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the Future is Now

Equity for a Small Planet

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International
Institute for
Environment and
Development

the Future is Now

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ACKNOWLEDGEMENTS

In 2001, the International Institute for Environment and Development (IIED) marks its 30th anniversary. Thirty years ago, IIED's founder, Barbara Ward and René Dubos published *Only One Earth* which helped to set the agenda at the Stockholm UN Conference on the Human Environment. For the Rio UN Conference on Environment and Development, IIED published a series of reports as a brief and accessible guide to the key issues.

In preparation for the UN World Summit on Sustainable Development (WSSD) in Johannesburg, in September 2002, IIED has produced a new series, *The Future is Now*, to explore lessons from the past and options for the future. This title is the second of four in the series. We hope it will give the reader an overview of what was accomplished at Rio and the challenges that remain and must be tackled at Johannesburg. We have also produced a series of *WSSD Opinion Papers*, which can be found on the IIED web site at www.iied.org/wssd/pubs.

This report was compiled and edited by Tom Bigg, IIED's World Summit on Sustainable Development Co-ordinator, and Viv Davies, IIED's External Relations Co-ordinator. Authors of the various sections are credited separately.

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ABOUT IIED

The International Institute for Environment and Development (IIED) is an independent, non-profit research institute working in the field of sustainable development.

IIED aims to provide expertise and leadership in researching and achieving sustainable development at local, national, regional and global levels. In alliance with others we seek to help shape a future that ends global poverty and delivers and sustains efficient and equitable management of the world's natural resources.

For more information about our WSSD programme of activities, please contact Tom Bigg, WSSD Co-ordinator (details on back cover page).

For additional copies of this volume, other volumes in this series, or the WSSD Opinion Papers, please contact SMI Distribution Services Ltd. (*details on back inside cover page*).

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FOREWORD

by **Nigel Cross**

For an increasing number of environmental issues the difficulty is not to identify the remedy, because the remedy is now well understood. The problems are rooted in the society and the economy – and in the end in the political structure.

BARBARA WARD,
DOWN TO EARTH, 1982

In November 2001, IIED hosted a 2-day international workshop and conference in London, *Equity for a Small Planet*. The event, which marked IIED's 30th anniversary, considered the dynamics and tensions between globalisation and local livelihoods. The workshop and conference focused on ways of ensuring greater equity and developing local livelihoods, in an increasingly market-oriented process of globalisation.

Since its founding in 1971, IIED has explored and analysed the linkages between environmental, economic and social factors that affect sustainable development, and has designed and advocated 'policies that work', with an emphasis on the poorest. The goal of sustainable development – the reconciling of 'development' objectives with limited natural resources – has been the driving force behind all of our work. If sustainable development is to be realised it has to be built on the consent and support of those whose lives are affected.

The World Summit on Sustainable Development

One focus for this work is the Johannesburg Summit in September 2002. Will it be possible to articulate the elements of a global deal or partnership for sustainable development? What are the steps by which this could become a reality, and who should play a part in defining its goals? The subjects tackled in this booklet outline some of the contexts for sustainable development. They address particular situations, but have more generally applicable lessons and questions. And they raise a number of critical challenges which should underpin whatever comes out of the World Summit on Sustainable Development.

First, the problems caused by the lack of representation of those suffering from poverty, exclusion and discrimination in global bodies and processes. Redistribution has become possible because of democratic structures which are accountable to and respond to the pressure of citizens. But there is no democratic pressure that has any power to negotiate comparable redistributional mechanisms at a global level.

Second, WSSD offers an opportunity to move beyond vague commitments to sustainable development, and demonstrate that its principles can be at the heart of international collaboration. This will require some tough choices, notably in establishing the relevance of sustainable development to international trade and finance. It must expose the political challenges which are inherent in sustainable development, but which are often downplayed.

Third, the need for a Global Deal which builds on what already works and focuses on changing systemic imbalances which perpetuate inequality, both between and within countries. It is time to ask some hard questions about the effectiveness of international fora, and to consider ways in which they could work more effectively to foster good practice and minimise the bad.

Fourth, the importance of strong local governance. Effective government institutions in each locality have more importance in the lives of most people than good national or global governance. How are national governments and international agencies going to meet their 'global' responsibilities without effective local government institutions as partners ?

