Stewardship Council Certification And Its Applicability To Small-Scale Timber Growers, A case study involving small growers in KwaZulu Natal, South Africa, Prepared for Council for Scientific and Industrial Research (CSIR) Pretoria and Natural Resources Institute University of Greenwich United Kingdom.

¹⁸ Only one other example of an ethical business plan has been found to exist by the project, namely the work by Oxford University business school graduates on ethical business planning for fair trade wine in South Africa). This approach is an innovative one and something that requires further exploration.

Presentation of experiences with different models to UK and developing country organisations (2 workshops)

A final visit was undertaken by an NRET team member (2001) to Project Subir in **Ecuador** and mini-workshops were held to obtain comments on the manual. These visits and workshops also provided NRET team members with the opportunity to support Care-Ecuador in the development of an ethical business plan for timber trading.

In **South Africa** a series of stakeholder meetings was held with Oxfam GB and their project partners through which comments were obtained on the draft manual. These comments were presented at the UK Tropical Forest Forum Small Business Group meeting, as were the initial comments from Ecuador.

The manual was presented to the **UK Tropical Forest Forum Small business** and ethical trade group in March 2001. Representatives from the Body Shop, Bees for Development and the FRP programme manager attended the workshop. The draft manual had been circulated prior to the workshop. Discussions ranged from reflections on the testing of the manual in the field (in Ecuador and South Africa), a review and broadening of the key target audiences and getting the style, tone and content of the manual right for the selected audiences.

Revision and publication of manual

Having presented the draft manual at these workshops the manual has been further **revised and completed**¹⁹. Copies have been submitted to FRP management.

Activity 3.2 Dissemination and Promotion

The lessons from activity 1.2 and 1.4 (comparative financial viability and social impact studies) and monitored use of the draft manual in the above three initiatives have formed the basis of the completed manual. The manual aims to optimise the benefits from ethical trade for forest-dependent people. As previously mentioned a peer reviewed article is currently being drafted which will present a synthesis of the lessons on the impact assessment and financial viability assessment methodologies and the specific findings obtained on brazil nuts, cocoa and timber which may have relevance to ethical trade schemes in other forest commodities and for forest-dependent people in other parts of the world.

¹⁹ NELSON, V. (editor) *et al.* (2001) Forests, people and ethical trade: a manual. NRET. Natural Resources Institute, (NRI), Chatham, UK.

4. Outputs

Output 1: Identification of the potential that ethical trade can play in improving forest-dependent people's livelihoods.

The objective verifiable indicators (OVIs) for output 1 were as follows:

- Approaches to ethical trade in various sectors (including non-forest) and the mechanisms for enhancing producer livelihoods reviewed within 6 months of project start
- Comparison of opportunities and benefits for different categories of forest-dependent people under different types of ethical trade and other trade systems through 3 sets of case studies
- Analysis of the production/marketing chain of three ethically traded products from three existing ethical trade initiatives including the viability of the chain and the stages at which value is added.
- Provisional guidelines for establishing ethical trade systems for forest-dependent communities prepared for use in Output 3 yr 2.

The fulfilment of output 1 will be discussed using the framework of these OVIs.

Approaches to ethical trade in various sectors (including non-forest) and the mechanisms for enhancing producer livelihoods reviewed within 6 months of project start

A study on approaches to ethical trade in different sectors was completed in 2001. Some of the key findings of this study are summarised below.

Key Findings: Approaches to ethical trade in different sectors

- **little empirical evidence** of the impact of different approaches to ethical trade.
- **Four main approaches** promote ethical trade in different ways: Changing the Climate (e.g. campaigns, ethical consumerism and boycotts, lobbying for/against regulation), From the Top (e.g. socially responsible business policies, social enterprises, ethical investment), From the Grassroots (e.g. trade unionism, and worker activism, codes of conduct at the local level), and Developing the Toolkit (e.g. social auditing, monitoring and verification, consultancy and research).
- **Fair trade** falls between ‘from the top’ and ‘from the grassroots’ approaches. Northern ATOs offer alternative trading routes awarding the producer a fair price for their product, and raising consumer awareness of the social justice and environmental aspects of trade. Initially, fair trade concentrated on textiles and handicrafts, but the fastest growing areas are now food commodities such as tea, coffee, cocoa and sugar. Despite a history of ATOs going back to the 1970s, there is little information on its impact.
- The **different approaches are led by different groups** (e.g. NGOs /consumers/ Government and the media lead the approach termed ‘changing the climate’. From the top is led by leadership companies and promotes innovation in business. The grassroots approach focuses on participation and is led by worker and community organisations and trades unions. Developing the toolkit, is led by service providers and new standards bodies.
- There are **opportunities and limitations** associated with each of these approaches (see table below).

Approach	Opportunities	Limitations	Lessons Learned
Changing the Climate	Gives companies a financial incentive for ethical behaviour	Effectiveness limited to certain products, companies and markets	NGOs, funders and government need to invest in long-term strategies to keep up the pressure for ethical trade.
From the top	Leadership companies create new markets by demonstrating that profits can be made ethically	Vulnerable to economic downturns and pressures from shareholders	If ethical trade is not to be an add-on it needs to be embedded in the governance processes of companies
From the grassroots	Grassroots participation ensures that intended beneficiaries actually gain from ethical initiatives	There is a lack of capacity in the South to engage at a technical, strategic and governance level with initiatives being developed in the North.	It is crucial to strengthen the capacity of Southern organisations to participate in and implement ethical trading initiatives.
Developing the toolkit	Development of tools allows more companies to take on ethical concerns	There is a danger that ‘ethical trade’ could become a self-perpetuating industry without being effective on the ground	There is a need for standards to ensure that approaches to ethical trade are effective and trusted.

- **Motivation, innovation, expertise and participation are all crucial factors in ensuring that ethical trade has a positive, widespread and sustainable impact.** Each approach is only one key element necessary in making ethical trade effective. (e.g. It is not enough to have company-led innovation if this is not accompanied by grassroots participation by other stakeholders).
- The approaches are **complementary**, but there is also **conflict** between practitioners of different approaches. Even progressive companies do not wish to be targeted by campaigners, but without public interest created by campaigns they would not be able to justify investment in socially responsible policies.
- **No single organisation can deliver each approach.** New alliances and organisations are emerging both in the North and South in order to deliver the range of approaches. Much of the recent learning is the building of trust between civil society and business, between different civil society actors (e.g. NGOs and trade unions) and between key stakeholders in the North and South.
- While ethical trade is not a regulatory mechanism, **governments can play an important enabling role and in providing seed funding.** UK Government involvement in the ETI has added credibility to ethical trade and enabled ETI champions in organisations to win top-level commitment. It is also important to strengthen Southern government's role in implementing or adopting legislation in accordance with international environmental and human rights standards and good practice.

This study considered how lessons from ethical trade in different sectors might be applied in new sectors.

- The **development of ethical trade has taken different paths** in different industries and regions and along the lines of different issues. Concern about the environment has been a new area for international debate and action (leading to new international conventions and processes within the United Nations). Recent work on labour standards is occurring within the context of nearly a century of international work on labour standards (by the International Labour Organisation and the international trade union movement). The main players in the environmental field are NGO/campaign groups, and companies and governments. On labour issues there is an historical dynamic between companies and trade unions with the entry of development NGOs at a much later date. National governments have also been active in this area for the best part of a century.
- There was a **missed opportunity** when **environmental groups, maintained a cool distance from corporate attempts to improve their performance** – remaining as external campaigners only. Environmental auditing became the prerogative of the professionals: environmental consultants and the International Standards Organisation. The involvement of NGOs at the very centre of developing tools, standards and certification around labour standards is a testament to the feeling that this was a missed opportunity.
- The **typology of ethical trade approaches offers a framework to analyse the potential** for developing ethical trade in different situations and to identify the areas in which resources should be concentrated for maximum effect.

- **Fair-trade** initially combined a ‘from the grassroots’ approach (trading cooperatives in the South) and ‘from the top’ (ATO in the North), but this has now been partly developed into a tools and standards based approach with the setting up of national fair trade marks under the Fair Trade Federation.
- For **labour standards** in the food and clothing retail sectors, campaigns ran well ahead of any other approach in the early nineties. In the mid-nineties the Ethical Trading Initiative, AIP and CEPAA emerged as an attempt to make up the deficit around expertise in monitoring and verification of labour standards. The lack of Southern participation is proving the greatest obstacle and efforts are belatedly being made to build capacity in the South.
- Lessons can be learnt from other sectors in relation to forestry, but standards, methodologies and expertise alone will not be effective in new situations unless **all the other elements** are in place to ensure that companies can be held accountable by their stakeholders. **Motivation, innovation, expertise and participation** are all crucial factors in ensuring that ethical trade has a positive, widespread and sustainable impact.
- **Building trust** is crucial to any approach to ethical trade. This must be built and rebuilt in each new location and sector and other each new issue.

Comparison of opportunities and benefits for different categories of forest-dependent people under different types of ethical trade and other trade systems through 3 sets of case studies

The social impact of three different types of ethical trade was studied and compared to the social impact of conventional trade in the same three commodities.

A few of the key **findings of the social impact studies of ethical and conventional trading in brazil nuts and cocoa in Peru and Ecuador** are outlined below.

Some of the key findings from the social impact studies

- Small producers and collectors can benefit from such schemes, through the institution of more transparent systems of weighing and grading the product, technical training, improved access to credit and sometimes a higher price (although both studies indicated only limited premiums were available).
- However, basic access to and control over resources is necessary to participate in the trade in the first place, which means that such schemes cannot always reach the poorest of the poor.
- It is not possible to assume that all groups will benefit or will benefit equally. A good analysis is required of local social organization and stakeholders as part of monitoring and assessing the impact of an initiative. Otherwise there is a risk, as the studies show, that certain groups will be ignored because they are less organized and less well represented.
- Access to complementary development interventions is facilitated by the presence of ethical trading schemes, since the schemes provide exposure on an

international level – the ‘honeypot’ effect.

- 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.

There are may be clear tensions between the developmental end goals 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 (e.g. in the brazil nut industry in Madre de Dios, Peru) and with certain commodities (e.g. 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.

The **certified timber trading in the Solomon Islands** study identified the impact of the scheme in terms of social, human, physical, natural and financial capital (see annex 4). The key findings of this study are

Some of the key findings of the study are as follows.

Some of the key findings of the ethical and conventional timber comparative study: The Solomon Islands

The Forest Stewardship Council Certification Scheme is not designed as a development tool - it was conceived as a means of promoting good forest management. It was understood that sound social policies needed to be in place for this to happen. Because it has been reasonably successful in this regard the expectations on the social impact have often been raised higher than originally intended.

For the commercial organisation that already had a robust management system in place and whose senior management were already familiar with Environmental Management Systems and ISO standards, adapting to the required standards of FSC was not a problem. Certification has brought a number of market benefits and has added to the overall asset, which is important as CDC is looking to sell the plantation. Certification has led to improved clarity of management objectives and a more coherent, strategic set of objectives throughout the organisation. It has also ensured that there are clear channels of communication between the local community and KFPL.

For SWIFT, certification has been a costly process, but it has given a clear framework for the management of the forest resource that was not present before. It is unclear how sustainable the structure will be if external funding is withdrawn. One of the first assumptions that were made was that a certain volume of timber would be produced. However, only 10% of the projected volume has ever been realised and this has made the operation financially unviable.

The most interesting lesson has been how effective the project is at environmental

protection. The criticism has been that the external funding has subsidised each cubic metre of timber by US \$ 1,000 and there is very little way to see this being reduced. But looked at in terms of how much it costs per hectare the cost comes to US \$ 8.00/ha. In the UK the woodland grant scheme that is given to all woodland owners get US \$ 50.00/ha, even for managing plantations of exotic trees.

For 16% of the cost of managing very simple and well-understood forests in Europe SWIFT are protecting 25,000 ha of the most complex forest (under research) in the Pacific. It costs as much to support 4,000 ha of conifers in Scotland as it does to support 25,000 ha of tropical forest in the Solomon Islands.

The FSC was set up as a market-based instrument, and thus it is not surprising that those who are familiar with markets make the best use of it. Commercial organisations have the experience and skills to do this and where community organisations can make links with larger operations many benefits can be derived at low cost and with high value.

The findings on the economic viability and social impact of fair trade in Latin America were presented and discussed at the consultative group meeting (March 2000) and discussions held about how to identify solutions to the challenges faced by buyers and producers. Participants came from UK fair trade companies, international development NGOs and researchers. The discussions held at the workshop are outlined below since they are particularly valuable in terms of moving the debate forward on the potential of ethical trade schemes for forest dependent people.

The presentations argued that fair trade can benefit those that it reaches, and can be a financially viable system if lessons are learnt from the past. Benefits are not necessarily financial, and indeed there is mixed evidence that producers receive better prices, although fair trade does help bring otherwise disadvantaged producers into the export markets. However, there are benefits in terms of capacity building, producer organization, producer-buyer trust, access to international development assistance, and to an extent credit.

The fair trade market is not large enough to absorb the entire product from the producer groups, and in the case studies the majority of product went to conventional markets. However, despite this some of the fair trade marketing organizations had continued to adhere to certain principles of fair trade. The marketing organizations are often different in character, but the best combine a mixture of innovation, good business practice, good relations with buyers, and good relations with international aid agencies and the international fair trade community.

However, it is clear that the benefits of fair trade are not always equally distributed at the local level, and making sure benefits not only reach small producers but also their workers and sub-contractors is a major challenge for fair trade.

Fair trade can be competitive, although as with any commercial operation some companies will fail. Some key lessons from Latin America are:

- Avoid commodities with multiplicity of substitutes

- Choose a commodity easily identifiable as “ethical” by consumers (e.g. tea, coffee, chocolate-cocoa, honey)
- Identify and exploit niche markets (e.g. the health food business)
- Avoid competing with international traders, particularly on price, because of their economies of scale/ability to take positions/financial strength.
- The economic benefits of fair trade tend to flow from shortening the internal (origin) market chain rather than the chain from FOB to CIF/delivered destination.

The workshop discussion also highlighted some key points, including the innovative role that fair trade marketing organizations in developing countries can make. Candelas in Peru, for instance, have gone beyond fair trade into new markets (e.g. with the Body Shop, Ben and Jerry’s). Processing is crucial to adding value, but how many processing plants can be viable and further information is required on the location and quantity of processing plants and how this affects the distribution of value along the chain. The distribution of benefits will be key criteria against which fair trade will be ultimately judged and there is a need to understand and quantify value added at each stage from producer to the port. Impact assessment is of increasing interest to the fair trade movement and collaboration between fair trade organizations was said to be important partly in order to keep costs down. The Body Shop and the Fair trade Labelling Organisation emphasise the need for external verification and the Body Shop has used multi-disciplinary teams for the past five years, with extracts included in the company’s Values Report. Timber certification does not require disclosure, but in other ways may be a model that fair trade could draw on although it does not really assess sustainable livelihoods issues. DFID work on sustainable livelihoods could also contribute, but at present is more focused on what should be assessed than the practicality of assessing. NRI work on impact for the DFID Forest Research Programme shows the importance of stakeholder involvement in assessment. Whatever the way forward, there is a need to balance need and cost, and to publicise the uses that monitoring can be put to (e.g. promotion/reputation assurance, internal monitoring etc).

The role of donor support in promoting fair trade was also discussed and although it has a crucial role to play, it may not be as important as good business practice, and the financial depth of the marketing and producer organisations, including access to credit. The need for good business practice has been highlighted in the manual on ethical trade, forests and people produced by this project.

The environmental impact of fair trade is often a secondary issue, although the Body Shop was trying to make headway with this in Peru. There is an ongoing debate within the conservation movement as to how much trade can help conservation goals. Fair trade encourages producers to maintain a sustainable supply of primary produce, but this will ultimately depend upon how interested producers are in reinvesting in a particular product rather than using income to diversify. In some instances, (e.g. in Bolivia) marketing organizations actively encourage producers to invest in conservation (e.g. by providing planting material). If fair trade is concerned with environmental goals, then it should focus on products that rely on ecosystem integrity.

The NRET work highlighted that fair trade works best when supply chains are short and well integrated. This is the overall intention of fair trade – i.e. to cut out the

‘middle-man’. Conventional trading chains are often long, not least because of reselling and speculation. This does not happen in fair trade, and ‘back-to-back’ trading is the norm. Given the number of fair trade producers that are actually selling to conventional markets, it is possible that the fair trade identity is less important than the integrated supply chains; however, some commodities have a culture of long-supply chains that fair trade can do little to challenge in the medium term.

Fair trade producers selling to conventional markets should not be seen as a problem, and indeed may be a sign of success. However, fair trade should consider discouraging a focus on a single commodity (e.g. Oxfam’s policy of diversification).

Analysis of the production/marketing chain of three ethically traded products from three existing ethical trade initiatives including the viability of the chain and the stages at which value is added.

As with the social impact studies, the studies analysing the production and marketing chain of forest products were focused on comparing ethical and conventional schemes of brazil nuts and cocoa trading in Peru and Ecuador respectively. The findings from these studies are summarized the case study annex of the manual. Key findings are also included below.

Some of the key lessons from the brazil nut and cocoa financial viability studies are outlined below.

Some key lessons can be distilled from these comparative studies that are relevant to all ethical trading schemes involving trade in forest products.

Ethical businesses cannot thrive in unhealthy commercial environments. One of the difficulties of forest enterprise is the isolation and remoteness of these areas. Although this is often a reason why assistance will be required by the isolated inhabitants at the same time ethical schemes will face the same barriers to accessing export markets as conventional traders (e.g. lack of infrastructure and transport).

Top quality management and a lean operation (one that minimises costs) create financial surpluses that can be distributed to target poor people. This lesson has been taken into consideration in the ethical business planning exercise carried out by Care-Ecuador as part of output 3 and as part of their Project-Subir which links with communities depending on the forest. In the business planning it has been specified that a manager with appropriate expertise, skill and experience will be required for managing ethical timber exporting and that costs must be minimized. However, this need for a lean management in order to create financial surpluses for distribution to poor people can have its downsides. The social impact studies have found that the capacity building benefits of ethical trade schemes can be as important as the higher levels of income obtained from participating in such a scheme. These fundamental tensions sit at the heart of ethical trading initiatives. In Ecuador participants praised all aspects of MCCCH's operations – higher prices, more transparent weighing systems, technical training. In Peru, however, participants were unable to identify clear ways in which Candela operate differently to conventional brazil nut trading operations. Whilst this is not necessarily Candela's fault it means that the degree of impact maybe limited, and may not be significantly over and above that of a conventional trading chain in which local porters, shellers and brazil nut concessionaires also obtain profits.

It is also possible that certain benefits of 'more ethical' trading organisations are less visible to local level participants. This is because the issue in question may be something that is distant to their everyday realities and activities. For example, in Peru Candela had been the first organization to identify the issue of quality standards and had attempted to improve practices within its own factory. The imminent introduction of aflatoxin regulations by the E.U. were seen by Candela as a potential threat to the sustainability of the whole industry and yet many brazil nut concessionaires, porters and shellers were unaware of the threat to a key source of income for their livelihoods.

Business growth makes delivering benefits to poor people much easier. This may be a fairly obvious lesson, but one that needs reiterating. This lesson has been highlighted throughout the manual. Unless a business is profitable on a sustained basis it cannot deliver benefits to members or to suppliers.

Fair trade can help new ethical businesses to grow but will not sustain growth for long. The fair trade market has acted as a catalyst and provides access to export markets and opportunities for ethical trade schemes and producer organizations to

gain experience in meeting the high standards of international markets. They are also a way of gaining credibility and a reputation on the international scene. Fair trade also tends to make other organizations such as development agencies interested in the ethical trade organizations activities and other types of support can be harnessed. However, many schemes will falter as they try to move onto conventional markets and increasingly it is recognized that business support services and capacity building are essential if community enterprises are going to be able to go it alone in the future without fair trade assistance.