"Politicians must now decide whether to treat sustainable development as a Holy Grail that is so complex no-one can grasp it… or to settle on a few concrete problems that can head off human and environmental pressures that are well described but unlikely to evolve tidily according to a timetable or with predictable consequences. If these problems do get out of control, we can be sure that it will be all hands to the pump. But fighting fires is no substitute for investing in prudent, well-researched insurance."

Simon Upton, Chair of the OECD Round Table on Sustainable Development

Governance and Markets

In 1982, IIED's founder, Barbara Ward observed that *"for an increasing number of environmental issues the difficulty is not to identify the remedy, because the remedy is now well understood. The problems are rooted in the society and the economy – and in the end in the political structure"*. This present collection of papers, under the collective title of *Equity for a Small Planet* was written by some of IIED's senior research staff with input from a number of our partner organisations, to coincide with our 30th anniversary workshop and conference. Each of the themes we have selected involves market-based approaches to enhancing and developing local livelihoods, and each presents particular and immediate challenges in terms of ensuring greater equity. Central to the efficacy and success of all of these approaches is the critical need for good governance structures, at local, national and international levels.

- *'Standards and Certification: A leap forward or a step back for sustainable development?'* looks at the benefits and pitfalls of market-led certification resulting from predominantly northern driven consumer concern for 'sustainability'. Certification (outlined here in relation to the forestry and tourism sectors) seeks to encourage companies to commit themselves to better practice, regardless of whether this is enforced by local laws. But does certification support local priorities, or Northern consumers' ideas of what makes for sustainability?'

- *'Corporate-Community Partnerships: fair deals or public relations?'* considers the recent significant growth in the number of partnerships between businesses and local communities, using examples from forestry, tourism and water supply. Such partnerships centre on the hope that corporations can achieve improved performance or access to resources through agreements with communities (or local governments) that also bring benefits to local populations.

- *'Regoverning markets: market access for small producers'* considers the challenges of achieving equitable local development in a period of market liberalisation and privatisation. It discusses how to give more comparative advantage and more market power to small producers and how to contain the power of the largest companies and corporations working in agri-food systems.

- *'Silver bullet or fools' gold: Can markets for environmental services help conserve forests and reduce poverty?'*, considers the potential of markets for previously non-traded forest environmental services to support the twin goals of poverty reduction and environmental protection. The creation of such markets is in part to promote more attention to forestry protection, watershed management and biodiversity protection in the absence of government institutions able to guarantee this.

- *'Investment for Development: the public/private interface'* outlines the potential for foreign direct investment (FDI) as a driver for sustainable development. It discusses ways to make international funding flows and the investors who support them more responsible with regard to the social and environmental impacts of their investments and more accountable to populations in the areas where they invest.

Equity for a Small Planet epitomises IIED's vision. It is a vision we strive to realise through all of our activities. It is our hope that this contribution to the WSSD process will go some way towards helping realise it.

'Ultimately, we are talking about a new ethic of global stewardship. And this, of course, is also a political challenge. This stewardship must come from countries big and small, rich and poor. It would mean that the more industrialised countries re-examine their consumption and production patterns. It would mean that in our effort to eradicate poverty, we look at democratic governance, institution-building and community-based development. It would mean upholding international commitments to developing financing and technology transfer.'

UN Secretary General Kofi Annan,
March 2001

SUSTAINABLE DEVELOPMENT

MEETING THE NEEDS OF THE PRESENT…

- *Economic needs* – includes an adequate income or the assets needed for a sustainable livelihood
- *Environmental needs* – includes safe, secure housing with adequate provision for water, sanitation and drainage; also living and working environments protected from environmental hazards
- *Social, cultural and health needs* – including health care, education, transport....
- *Political needs* – including freedom to participate in national and local politics and in decisions regarding the management of home's home and neighbourhood within a broader political and legal framework which protects civil, political, environmental and resource using rights

…WITHOUT COMPROMISING THE ABILITY OF FUTURE GENERATIONS TO MEET THEIR OWN NEEDS

- *Minimising the use or waste of non-renewable resources* (including biodiversity and fossil fuels); also minimising the waste of scarce mineral resources (reduce use, re-use, recycle, reclaim)
- *Sustainable use of finite renewable resources* – including soils, forests and freshwater resources
- *Not overtaxing the capacity of ecosystems to absorb or break-down wastes*
- *Protecting natural processes and climatic systems, including not overtaxing the finite capacity of global systems to absorb or dilute wastes without adverse effects* (e.g. especially greenhouse gases, stratospheric ozone depleting chemicals and persistent organic pollutants)
- *Political and institutional structures within nations and internationally which support the achievement of the above* and pass on intact the knowledge and experience of each nation's or social group's cultural heritage

LOCAL GOVERNANCE & SUSTAINABLE DEVELOPMENT

by **David Satterthwaite**

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Sustainable development has always been about moving towards the meeting of multiple goals and fashioning the mix that is most appropriate to each locality. Thus it requires forums and decision-making structures in each locality to allow this, where the decisions taken have citizen support.

In high-income nations, we are so used to a web of local institutions that serve, support and protect us that we forget their importance. We do not question the fact that we get water piped to our homes, and sanitation and electricity 24 hours a day and that garbage is collected regularly – with the costs representing a very small part of our income. There are schools and health centres to which even the lowest-income households have access. There are emergency services available to all, when needed. We have local politicians through whom we can make demands and voice grievances. Legislation and courts protect us from eviction, discrimination, exploitation and pollution. There are safety nets for those of us who lose our jobs or fall sick – and pensions for our retirement. There are lawyers, ombudsmen, consumer groups and watchdogs to whom we can turn if we feel that we have been cheated. And all of this is possible because of local government institutions overseen by democratic structures. Even if some services are provided by private companies or non-profit institutions, the framework for provision and quality control is supplied by local governments or local offices of national or provincial governments. While coverage for some services may be sub-standard and some groups ill-served, the broad web of provision adequately serves the vast majority of the population.

This is not the case for most of those living in low- and middle-income nations. Many rural and urban dwellers have no provision at all for any of the services listed above – no accessible water, no health care, no schools, no emergency services, no legal protection from discrimination or eviction, no safety nets when income earners fall sick or ill. Most rural and urban dwellers are inadequately served by many of these. And the importance of this web of local institutions, overseen by politicians who are accountable to local electorates, has long been forgotten by development assistance agencies.

Thus one of the most pressing issues for sustainable development is to develop the web of accountable local institutions that ensure that diverse local needs and priorities are met, and that the investments and interventions of national governments, international agencies and private companies recognise, respond to and are accountable to local needs – in effect, how to ensure progress towards meeting sustainable development goals in each locality. This requires local institutions that are representative of local populations and inclusive in the sense of ensuring that everyone's views are represented. It requires local institutions with the knowledge and capacity to ensure a sustainable use of local resources and to ensure basic infrastructure and services are available to all. These local institutions also need the power and the legal basis to allow them to negotiate effectively with powerful external agencies or companies; even to question the proposals they put forward; and to hold these agencies or companies to account if they contravene agreements.

Without such institutions, new projects or investments are profoundly undemocratic because the populations in the areas where these take place have so little power to influence them: one structural difficulty that all development assistance agencies face is that they have no provision to formally include the views of their 'clients' (low-income groups in 'recipient nations') in their governance structures. The two and a half billion people suffering poverty have no vote in global institutions (and their governments rarely represent their views). They also have no vote in bilateral donor agencies or the governments that supervise them. These issues are also discussed in section 7.

Most of these roles are best fulfilled by local governments. There are good examples of this, especially in Latin America in those countries where power and resources have been decentralised and local government structures democratised and made more transparent. There are also some local agenda 21s that show how local governments can move towards sustainable development goals in ways which respond to the needs and priorities of local populations and involve local populations in their design, implementation and evaluation. But in most low- and middle-income nations, local governments remain weak and ineffective. Many are unrepresentative, so any agreement negotiated between them and an enterprise (or government agency) will not be recognised as legitimate by most of the locality's population. There are often problems with corruption (although this is often driven as much by the behaviour of external agencies as by local practices).