The consequences of integrating further into the market economy or the use of a market mechanism for development, is rarely questioned in much of the literature on trade and ethical trade for development. However, there are many fundamental tensions inherent within trade for development. This issue is further discussed in the conclusions.

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.

A third study was selected, namely certified timber trading in the Solomon Islands. This study was of a less rigorous nature due to the political instability in the country which delayed the project and the lack of time which the companies in the Solomon's could afford to give at the time of the NRET project team members' visit mainly due to large scale redundancies being undertaken. The findings of the Solomon Islands study are included in annex 4.

Provisional guidelines for establishing ethical trade systems for forest-dependent communities prepared for use in Output 3 yr 2.

The manual was drafted by the project once the findings from the studies on brazil nuts and cocoa had been obtained. The manual is in essence an attempt to communicate the lessons obtained from the project in an accessible form to forest people, intermediary organisations and traders engaging in ethical trade. It is therefore not necessary to provide further details here on the manual.

Output 2: Assessment of the impact of global trading regulations and markets on the viability and potential of ethical trade.

The objectively verifiable indicators (OVIs) for output 2 were as follows:

- Watching briefs on policy issues affecting ethical trade prepared
- Current and historical market trends for at least 6 ethically traded forest products analysed in yr 2.
- Review of studies of ethical trade markets completed in year 2.

The results and products achieved under output 2 will be presented following the project OVIs.

Watching briefs on policy issues affecting ethical trade prepared

Four policy watching briefs were produced providing up-to-date information for project partners on topics that they had helped to select and providing findings that are more widely relevant (to other development agencies and producer organisations engaged in ethical trade). The policy watching briefs have been made accessible to many different organisations via the NRET website.

The main areas covered by the first policy watching brief are outlined in the box below.

Policy Watching Brief No. 1 – A Summary

The first watching brief on forest certification through the eyes of the World Trade Organisation concluded that analysis from a trade policy perspective cannot offer immediate answers to the implications of the international trade policy environment for ethical trade schemes in the forest sector. Even were action to be taken to eliminate the uncertainty at Seattle, it is likely that things will remain as they are for some time, with continued suspicion on the part of some Southern countries with regard to the apparent protectionist motives of certification schemes.

The WTO should not prevent the growth of ethical trade so long as steps are taken to ensure that such schemes do not impede trade and are inclusive. Whether the ecolabel question is addressed during the Seattle Round depends on the jockeying for position in setting the agenda for these negotiations. If change is on the cards, it will not be implemented for some time to come. In the meantime, however, there are clear arguments for ensuring that ecolabelling schemes and forest certification schemes restrict trade as little as possible both from a trade policy and equity perspective.

The main areas covered by the second policy watching brief are outlined in the box below.

Policy Watching Brief 2: A summary

The **second policy-watching brief** on SPS measures and trade in forest products identified current and future SPS measures as a potential constraint to the development of export markets by producers of forest products. Concerns that developing countries have about SPS measures are closely related to how they are developed and implemented by importing countries. There is a requirement in the SPS agreement for all members to take into account the special circumstances of developing countries when developing SPS measures and to permit time-limited exemptions where necessary. However, this is not always adhered to and some countries have not been permitted additional time for compliance or to make transitional arrangements.

It is therefore in the interests of developing countries to push the issue that the SPS agreement requires consideration of the special and differential needs of developing countries in both the design and implementation of SPS measures. Some steps have been made to increase recognition of this principle, but there is some way to go in terms of facilitating increased and more effective participation of developing countries in the WTO.

However, whether or not SPS regulations are adapted to respond to the needs of developing country producers, there are three main areas of action that can be undertaken to improve access to markets that have been hitherto restricted on the basis of stringent SPS measures.

- a) Developing skills and capacity to comply with systems and procedures to comply with standards
- b) Improving production and marketing systems to limit risk of infestation or infection (e.g. through implementation of HACCP systems and testing facilities); and
- c) Improving access to information on importer standards.

Thus there is a need for technical assistance that is capacity building, rather than reactive, i.e. building up the capacity of producers to anticipate and adapt to new standards rather than rushing to ensure compliance once standards are set.

The main areas of the policy watching brief No. 3 are outlined in the box below.

Policy Watching Brief 3: A summary

Policy watching brief 3 focused on labour standards and social codes of conduct in relation to forestry. It concluded that the importance of core labour standards has been underlined by their inclusion in a growing number of voluntary sector initiatives to further responsible business practice. Nevertheless, continued support for the ILO is required to underpin labour standards both in national and international law. A growing number of donors are gradually taking on board the idea that labour standards are a key issue for development: poor people are in employment and have employment rights as well as more basic rights (Ladbury and Gibbons, 2000). However, it is critical that labour standards are ‘applied in accordance with their own priorities...with the active participation of the workers which the standards will affect (Ladbury and Gibbons, 2000).

To date forest certification has not fully addressed social issues, including labour rights. If forest enterprises are to be responsible businesses they have to respond to the challenge of considering the livelihoods of key forest stakeholders.

The main areas covered by policy watching brief 4 are outlined in the box below.

Policy Watching Brief 4: A summary

Policy watching brief 4 focused on the recent developments in the certification of forest products. It found that certification for both timber and non-timber forest products have become a key feature on the policy landscape. It has been introduced by the private sector and civil society organisations and is increasingly recognised by national and international public bodies, particularly in the case of forest and organic certification. The extent to which certification is an option for small-scale producers and collectors depends on the specific product, the market targeted and organisational capacity. Certification may bring benefits to producers and the environment, but the costs should be weighed up carefully.

Analysis of current and historical market trends for selected NWFPs

Rattan, brazil nuts, tagua and chicle were the ethically traded NTFPs chosen for study following specific criteria (e.g. that they are ethically traded, trade is of a certain size). Archived material on markets is hard to come by for small forest products. However, some forest products have markets of a sufficient size that there is data available. The marketing chain for each commodity and the concentration of buyers and sellers analysed. Historical data on each commodity is also summarised. See annex 5.

Review of the size and demand of markets for ethically trade products

See section above (the studies analysing market trends and current size of markets was done together. See annex 5.

Output 3: Guidelines for implementing ethical trade for the benefit of forest-dependent people developed, tested and promoted

- Guidelines from Output 1 tested and revised in three ethical trade initiatives for forest dependent people by EOP
- Field tested manuals and guidelines on ethical trade for forest-dependent people published by EOP
- Two workshops on models held with relevant corporate, NGO and public sector organisations

Guidelines from Output 1 tested and revised in three ethical trade initiatives for forest dependent people by EOP

Testing the manual in Indonesia

LEI had focused on developing social typologies to assist with LEI's work on the promotion and implementation of forest certification. The NRI-LEI project occurred in the context of LEI's mission to develop a national forest certification standard and to achieve mutual recognition of LEI and FSC standards. LEI is also at the early stages of developing standards for community forests and plantation forests.

LEI recognises that the development of the standard needs to be accompanied by the following:

- A number of accompanying activities covering such areas as improvement of the assessment process
- Increasing stakeholder awareness of the benefits and otherwise of certification
- Institution building both within LEI and in the forest areas where certification may occur.

NRI provided support in strengthening the social development aspects of LEI's assessment process, in particular the development and testing of a social typology of forest use and dependency. In the context of the FRP project, the typology development process is relevant to other countries wishing to develop national standards of responsible forest management. The ideas on developing social typologies informed the section in the manual that highlights the need for in-depth social analysis including assessment of the relationship between different social groups and the forest. The findings of LEI highlight the fact that it is important to understand the factors driving change. Some indicators may be site specific, but some indicators may change over time and therefore identifying regional trends and factors that may cause increased vulnerability of local populations need to be taken into account (e.g. the potential the impact of macro events such as national economic crisis on the regional economy and the impact of natural disasters). Accessibility and

communication from and to the concession and the surrounding villages, and government policy on land use are also important issues for consideration of forest dependency. Further, it is important to ensure that forest dependency analysis is carried out because it encourages a more holistic understanding of how people and households seek livelihoods.

A key lesson is the importance of using project time to help access funding for follow-up work. NRI and LEI put considerable effort into this, but a combination of circumstances such as the subsequent change in LEI management, the departure of DFID's forest advisor, and the ethnic violence in many forest areas meant that the work was not continued.

It is important to maintain contact with collaborators such as LEI before and after specific fieldwork collaborations, and the project achieved this through project e-bulletins and personal correspondence. This in turn led to invitations to Indonesian conferences etc., although for reasons of timing these could not be followed up on.

Long-term relationships in general are also important in order to strengthen national researchers' capacity. Choosing to collaborate with LEI (a 'doing' initiative rather than a research institute) brings the advantage of increased uptake pathways, but it can mean working with people who have different research skills and outlook. It is difficult when a collaboration is project based to establish such relationships, and equally difficult to convince UK-based institutes to recognise that this type of investment is a legitimate use of overheads.

A further lesson is the allocation of adequate funds to translate and disseminate outputs. As the NRI researcher spoke Indonesian and funding was tight, most of the correspondence and writing up was done in Indonesian and has not been translated (although it has been synthesised in various outputs).