Yet only 'good' government at local level can ensure that:

- 'the rule of law' through which the rights and entitlements of all groups (including low-income groups) and 'the public good' are protected;
- everyone's needs are met for water, sanitation, drainage, health care, schools, transport, emergency services, and so on. Even if private, NGO or community groups are important providers of some of these, local government institutions have to provide the framework within which provision is guaranteed, standards ensured and, for services that are natural monopolies, prices controlled;
- robust, effective democratic processes, including the values this implies, such as accountability to citizens and transparency in the generation, allocation and use of public resources;
- enterprises do not contravene environmental regulations and occupational health and safety standards.

As such, effective government institutions in each locality are more important in the lives of most people than good national or global governance (although achieving effective government institutions in each locality often requires changes in governance at provincial/state, national and global levels). In addition, how are national governments and international agencies going to meet their 'global' responsibilities without effective local government institutions as partners? For instance, it is difficult to see how biodiversity can be protected, malaria (and most other diseases) reduced and greenhouse gas emissions kept down without effective and representative local governments.

Given the key role of local governments in ensuring that sustainable development goals are met, it is surprising to find so little discussion of the 'local governance' aspects of sustainable development. The 'big' issues such as greater equity, greater justice (and protecting human rights), protecting key resources, achieving greater democracy and reducing poverty are still discussed, but without discussing the local institutions needed to ensure progress in these areas. In addition, sustainable development has always been about moving towards the meeting of multiple goals and fashioning the mix that is most appropriate to each locality. Thus, it requires forums and decision-making structures in each locality to allow this, where the decisions taken have citizen support.

The shift from government to governance

The term 'governance' replaced the term 'government' because the goal was not just about more efficient and competent government but also about governments that are accountable to citizens and communities. The term governance includes not only the political and administrative institutions of government (and their organisation and inter-relationships) but also the relationships between government and civil society.

The shift in thinking from supporting 'government' to improving 'governance' helped highlight the critical role of citizen groups and community organisations in improving governance. It is now accepted within discussions of 'development' and 'sustainable development' that good practice depends on good local governance – not only in what local governments fund and regulate but also in how they encourage and support the efforts and investments of households, citizen groups, NGOs and the private and non-profit sector. This in turn requires a political, legal and institutional framework that guarantees citizens' civil and political rights and access to justice.

The ineffectiveness of local government in most low- and middle-income countries is also a failure of governance, since the inadequacies of government relate to its lack of accountability to its citizens in terms of its policies and expenditures (including a lack of transparency in the ways that decisions are made and resources allocated), the lack of democratic structures and the failure of the judiciary to allow citizens to hold it to account. For many countries, the multiple failures or limitations of local governments are also partly explained by the national economy's weakness; in most, these are also related to the limited powers and resources allowed to local governments by higher levels of government.

Why is the role of local government given so little prominence?

The ineffectiveness of so many local governments is also related to the lack of support that 'good local governance' has received from international agencies. At least three reasons help explain this:

1. The emphasis given by most development assistance agencies over the last two decades to reducing the role of government and increasing the role of the private sector.
2. The reluctance of development assistance agencies to work with local authorities. In part, this is because of the delays, red-tape and inefficiencies this involves. Democratic processes often take time, which is at odds with the need for development assistance agencies to spend their funds or increase their loan portfolio. But it is also related to the whole structure of official development assistance through which official donors work with national governments. For obvious reasons, most national governments don't want capital flows going to local governments that they cannot control. There are also the obvious political conflicts: local governments run by parties or political groups that are in opposition to state or national governments. Changing local government structures so that they better serve the needs and priorities of low-income groups is also intensely political and is usually strongly opposed by powerful political and economic interests; this hardly encourages donor agencies to get involved in such a complex, difficult and conflictive process (See Cohen (2001) for a discussion of how, two decades ago, the World Bank recognised the need to reform local government structures if their urban projects were to be more successful, and the difficulties they had in trying to do so.)
3. The influence of 'experts' and 'professionals' in development decisions. All governments and international agencies draw heavily on 'expert advice' in the design and implementation of the development decisions they implement. Donors draw mainly on 'experts' from their own nations; national governments usually draw on 'experts' located in the national capital. Very few of these experts have a strong knowledge of the locality where the project they design or recommend is to be implemented. Very few know how to engage in participatory discussions with localities that allow all local views to be represented.

But in the enthusiasm to support market-driven development, donor agencies may forget that markets do not produce 'the rule of law.' They rarely protect the public good (unless local structures make sure they do). They do not produce representative institutions to govern. They do little or nothing to reduce inequality (and generally exacerbate it). Even where market instruments are effective in strengthening livelihoods for poorer groups or improving resource management, it is generally because competent local government makes sure that they do so. In addition, however slow and frustrating it may be for external agencies to work with local governments, there is no 'development shortcut' that can ignore them or bypass them. Accountable, effective, inclusive local government structures are both a means to development and one critical end-goal of development.

Private investment and local government

It is very difficult to foresee how private companies can be made to meet environmental goals (or beyond this, sustainable development goals) without competent, effective, representative local government structures. Although private enterprises often find local rules and regulations tiresome and local bureaucracies slow or inefficient, the need for local government structures that enforce laws (and the regulations derived from them) and that are accountable to local citizens is not in doubt.

Local populations need some institution to represent them, which has the power to ensure their needs and priorities are addressed. It is difficult to envisage, as an alternative, voluntary codes of 'good practice' for private enterprises unless all businesses sign up to them and there are independent local institutions that verify whether companies meet them – which again is what local governments should do.

In addition, although weak, ineffective (or corrupt) local governments may provide companies with short-term advantages, in the long term, operating in places where there is no institution to protect 'the public good' and citizen rights is likely to produce conflict between local communities and companies. This is especially so if local populations (or particular communities – for instance, particular indigenous groups) do not regard local government as representing their views. Perhaps more to the point, where local government is weak and ineffective, it is very difficult for companies to set appropriate standards and ensure compliance with these themselves. It is also very difficult for companies to have good relations with local citizens without elected local government structures through which to engage with citizen needs and priorities. Many companies make the mistake of negotiating with a local 'chief' on the assumption that this negotiation produces the needed 'community consent', when the chief does not represent the views and priorities of much of the population.

There are also the rights of those who have no formal legal structure to protect them. The population in any area, by virtue of living there and having their livelihoods based there, have rights – even if these are not recognised in formal law or by local governments. These include a right to be consulted with regard to planned investments in their area and a right to have their needs and priorities taken into account. In some instances, it may include a right to set limits on new developments or even to question whether such developments should be permitted. The tens of thousands of low-income people who have illegally built their homes just beside the railway tracks in Mumbai/ Bombay, strictly speaking have no right to be there. But they are there because no other land was available to them. There is a need to clear them, to allow the railways to go faster and meet increased demands. But the only way to achieve this without impoverishing these people is a negotiated settlement that provides them with alternatives that are acceptable to them. In this instance, such a negotiated settlement has been developed, supported by local NGOs and local federations of the urban poor but it also needs a local governance structure to support it.

Local governance and poverty reduction

The explicit goals and targets set by international donors for poverty reduction will not be met without more effective local governance. The importance for poverty reduction of 'good local governance' is increasingly recognised. In part, this has been driven by the recognition that many aspects of poverty need to be addressed, including not only inadequate incomes but also poor quality and often insecure housing, inadequate infrastructure and services, inadequate legal protection of poorer groups' rights (including rights to open access and common property resources) and 'voicelessness and powerlessness' within political systems and bureaucratic structures. The shift from poverty reduction programmes that define and measure poverty only by income level to those that recognise the multiple deprivations that poorer groups face (and their interconnections) implies a much greater role for local institutions, especially with regard to political voice, access to justice, access to basic services and, in cities, access to land on which housing can be built. There are also many case studies that show the importance of local governance for poverty reduction – including not only local governments but also civil society organisations including local foundations, NGOs and community-based organisations and federations. (The October 2001 issue of *Environment and Urbanization* has many papers on the work of these federations. IIED also has a working paper series on the role of local institutions in poverty reduction in urban areas; see www.iied.org/human/pubs.html.)

Local governance and the themes of this booklet

All five of the themes might incorrectly be construed as alternatives to good local governance.