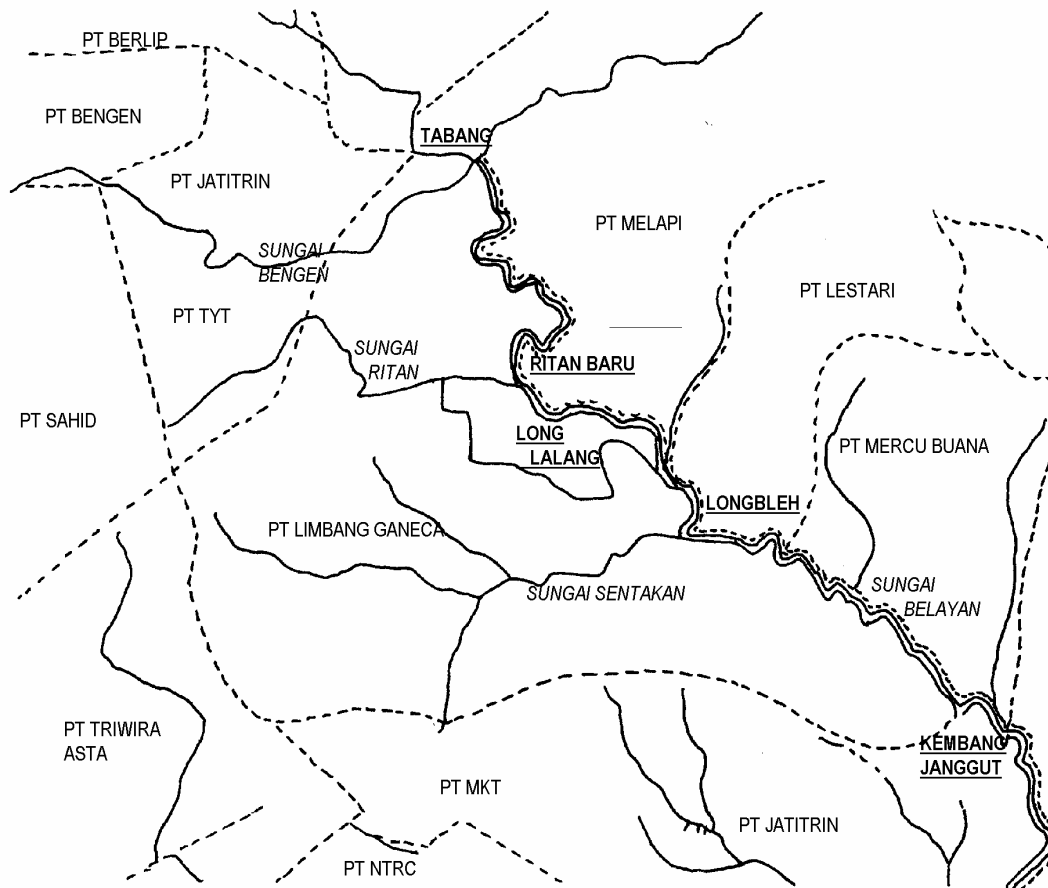
LEI feedback has been very positive. The director at the time of the fieldwork was keen to continue collaboration and visited DFID and the British Council to discuss this. However, he was then replaced by a new director whose priorities were different, and without an obvious immediate source of bridging funding for either LEI or NRI, the additional studies proposed by LEI did not take place. This does not mean the outputs were not used, and I have been told by the collaborating researchers that they have been fed into LEI policy discussions as well as presented at national conferences and similar events.

The collaboration identified the need for additional work to develop the social typology, and LEI needs to be consulted further about whether this is still the case. The collaboration also identified further areas of collaboration. These include **documenting the LEI experience** in such fields as policy and training for the benefit of a broader audience, and within Indonesia to:

- Train LEI assessors in the use of the social typology.
- Test of approaches to strengthening the role of Regional Communication Forums. These forums bring together NGOs, concessionaires, communities and local government, and form an important part of the process of assessing and monitoring forest management in the concession area. How to develop these

forums so that all stakeholders can participate equally is essential to the development of LEI and other certification systems that take a participatory approach.

- Build the capacity of NGO networks to raise stakeholder awareness of certification. LEI is interested in working with the community forest management consortium of NGOs and Forestwatch Indonesia, including training their personnel to take an active role in the continual improvement of certification.



Testing the manual in Ecuador

The draft manual was tested in Ecuador following a process that had been highlighted by the project partner (Care-Ecuador) as a priority for them, namely the development of an ethical business plan for a timber exporting operation in Ecuador.

Care-Ecuador and the NRET project team identified 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 Northwest 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 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.

Using advice and a template supplied by NRET (see annex 8 – ethical business plan template), 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

Sections of the draft ethical business plan have been received. The key sections of this have been translated into English (annex 10) and the other sections which focus more on specific supply side information and which has not yet been translated is included in annex 11.

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 (see annex 9).

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 an 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.

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 (see annex 9 –research on ethical markets).

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.

This process of supporting the ethical business planning exercise by Care-Ecuador involved Care-Ecuador using the draft manual and providing comments on the manual. Comments were provided by D.Thomas of Care-Ecuador. The key observation was that the draft version of the manual they had seen did not clearly indicate what were the main options for ethical trading up front. Instead they were to be found further back in the manual toward the end. The project team decided to clarify what the main options for ethical trading are at the front of the manual. The

key options include forest certification and timber marketing, non-timber forest product certification and marketing, fair trade, organic schemes and conservation driven trade. However, the project team also felt that the schemes should not be presented in divided sections along the lines of the different options, but that the question and answer sessions in the main parts of the manual should provide more general advice and guidance. This is because the project team had found from the comparative studies of ethical trade schemes and previous experience that too often decisions are made about which type of ethical trade to go for by organisations in developing countries without full information as to the pros and cons of each option and how these vary depending on the specific context and conditions of each organisation or scheme.

Testing the manual in South Africa

The broad objective of the small grower study (Addo and Lewis 2000) was to identify key issues surrounding the potential and actual impacts of certification on small-scale timber growers, with an emphasis on understanding the practical applicability and implications of the certification process, and concomitant adherence to FSC standards to small-scale timber growers in South Africa. Research was undertaken in four communities with a high concentration of small growers in three different geographical areas of KwaZulu Natal, selected in collaboration with the development forester of the NCT.

The main finding of the study was that awareness of the environmental and legal aspects of forestry operations among the growers was low. There are also considerable information and knowledge gaps among the growers regarding economic and social aspects of forestry and certification. Marketing and regulatory institutions (particularly the co-operative) were seen to be key to the development of small-growers in the area in which the study was conducted. The study suggests that economic returns to the growers are marginal and any increase in the input costs could make many small grower operations unviable. In spite of these limitations, platforms exist upon which a structured forestry operation in the small grower sector could be developed for certification purposes. The study suggested that further studies should be conducted on a wider scale and with more stakeholder participation in order to further investigate the opportunities and requirements for certification of small-scale forestry operations, both in terms of certification requirements as well as capacity building among small growers.

Fonda Lewis and Bill Maynard designed the second case study. This took into account the findings of the first study and feedback on the project papers at the IIED workshop (a summary of the case study and reflections on the potential benefits for small growers from ethical trade, especially forest certification).

A work plan and terms of reference were drawn up that detailed how work from the first case study should be used to inform the design of further work to be undertaken around Richard's Bay where the growers are more organised than in the areas previously studied by INR. It also identified how a localised stakeholder process may be undertaken in KwaZulu Natal, facilitated by INR to ensure that small growers gain access to the national standards setting process.

This second study (funded by the DFID Southern Africa desk) examined a set of social and environmental standards relevant to small-scale timber growers in South Africa and makes reference to the potential for small growers to achieve Forestry Stewardship Council (FSC) standards and certification²⁰. This was motivated by the fact that the independent small growers see compliance with national standards and certification as a potential opportunity for increasing demand for their timber and thereby improving the marketability of their output.

Therefore three key objectives of the study were:

- To inform the national standards regarding the capacity and operations of small growers.
- 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.

The main conclusions and recommendations are outlined in the box below:

Main findings of a study on sustainable forest management standards for small growers

- 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. But the 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 of 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.

A central part of the research process was the establishment of grower committees in the study areas. It is anticipated that representatives of these groups will be invited along with INR to discuss the study findings and the national standard with the Forest Advisory Council Initial findings from this study were presented at the Forest Stewardship Council conference, 2000.²¹

²⁰ LEWIS, F. and NGUBANE, S. (2001) An Assessment Of Standards For Sustainable Forest Management By Small Scale Forest Growers A Case Study In Kwazulu-Natal, South Africa, , Institute for Natural Resources, Investigational Report 222.

²¹ MAYNARD, W. and LEWIS, F. (2000) Small Scale Forestry Growers In South Africa: An Assessment of Certification Principles and Criteria, Institute of Natural Resources (South Africa) and Natural Resources Institute (United Kingdom) discussion document for the Forest Stewardship Council annual conference.

LEWIS, F. and NGUBANE, S. (in association with MAYNARD, B. (NRI), Towards the development of social and environmental standards relevant to small scale timber growers in KwaZulu-Natal, South Africa, Institute for Natural Resources, Milestone Report 1, November 2000

A brief review of private sector forest company perspectives on the impending forest standard was commissioned in the light of the progress of the Committee for Sustainable Forest Management of the National Forestry Advisory Council²². Mid-way through 2000 the proposed eight draft principles were released, meaning that the standard-setting process was finally underway. This was seen as an opportunity to investigate corporate objectives and perspectives on the national standards process, as it would affect the small-scale timber-growing sector. The review suggests that the private sector sees itself as more in tune with international environmental standards than the government and that it has played a proactive and beneficial role with regard to small growers, especially with regard to maintaining environmental standards. However, the industry has been less successful in dealing with social issues and it is unclear if it is willing to accept any greater responsibility in this area.

Building relationships

In addition to the project activities, the project in South Africa has had some interesting outcomes in terms of developing working relationships and capacity building.

Initial contact was with Jeremy Evans of CSIR. CSIR was willing for some of Jeremy Evan's time to be dedicated to the project, especially in its first year. Coming to South Africa through CSIR provided close links to policy makers in the forest sector and ensured that the NRET team members were aware of the sensitivities of policy issues and the process of policy making in South Africa. However, over time it became clear that the project should spread its net further and seek out additional contacts beyond the initial circle introduced to us through CSIR.

CSIR proved to be institutionally distant from forest dependent people and the organisations that work with forest dependent people. People at CSIR or other organisations in South Africa who were approached did not easily understand the concept of ethical trade. Nevertheless, the partnership with CSIR has been very important in opening doors, giving the research some credibility, especially with some decision-makers.

In future projects on ethical trade it is necessary to acknowledge how long it can take for the concept of ethical trade to be understood. Much of the project teams' first trip involved explaining the concept, especially to environmentalists, more concerned with conservation than with sustainable resource management that involves extraction, and working with people and their livelihoods. We cannot take for granted that partner organization staff will have knowledge of concepts such as the following:

- a) Value chains and markets, especially in relation to export;
- b) Certification processes;
- c) The relevance of standards;
- d) The distinctions between categories of forest dependent people (including types of small growers).

²² EVANS, J. (2000) Private Sector Organisational Perspectives, Council for Scientific and Industrial Research, Pretoria, SA.

The first case study was commissioned from INR, partly because of the decision to focus on KwaZulu Natal and the contacts made during an initial visit to Pietermaritzburg. At INR there was not much experience or indeed capacity in forest certification when they were first approached. However, there was an interest in, and a wish to develop the area. This resulted in the recruitment of a research assistant and the allocation of time for a staff member to go to the FSC annual conference in Oaxaca in Mexico, providing an opportunity to see how others are approaching a number of the issues regarding certification and make some useful contacts. An INR project partner also attended an FRP programme meeting on research promotion held in the UK in 2001.

In addition to developing a working relationship with research collaborators, the project also conducted a useful dialogue with Sappi (private timber company), NCT (a marketing co-operative owned by timber growers), Lima (an NGO involved in facilitating contracts between small scale timber growers and Sappi) and Oxfam GB (which is working in KwaZulu Natal), as well as DWAF. These organisations have demonstrated a continued interest in the research, including supplying information, providing and facilitating introductions to relevant committees.

Throughout the work in South Africa potential partners have been sought with whom to test the Guidelines (manual) on Ethical Trade, which is the major output of this project. It soon became apparent that there are not many intermediary organisations both working on:

- a) market linkages; and
- b) with an appreciation of livelihoods and development issues in the forest sector.

The organisations the project encountered have either been focused on conservation issues or on welfare and advocacy issues. There are some small organisations focusing on marketing, such as Insika and ACAT in KwaZulu Natal, but these are largely for the domestic market rather than export. Indeed the extent to which many South African organisations are ignorant of export processes and markets was marked, although not unsurprising given the isolation of South Africa before the end of apartheid.

In South Africa the manual was tested with Oxfam GB, which is working in KwaZulu Natal province of South Africa. Oxfam was selected for the following reasons:

- It expressed interest in the research.
- It was developing market linkages.
- It was aware of ethical trade markets (if not how to access them).
- It had a capacity building focus.
- It shared the livelihoods framework that also informs the FDP and Ethical Trade project.

Other options were Lima, an NGO involved in facilitating contract farming linkages between small-scale timber growers and one of the large timber companies in South Africa and NCT, Natal Co-operative of Timbergrowers. However, we felt that they were less appropriate because:

- Lima has a more practical focus very much geared to the needs of the contracting company and is more of a ‘doing’ organisation than a ‘thinking’ organisation.
- NCT similarly has a business focus rather than an organisational development and learning organisation focus and has only relatively recently begun to introduce extension services for its smaller-scale black members.

However each of these organisations could be a target for later versions of the manual and we have briefly introduced the manual to Lima as they are working with Oxfam in some aspects of its programme.

Oxfam GB has provided feedback on drafts of the Manual, particularly during a visit to South Africa by NRI in February 2001.

In South Africa we have tested the Ethical Trade manual in three main ways. First there was discussion with the Oxfam team about their participatory learning and action (PLA) activities and the market linkage proposals; Secondly, shadowing the person responsible for the natural capital aspects of the programme and thirdly, in his regular work and giving advice.

For example:

- Assistance in examining marketing options, offering different ways of undertaking the analysis, (e.g. diagrams of relevant value chains, highlighting the exchanges and points of ethical influence).
- Suggesting alternative markets for the herbs/essential oils and ways of ensuring that the single marketing channel offers potential, stressing the importance of transparency.
- Exploring ways of introducing the marketing partnerships to the community.
- Discussing ways of developing a partnership with the local council to ensure that these proposals are included in the local infrastructure development plans.

One of the most significant achievements of the visit was introducing the Oxfam staff to diagrams of value chains as a way of helping them explain ideas for market linkages and especially to identify the potential for influencing different market relationships. Marketing ideas have previously been communicated in terms of crop outputs and margins for farmers at a point in time rather than considering the full range of actors and relationships that may be involved.

A draft of the manual was also passed on to some of the organisations with which Oxfam works and to date two organisations have given feedback on the guidelines in addition to Oxfam. Thirdly we reflected on the content of the Manual in the light of Oxfam’s market linkage proposals.

Oxfam GB has maintained its links with NRI and is exploring how this relationship can be further developed.

The manual/guidelines were tested with Oxfam GB, which is working in the KwaZulu Natal province of South Africa. Oxfam’s project purpose is as follows:

“Identification with potential stakeholders (beneficiaries, traditional leaders, Oxfam GB staff and associates, government officials, business people) of 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” (Oxfam SA project logframe).

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 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.
- Enabling local people to have greater economic benefit from the Ntingwe Tea estate

Before the visit by the NRET project team, the Oxfam team had not been involved in directly facilitating market linkages with the exception of some trial plots of herbs with some women in Mdelanga. Oxfam was keen to work with NRET as they were looking for advice on ethical markets and the NRET programme fits in with the Oxfam’s overall approach to finding suitable market outlets for disadvantaged producers.

To date Oxfam has four main proposals for ethical market linkages that are at varying stages of development. Oxfam is working with a range of local stakeholders in developing these proposals, from Ithala the provincial development bank which has a strong socio-economic mandate, the tea estate owned by Ithala, local NGOs such as Insika, commercial flower growers and the commercial wing of the main government research institute, CSIR. See the table below.

Table showing Oxfam ethical market linkage proposals

<i>product/ natural resource</i>	<i>Proposal</i>	<i>Stakeholders</i>	<i>Progress</i>
Ntingwe tea estate	<ul style="list-style-type: none"> a) proposal for worker share equity in the estate b) promotion of outgrower 	Ithala Bank Lima Rural Development workers outgrowers	<ul style="list-style-type: none"> a) share equity scheme still under discussion amongst NGOs and Bank, and DLA b) pilot scheme
Essential Oils	<ul style="list-style-type: none"> • proposal is to develop a trading link with CSIR which has a company to produce essential oils; long term aim is for the group to have a plant • A pilot out-grower project is scheduled for 2002. 	Small farmer co-operative local council/ development committee CSIR and essential oils distillation company Insika	<10 women involved in trial plots of herbs for the past year; idea of the trading link introduced at a recent farmers' day and the women involved and local community are very keen
Cut Flowers	<ul style="list-style-type: none"> • Develop outgrower scheme between a women's group and commercial flower growers 	South African Cut Flower Association small farmer co-operative	<ul style="list-style-type: none"> • Negotiations have begun with the South African Cut Flower Association for a pilot outgrower at Mdlelanga with protea. • Early discussions with Mdlelanga farmers
Nkonisa and Qudeni forests	<ul style="list-style-type: none"> • Class B Safcol forests that were due for lease by DWAF • Is there potential for community ownership of the forest as a commercial operation or as a community woodlot? 	Safcol DWAF community intermediary NGO	Very early stages of exploring what initial investigations into viability might involve

Oxfam's approach to the development of agricultural production opportunities is influenced by observations of the outgrower schemes in timber and sugar and the dismal failure of NGO and department of agriculture projects in the province. Limited access to markets (both in terms of physical infrastructure and market information and a dearth marketing experience (on the part of local people and also government extension workers) are seen as key problems in the area and one that variations on outgrowing schemes may be able to remedy.

The guidelines were tested in three main ways in South Africa:

Discussion with the Oxfam team about their PLA activities and the market linkage proposals; shadowing Rob Cairns, the person responsible for the natural capital aspects of the programme, in his regular work and giving advice. This included I

have assisted in examining marketing options, offering different ways of undertaking the analysis, e.g. diagrams of relevant value chains, highlighting the exchanges and points of ethical influence. Further, alternative markets were suggested for the herbs/essential oils and ways of ensuring that the single marketing channel offers potential whilst stressing the importance of transparency. Further support was provided in exploring ways of introducing the marketing partnerships to the Mdelanga and looking for ways of developing a partnership with the local council to ensure that these proposals are included in the local infrastructure development plans.

The use of diagrams of value chains was found by the Oxfam staff to be a very useful means of explaining ideas for market linkages and helping them to understand the potential for influencing different market relationships. The Oxfam staff had previously communicated marketing ideas in terms of crop outputs and margins for farmers at a point in time rather than considering the full range of actors and relationships that may be involved.

The guidelines were also passed on to some of the organisations with which Oxfam works and to date two organisations have given feedback on the guidelines in addition the Oxfam staff.

Reflecting on the guidelines in the light of two of Oxfam's market linkage proposals the following points were highlighted by Oxfam and the NRET team member.

In relation to the proposal regarding tea development it was highlighted that intermediary organisations can assert influence on points in the marketing chain. These points of influence are as follows:

- Terms of the contract
- Capacity building
- Labour law
- Share equity
- Local quota system
- Code of conduct
- Media and NGO pressure

From the analysis of the supply chain it was possible to see that Oxfam needs information for its programme on:

- Appropriate schemes
- Markets
- Development of capacity building strategy
- Understanding of the policy context and the regulatory framework
- Appropriate organisational forms

In the discussion of the *essential oils scheme* the following points of influence were discussed:

- Payment/ contract terms
- Constitution of the co-op
- Capacity building and technical advice

- Potential for share equity/ farmer ownership of the processing
- Code of conduct
- Media and NGO pressure

The importance of transparency between partners in the ethical trading chain also emerged in discussions with Oxfam. At present Oxfam is not clear on whom the buyer is for the essential oil product, though they believe it might be linked to the Body Shop. Knowing the ethical values of the buyer may help increase leverage over the supply chain.

So again knowledge of the following are required:

- Schemes
- Markets
- Capacity building and appropriate roles for intermediary organisations
- Appropriate organisational forms
- Nature of contracts

More specific feedback from people in South Africa on the initial draft manual were:

- Is it a 'why to' type document or a 'how to' document? The initial draft seen in South Africa was seen as more of an introduction to what ethical trade is all about rather than an aid to deciding whether to get into it or not. The project team therefore decided to divide the manual into sections explaining what ethical trade can offer to different groups (why to) and then to go on and give information on practical details (how to).
- The main document should be a clear concise explanation of what is ethical trade and the things to be considered. If the reader wishes to go further they would need addition assistance in the form of additional information and perhaps more importantly contacts/ sources of information. The project team therefore included key annexes with further sources of information and more details on key issues, thus keeping the introductory sections fairly concise and clear.
- What sort of organisation is envisaged? Need for more clarity on appropriate organisational forms. At times companies are mentioned and at other times there is an assumption that it is a farmer-owned organisation or co-operative to name only two. There are very different implications for management decision-making and accountability to the local community in each of these models and this needs to be made explicit in a number of sections from strategic planning to capacity building. The project team decided therefore to split sections into the specific audiences so that assumptions would be clearly set out as to what kind of organisation would be using the information.
- Need for more explanation/ rationale for the discussion of commodity markets, e.g. comparison to more direct ethical trade markets.

Further comments were obtained from individual staff members from Oxfam GB partner organizations. Different people found the guidelines useful in different ways (see table below).

Organisation providing comments	Comments on the draft manual
Government-owned ethically motivated bank, considerable experience in linking agri-business with the local community	<ul style="list-style-type: none"> • Some of the material that may be found in a standard text book (e.g. strategic planning) was less immediately useful than the sample ethical business plan • Need for more clarity on the differences in ethical markets / approaches to ethical trade according to industry • Recognised the importance of undertaking a detailed social analysis of an area or your business will not survive. As a rule of thumb he believes that you need to spend at least a couple of years introducing a project/ business in an area such as Nkandla because of the particularly difficult social situation. Support and a long lead-in time are both necessary. • Section IV, part 2 ethical trade markets. There is a section on 'entry criteria', DP thought it important to think about some of the 'barriers to entry' from logistics to consistency. • Liked the section on ethical trading chains and thought that it could most usefully come early on and might complement a decision tree guiding the reader through the text • Much too long.
Oxfam staff member, good knowledge of agriculture and forest-based outgrower schemes	<ul style="list-style-type: none"> • Would like to use the ethical business plan to help him start the process of deciding with local communities how they can best benefit from the forests in the district • Found it all useful but would like a decision tree at the front to help people decide which parts are most relevant first. • Initially didn't see the point of S1, P1, but later recognised the need for considering the balance between values, resources and environment
Board Member of the South African Cut Flower Association, with responsibility for 'special projects	<ul style="list-style-type: none"> • Found it useful but would like to see more information on why the industry should be ethical and think about compliance with codes of conduct etc, so that the more cynical members of the Board were to be convinced of the ethical trade argument; more of a 'why to'.

In conclusion, the commissioned studies thus explored the needs, capacities and potentials of different groups of forest dependent people. These have enabled the project to understand the policy, socio-economic and political contexts in which forest dependent people, and those who seek to support forest dependent people, are operating. They have helped in the testing of the Ethical Trade Manual on an understanding of the institutional and practical realities of trading relationships in the forest sector in KwaZulu Natal.

Solid relationships with research institutions, notably the INR and other stakeholders in the industry were developed.

The specific objective in South Africa was to influence the process of developing a national forest standard. Project staff have spoken on several occasions with the Chair of the Committee on Sustainable Forest Management, but have not yet had the opportunity to present the results of our case studies to the committee as a whole, though staff at DWAF are keen to involve INR and the small grower representatives in forthcoming meetings and to set up visits to the smallgrowers' plantations.

Whether the above activities take place or not, the NRI/INR has succeeded in placing the position and views of small growers on the agenda for a number of policy makers

in such a way that small growers themselves are in a position to influence the process of standard development. Only a year ago it was assumed that academics or the managers of timber contracting schemes (such as Sappi's Project Grow) were able to speak for small growers on the committee. This has now changed with greater possibilities for direct representation by small growers – an important development. Moreover, discussions to date have regarded small growers to be all those with under 200ha. The research has highlighted that there is a large diversity of small timber growers in South Africa and indeed in KwaZulu Natal.

Field tested manuals and guidelines on ethical trade for forest-dependent people published by EOP

The manual has been field-tested as has been explained in the section above. A final version has been developed by the project team and copies submitted to the FRP manager. Copies will be disseminated to project partners.

The manual uses the findings from output 1 and has been road tested with project partners in South Africa, Ecuador and Indonesia. The manual entitled 'Ethical Trade, People and Forests: A Manual' has been published as an NRI report²³.

The manual is targeted at three broad groups:

- Forest dependent people – e.g. producers and collectors of forest products.
- Intermediary organizations that may facilitate ethical trade in forest products – e.g. NGOs, ATOs.
- Traders and other organizations such as financial institutions such as banks providing credit to producer cooperatives, investors, donor agencies, extension workers, development and research groups interested in ethical trade.

The manual is designed to provide guidance to those individuals and groups interested in engaging in ethical trade. It is divided into three main sections:

- A guide to using the manual, an introduction to ethical trade and definitions
- What ethical trade has to offer
- How to trade ethically

The sections on what ethical trade has to offer and how to trade ethically are presented as frequently asked questions and answers and are divided into sections following the main target groups (producers/collectors, intermediary organizations and traders).

The brief question and answer sections are designed to help users find straightforward advice on how to proceed and it encourages them to check they have all the right information before they embark on an initiative. For example, it explains to traders what the likely barriers are to participating in ethical trade (such as tariff and non-tariff barriers). It explains to producers and collectors how they may or may not

²³ NELSON, V ed. (2001). Ethical Trade, People and Forests: A manual. Natural Resources Institute, University of Greenwich, Chatham, UK.

benefit from ethical trade schemes and identifies what they may need to know in order to act as a supplier organization (e.g. achieving specified market standards and quantities, and managing relations with exporters). It explains to intermediary organizations what are the kind of benefits that may accrue to producers over and above conventional trade, but also outlines the possible limitations of such schemes in terms of equitable distribution of benefits.

Much more detailed information is provided in the annexes. This means that the first sections are not overloaded with complex information and are therefore less likely to overwhelm manual users.

The annexes include a section on the bigger picture, in other words the context within which an ethical trade scheme is operating. Table 1 in this document shows some of the principles and indicators required for successful ethical trading and it includes the need for a favourable policy framework, and that all actors involved should gain benefits. These types of issues are explored in this section, which considers some of the tensions inherent in using trade as a tool for equitable and sustainable development and the need to consider assessment of impact.

The second annex provides an introduction to some of the main schemes for ethical trading:

- Forest and timber certification and marketing
- Non-timber certification and marketing
- Organic production
- Conservation driven trade.

These options are then further explored through a range of case studies presented in the third annex of the manual. The case studies presented include:

- Fair trade and livelihoods case studies
- Timber certification
- NTFP certification and marketing
- Organic schemes
- Financial viability of ethical trade schemes
- Social impact of ethical trade schemes
- Sustainable forest standards for small-scale timber growers
- Fair trade coffee – issues from recent studies
- Ethical business planning for timber trading in Ecuador

The annexes also include a brief section on the relevant types of policies that may need to be considered when setting up or managing an ethical trade scheme, such as national forest and land policies, and international labour standards.

Another annex outlines the business basics that need to be taken into consideration in all ethical trade schemes if financial viability is to be achieved. The template for a full ethical business plan is also outlined.

Finally, there are several annexes providing full details of further reading, sources of information, websites and contacts, a mini-glossary of terms, and lists of acronyms.

Two workshops on models held with relevant corporate, NGO and public sector organisations

In both South Africa and Ecuador a whole series of mini-workshops were held with relevant stakeholders in the course of testing the guidelines. In Ecuador meetings were held with timber exporters of varying sizes, community groups in Esmeraldas, local Project Subir staff, university researchers, and NGOs (including MCCH which participated in the testing of the manual by providing a consultant to Care with experience in ethical trading).

In South Africa mini-workshops had been held with Oxfam and their partners to discuss the guidelines. Discussions were also held with CSIR and CSIR had discussed project findings with the Forestry Advisory Council of the Ministry (Dept of water and forestry) which is responsible for the formulation of national standards, criteria and indicators in the forestry sector.

5. Contribution of Outputs

Work under output 1 has contributed to the understanding of fair trade and other alternative approaches to trade. It has informed debate on policy and practice both at DFID and amongst the alternative trade movement. The project is represented on the reference group for a study commissioned by DFID reviewing fair trade and the project team have made recommendations for DFID's strategy for engaging with fair trade²⁴. The project has also generated requests from individual and umbrella fair trade organisations (e.g. FLO).

The project has helped raise awareness of the actual benefits/disbenefits of ethical trade for poor people. These issues have been raised both formally and informally with DFID and with NGOs, ATOs and buyers in the UK through the project consultative group.

Information flows have been created for various constituencies. The project has provided timely and usable information for organisations working with forest dependent people on key developments in South Africa, Ecuador, Peru, Indonesia and the UK. This information is helping those working with forest dependent people to keep up-to-date on relevant developments in other sectors, and to see how their own work fits into the wider context of ethical trade and responsible business.

The project is also making information on developments in the forest sector available to organisations working in other sectors, and has provided input to the Federation of Organic Agriculture Movements, the fair trade movements, the social accountability movement and the ethical sourcing movement on lessons from the forest sector.

²⁴ Oxford Policy Management, Fair Trade: Overview, Impact, Challenges. Study to inform DFID's Support to Fair Trade, June 2000

The findings of the social impact studies also contributed to the recognition of the need for impact assessment amongst fair trade organizations. The studies found that equitable benefit distribution cannot be assumed and that accountability to fair trade consumers is important, particularly to the credibility of a brand or label being brought into question. This would ultimately have a negative impact on producers.

The financial viability cocoa report has generated much interest in and stimulated debate in the Fairtrade Labelling Organisation and other fair trade organisations. Reina Foppen at FLO said that:

‘The research highlighted the need for fair trade producers and exporters to seek efficiencies in their operations. This has caused FLO to rethink its capacity building support to producers and its pricing strategy. There is now a healthy debate on whether the fair trade minimum price should entirely shield inefficient producers and exporters or be used to apply gentle pressure on them to face up to world markets realities and eventually become fully competitive traders’ (R. Foppen, *pers.comm.* 2001).

Care-Ecuador has produced key sections of a draft ethical business plan. The findings draw on recommendations regarding ethical markets, an ethical business plan template and advice from project team members who made various visits to Ecuador. The use of the ethical business plan format is a clear indication of uptake of project findings. The possibilities for entering ethical timber export trading are limited, although they do exist and opportunities may expand over time as other operations become certified in Ecuador, thus providing opportunities to bulk up volumes. This in itself is an important finding – it is better to make a realistic assessment from the beginning than to run into difficulties later when time has been spent and efforts wasted on an unfeasible strategy. The business planning exercise has provided Care, project Subir and community forest network with clear options for moving forward and thus provides a solid basis for next steps.

Oxfam GB in South Africa have expressed an interest in maintaining links with NRET and invited the team to be partners in a bid to the Business Linkages Challenge Fund to continue and expand their work on market linkages in Kwa Zulu Natal.

The manual will be disseminated to all the project partners and collaborating organizations, as well as via other channels such as the UK Tropical Forest Forum.

It is planned that the manual will be published and in the first instance, a submission will be made to Earthscan Publishing. A brief discussion by telephone with Earthscan publishers has indicated that this is the kind of book they would be interested in publishing. Further, editing of the manual will be required if it is to be published and further funding may have to be sought to ensure this is done properly.

As explained under the section on research activities the findings included in the manual have already been disseminated through a variety of channels including television and radio programmes and through oral presentations (e.g. to the industry sustainable cocoa initiative and to buyers and NGOs in the UK). Findings have also been summarised in a peer reviewed article mentioned in the research activities section of this document.

The majority of reports from the project have been placed on the NRI NRET website including the comparative studies on brazil nuts and cocoa and the policy watching briefs. This has meant that a wide variety of organisations and individuals interested in and/or engaged in ethical trade have been able to directly access the outputs of the project. For example, Just World Trading, an alternative trading organisation based in the UK recently contacted the project and requested copies of all outputs, especially the ethical trade manual, since it was providing information to the large-scale Iwokrama conservation project in Guyana.

The manual has only recently been finalised but during the project many requests have been made for a copy of the manual and dissemination will begin shortly. It is hoped that Earthscan or a similar publishers will be willing to publish the manual and this will provide it with a much wider distribution.

In the Solomon Islands the smaller community based forest initiative had not managed to meet the volumes it had expected. The project team member from NRET identified potential synergies between SWIFT and the larger KFPL. These synergies had not been explored very much at the time of writing as it was during the recent fieldwork that the management teams came together. This did result in the rapid purchase of timber, however, from SWIFT by a client of KFPL. Certainly in terms of human resources the more that small community projects can link with larger commercial operations the greater the potential benefits can be. Though this might be difficult because the 2 parties are often very suspicious of one another, there is no getting away from the fact that the larger operators often are the people with the technical skills.

6. CONCLUSIONS

Different interpretations of ethical trade

The presentations by collaborators at the project planning workshop indicated the highly varying perceptions of ethical trade held in different countries. In Ecuador, for example, there is a powerful, heavily subsidized private sector dominated by two families, and legal reform and support for trade liberalisation would also be required to help forest-dependent people. In Indonesia, following years of domination by forest barons, the sector is now in a state of flux and forest certification is a means of restoring credibility. In the USA social dimensions of ethical trade are not as strong as Europe, and the take-up of ethical labels and forest certification are in their early stages.

Types of involvement in ethical trade also vary: Oxfam has a fair trade programme covering Peru, Chile, Ecuador and Bolivia aimed at supporting displaced, relocated, isolated and indigenous people. Conservation International fosters trade in products from communities in conservation areas, and as with CARE in Ecuador, sees trade as part of its conservation strategy. Candela is one of three fair trade organizations in Peru, and the only one specializing in forest products. In Indonesia, the link between trade and forest certification is a new one. In South Africa ethical trade in the form of support for forest certification is strong in the timber industry (initially driven by

responses to timber buyers and later by government) but ethical trade in non-timber forest products is less common. Awareness of environmentally driven ethical trade is higher than ethical trade schemes with primarily social objectives in the forest sector.

Although there are varying interpretations of ethical trade, the planning workshop participants did agree on some common principles underlying ethical trade. These were:

- Ethical trade has fundamental principles which allow it to have a positive social and environmental impact
- Ethical trade requires a favourable policy framework
- Environmental costs recognized and taken into account
- Strengthening the participation of producers in the commercial chain
- Normative role of the state favourable for ethical trade
- Equity and viability through efficient management
- Attitude of transparency and trust between those forming the ethical trade chain
- Mechanisms which facilitate and ensure the functioning of the ethical trade

Ethical trade in Sustainable Forestry

Ethical trade in forest products can be seen as part of the wider movement towards 'sustainable forestry', a concept that is explored in-depth in a recent publication on the business of sustainable forestry (Jenkins and Smith 1999). It also forms part of the international development movement (e.g. fair trade which primarily has social objectives).

Sustainable forestry can be defined as a 'complex social process for advancing the long-term social, economic and ecological viability of forests in a world dominated by short-term need and normal instability. It involves pursuing the means to use forests without diminishing them, to avoid and replace any losses that may diminish forests, and to ease the economic, environmental, and social pressures that cause forests to deteriorate. The essence of sustainable forestry is innovation and investment in the capacities to take such actions' (Jenkins and Smith, 1999).

This definition represents a paradigmatic change in the perception of forests that are increasingly seen as 'diverse overlays of different systems of social interests that interact uniquely in any one place'. (ibid). Although forests remain concrete biophysical resources, they are the source and site of different systems of social and cultural interests interacting, which leads to disputes over resources. Visions of the purpose, use and rights to forests and forest resources conflict, and no one type of forest structure and composition can meet all the different interests and expectations simultaneously.

'Sustainable forestry', like 'sustainable development' or 'ethical trade' is an umbrella term that means different things to different groups. Changes in the pressures on forests outlined by the Sustainable Forestry Project (Jenkins and Smith, 1999) and by Byron and Arnold (1998) highlight the fact that the forms and characteristics of forests desired by different groups may alter rapidly. Market forces, demographics,

social and political trends, technological and communication advances and natural disasters all play a part in the changing pressures on the forest and its relationship with forest dependent people. Sustainable forestry may therefore provide greater stability despite the short-term forces at work.

So where does ethical trade in forest products fit within this vision of sustainable forestry? From a development perspective, ethical trade can provide poor or isolated growers and collectors of forest produce with benefits, including capacity building. In fact capacity building benefits may outweigh any income increases obtained. Ethical trade schemes can also add to the stabilising pressures on the forest. For example, conservation-driven trade and fair trade schemes increase the robustness of the livelihoods of certain groups inhabiting or dependent on the forest. Further, forest certification schemes may provide access to ethical markets and premiums (see the Solomon Islands example). However, the distribution of benefits and the financial viability of these schemes require further consideration if a vision of sustainable forestry is to be achieved that includes positive social development and environmental outcomes.

Despite the success of some ethical trade schemes (e.g. ethical cocoa trading in Ecuador) it is not clear how far participants (small cocoa growers) were willing to reinvest in their cocoa trees and how far such a scheme might protect forest areas from further incursions from external developers (including rumoured extensive oil palm plantation proposals). The Ecuadorian ethical timber business planning exercise found that although there is a good environmental case to be made for the community forestry network in Esmeraldas to seek certification, the case in social and economic terms is less clear, and if benefits are not obtained by local communities then any improvements in forest management are unlikely to be sustained.

Different innovations are currently emerging in the sustainable forestry movement, which are relevant to the current and future potential role of ethical trade in supporting forest dependent people. For example, a key trend is the move from the focus purely on timber products to a much broader focus in recent years on a wide range of goods and services (e.g. see 'Tapping the Green Alliance' Rainforest Alliance, 2001). In the past markets 'preferred bulk wood product production, but increasingly quality differentiation is sought with efforts to develop specialty products and markets', which may also favour certification and ethical trading (Jenkins and Smith 1999).

Local entitlements to a share in forest governance have been recognised to a larger extent, particularly by development projects and some forest and indigenous people national policies. Potentially this can create motives for local investments in forest stewardship. Sustainable forestry is thus trying to find a balance - a mix of entitlements that will mesh the interests and capacities necessary to achieve sustainably productive forests. This is a difficult task because it requires balancing eco-system management with benefits to communities. The latter must be of a sufficient scale and sufficiently equitable in their distribution to justify the efforts involved. Further more, powerful vested interests often mean that ecological and equitable benefit sharing of forest resources is rare.

Even for fair trade schemes that prioritise social development, equitable benefit distribution cannot always be assumed. The scale of benefits from conservation driven and fair trade and forest certification may not be sufficient to achieve or protect sustainable productive forests. A key challenge for ethical trade lies in realising its potential to support the livelihoods of forest dependent people. There are inherent tensions in trading for development. These tension at times work against equitable distribution of benefits or financial viability of schemes.

Challenges and Tensions in Ethical Trade in forest products

Forest certification schemes offer access to, or the maintenance of access to, ethical timber markets and promote sustainable forest management. However, there is not always a market for the products available in a specific region. At the moment there are difficulties in forest certification as experienced by Project Subir and Care-Ecuador which has found it difficult to make a good business case as yet, to enter into ethical timber trading on export markets. There may be opportunities for linking with other producers of certified timber in the future, but these are extremely scarce in Ecuador at the moment.

An inherent tension in ethical trading has also been identified by studies of forest certification impact. We can take the example of our study from the Solomon Islands comparing a certified plantation-based commercial operation (KFPL) with a certified community-based natural forest operation (SWIFT). It highlights some of the difficulties that smaller community operations encounter and the greater barriers they face in gaining access to export markets, compared to larger commercial operations in ethical trading as well as in conventional trading. However, more positively, the study highlights the potential for overcoming some difficulties, for example through collaborative marketing (see Annex 4).

In a study of the impact of certification on a community forestry enterprise in Bolivia, the Lomerio-Chiquitano enterprise, (Markopolous, M. 1999) the rapid pace of change required by the certification process and the increased demands on time and resources demanded by the extra bureaucracy, led to increased conflicts amongst members and undermined the viability of the whole enterprise. The difference between the rapid pace of change forced by the market and the slower pace required for achieving developmental benefits creates tension.

This project has sought to assess the impact of ethical trade schemes and their economic viability and to test the potential of ethical trading with project partners. Clearly, ethical trade schemes can provide developmental benefits to poor and isolated communities in forest areas, but what is less clear is how far these approaches may conflict or complement other sustainable forestry innovations in the future. 'The emerging visions of sustainable forestry will prove to be competitive or inconsistent with one another when put to practical test in the same place. Economic, community, watershed, and biodiversity visions of the sustainable forest...are unlikely to shape the same sets of choices and actions, or to yield the same ecosystem structures and functions...The process used to resolve these diverse views will determine how effective sustainable forestry will be as a practical pursuit. As yet, these processes have not faced a serious test' (pp 7, chapter 1, Jenkins and Smith 1999). Ethical trade represents an option, but only one option for sustainable forest livelihoods. Its

success in the future may derive from the relationship between ethical trade and other sustainable forestry interventions and the degree to which local groups are empowered to challenge more powerful vested interests.

Ethical Trade and regional and national planning

The scale of ethical trading schemes also vary. Some small scale schemes undoubtedly provide benefits for small groups of producers which may be important in community development terms. However, the scale may not be sufficient to alter larger scale regional dynamics in terms of forest use and forest-dependence. Democratisation of regional planning processes is one element that will be required in the future of sustainable forestry, including ethical trading initiatives to consider and build ownership in decision-making at different scales in conflicts over forest vision .

Different sustainable forestry and development strategies can be assessed as to whether they are likely to afford reasonable cost-effective prospects of success in social and environmental terms. The manual produced by the project assists producers, NGOs and traders among others, to be able to answer whether ethical trade offers these reasonable prospects or not. The project has found that it is important not to assume that benefits can always be derived on a sustainable and equitable basis from ethical trading initiatives. There are some simple questions to consider before engaging in ethical trading for development, to avoid common pitfalls and to maximise benefits.

The impact of such schemes requires further exploration. In particular longitudinal studies are required to assess impact over time. Such an impact assessment should find ways of comparing the different types of strategy that may fall under sustainable forestry and how they interact together. The impact assessments carried out in this project focused on the local social impact of the scheme on intended participants and non-participants. A much more complex task is to assess how such a strategy fares in comparison to, and how it may complement or conflict with other, approaches that may fall under sustainable forestry and development banner.

From the snapshot impact assessment studies carried out, it is clear that the benefits of ethical trade schemes are not only financial (if at all), but that other benefits such as capacity building may have a bigger impact. In the Solomon Islands study on forest certification, a range of benefits was identified for the operations in question. Certification has brought a number of market benefits to the KFPL operation. It has also added to the overall asset, which is important as the owner (Commonwealth Development Corporation) is looking to sell the plantation. Certification has led to improved clarity of management objectives and a more coherent, strategic set of objectives throughout the organisation. It has also ensured that there are clear channels of communication between the local community and KFPL.

For SWIFT, certification has been a costly process, but it has given a clear framework for the management of the forest resource that was not present before. It is unclear how sustainable the structure will be if external funding is withdrawn, especially as only 10% of the projected volume has ever been realised, making the operation financially unviable.

The need to compare different approaches to sustainable forestry and to assess them in relation to regional dynamics and planning is also highlighted by the fact that the most interesting lesson from the Solomon Islands study is how effective the project has been at environmental protection. The subsidy to SWIFT's sustainable forestry enterprise can be compared favourably with the UK's The woodland grant scheme that is given to all woodland owners get US \$ 50.00/ha, even for managing plantations of exotic trees.

The FSC was set up as a market-based instrument, and thus it is not surprising that those who are familiar with markets make the best use of it. Commercial organisations have the experience and skills to do this and where community organisations can make links with larger operations, many benefits can be derived at low cost and with high value.

The Solomon Islands study also highlighted the risks that certification is on the one hand seeking homogenous approaches and solutions, whilst on the other, is trying to protect the heterogeneous nature of different societies and their approaches to resource management. Simplistic social criteria can reflect the rationale of those designing the certification system rather than the realities on the ground. Work focusing on understanding local forms of ownership is therefore important. Equally, it may be necessary for management systems to be flexible enough to incorporate local level variation and complexity and to recognise that the transparency sought by certification may be in conflict with the occasionally obscure rules within traditional communities can have to allow flexible responses to dispute resolution.

The complexity and scale of relations between people and trees is now recognized to define forests and to motivate the actions that affect them (Jenkins and Smith 1999). Developing social criteria is therefore an important but tricky task. In Indonesia the need for a social typology for use by external assessors in the certification process was identified as carrying risks because it could be too simplistic, but at the same time it provides an initial stab at improving certification standards and this ambitious objective fits with the new understanding of sustainable forestry as 'the pursuit of means to govern, finance, and manage forests as central features of social life' (Jenkins and Smith 1999).

The need for national standards and management systems to be flexible and appropriate to the national context was highlighted by the work in South Africa. It is important that less well-organized forest stakeholders such as small growers or producers and collectors are involved in the setting of national standards. The studies carried out in South Africa identified how a localised stakeholder process may be undertaken in KwaZulu Natal. This process was facilitated by the Institute of Natural Resources to ensure that small growers gain access to the national standards-setting process. It was found that national standards should accommodate the capacity and operations of small growers. It highlighted the capacity of small growers to reach the required standard and to identified the need to find indicators that can prove compliance by small growers. This finding is concomitant with findings from NRET's work in other sectors such as horticulture (see for example, Chan 2001 and www.nri.org/NRET/nret.htm). The need for support to the development of capacity among small growers in order to help them meet national standards is an important one that straddles many export sectors.

NRI and INR together have succeeded in placing the position and views of small growers on the agenda for a number of policy makers in such a way that small growers themselves are in a position to influence the process of standard development. Greater direct representation by small growers in the setting of national forestry standards is an important achievement of the project. Direct representation of key stakeholders in policy-making processes is a key part of a healthy democratic system and important for good governance. Further, it is more likely to mean that the national standards developed are appropriate to the circumstances of small growers, and not just larger commercial operations.

Future work in South Africa may include the following:

- Small growers and the National Forest Standard: Build on the work of INR with the grower committees. Over the next two years the National Standard will be tested and the criteria and indicators will involve the development of appropriate criteria and indicators for the standard in relation to both plantation and natural forests. A technical committee will be established for each of these. A key issue is how to get the grower representatives heard in these fora.
- Creating market opportunities for certified timber and pulp from small growers. There are opportunities under percentage-based certification for paper.
- Active testing of the Ethical Trade Guidelines with Oxfam and advice on further expansion of their market linkages activities.

Ethical Trade, People and Forests: A Manual

The manual produced by the project encourages those engaging in sustainable forestry (at different levels) to consider the different contextual conditions and systems of social interests to weigh up whether ethical trade is indeed the right option given the local and regional conditions, and if so, which type of ethical trade (since within the broad umbrella term 'ethical trade' lie a range of initiatives with different driving forces). For organizations and groups already engaged in ethical trading as a key strategy under the remit of sustainable forestry, there may be improvements to be made or pitfalls to be avoided by considering the bigger picture of the social, economic and political context.

Further, the manual provides comprehensive advice on how to get the business basics right – something which far too many ethical schemes have not managed to achieve. There is always a risk with manuals, guidelines and guidance notes that these are taken as a blueprint and in fact they do encourage a prescriptive approach to development. However, such a publication may help many organisations to avoid the more common pitfalls of ethical trading and to maximise the benefits for people in poverty and for the environment. It attempts to highlight explicit tensions that exist in using trade and the market for development purposes. Further, it attempts to provide a realistic picture of ethical trading, contrary to much of the overly optimistic literature that currently exists in the public sphere. This is not to undermine ethical trading

initiatives. On the contrary, the aim is to support such initiatives but only where they are likely to work, to increase the likelihood that they will be financially viable and to ensure that expectations of their social impact are not over-inflated

As well as project partners, interest has already been expressed by international and national NGOs in South Africa and Mexico in further testing the manual by using it in the planned development of ethical trading initiatives.

There is further scope for disseminating the manual and its content:

- Further testing of the manual and the ethical business planning methodology.
- The development of a web-based toolkit using the materials in the manual. This would provide much broader access to a wide range of intermediary organisations and traders. Ideally, generic lessons would be distilled and presented in the introductory parts of the toolkit. However, it may be more relevant for regionally based testing of such a toolkit and development of regional materials. Although, there are case studies, which provide lessons for other ethical trade schemes anywhere in the world, there may also be issues that are more important in one region than another. Similar toolkits have been successfully developed by the Food and Agriculture Organisation (FAO), including a livestock toolkit that was tested in South America and Asia. The sustainability of such a website would require consideration and regional development would encourage ownership by local organisations that may be able to continue the service.
- Translation of the manual into different languages is required so that it is accessible to a wider readership.

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