- **Certification** seeks to get forestry or tourism companies to commit themselves to better practice, regardless of whether any local government structure exists to enforce this.
- **Corporate-community partnerships** centre on the hope that corporations can get improved performance or access to resources or markets through agreements with communities (or local governments) which also bring benefits to local populations. These include corporate provision of infrastructure and services such as water and sanitation, which was often previously a local government responsibility.
- **Re-governing markets for sustainability** seeks to give more comparative advantage and more market power to small producers and to limit the power of the largest companies and corporations working in agri-food systems.
- The creation of **markets for environmental services** is partly in order to promote more attention to forestry protection, watershed management and biodiversity protection in the absence of government institutions able to guarantee this.
- **Investment for sustainable development** discusses ways of making international funding flows (including FDI), and the investors who support them, more responsible with regard to the social and environmental impacts of their investments and also more accountable to populations in the areas where they invest.

But in fact, none of the above are likely to succeed without good local governance and, in some cases, they may not be needed because of good local governance. One of the key challenges within each of these themes is to elaborate the role of good local governance. For all five themes, the danger is that they may not be driven by the needs and priorities of local groups, even if some include concerns that may be important locally – for example, less exploitative labour or environmental practices, or better occupational health and safety. How can these themes overcome the problem of ensuring that the priorities of the individuals, households and communities with the least income and weakest asset bases influence their design, implementation and evaluation?

Corporate-community partnerships can only work for communities if the legal and institutional means exist to protect community rights. Successful partnerships between (generally very powerful) companies and (generally very weak) communities only tend to happen when the communities have something that the companies need – for instance, for tourism enterprises, access to communal land, hunting rights or 'visiting traditional village' rights; or for water companies, ways to meet the targets set by regulators for the expansion and improvement of water and sanitation. Representative government structures are needed to ensure that local citizens and their community organisations do not get pushed aside by external companies. They can also defend 'local interest' against projects that conflict with local interests but are justified by external agencies as serving the 'national good' (See, for instance Budhya and Benjamin [2000]).

In large part, certification arises because of weak or ineffective government structures in low- and middle-income nations. Local governments should have the lead role in ensuring that local enterprises have good environmental performance and meet standards for occupational health and safety and working conditions – backed by appropriate national laws. Certification has become a kind of 'soft law' through which enterprises commit themselves to meeting social, environmental or ecological standards, most of which are not demanded by law (or at least enforced by it). It is driven mainly by consumer concerns within high-income nations for 'sustainable development' and has become important for enterprises exporting to high-income nations or, as in international tourism, serving tourists from these nations. Enterprises agree to certification (and the costs that being certified implies) because they feel it will strengthen their market position. Thus, forestry companies seek certification from the Forest Stewardship Council because many consumers look for the FSC label when buying wood products. Some tourists are influenced by whether hotels or other tourist enterprises have labels to show that they meet 'green' standards.

One limitation of certification is that it was meant to encourage better performance by the companies with the worst forestry practices, but it tends to be the wealthier, richer, better-managed companies that meet the standards. Another is that credible certification procedures require that companies are checked by independent groups, but this is expensive and has led to certification schemes with weak standards and no independent verification. In addition, if certification schemes are expensive, they discriminate against smaller enterprises. Finally, most certification standards do not mesh well with diverse local realities.

With regard to local governance, perhaps the most worrying aspect of certification schemes is that they are not driven by the needs and priorities of local groups, even if some include a concern for labour conditions and local performance. They may even be promoting a greater concern among enterprises to meet 'feel-good' concerns for the rich consumers to whom they export rather than for very pressing local environmental health issues for local populations. Ideally, certification procedures should engage with local governments and/or local civil society groups, but this is often too expensive or produces complications that standard certification procedures cannot meet. However, local governments can consider where certification schemes could help promote better performance by local enterprises. It should be local governments that are encouraging and supporting certification schemes. Many of the social or environmental goals that certification promotes should be enshrined within local social and environmental legislation.

In regard to re-governing markets for sustainability, there are obvious roles for local government. These include assessing the current or potential importance of local agricultural/livestock production for local livelihoods (including the forward and backward linkages with other enterprises) and for local diets. Most urban-based local governments underestimate the importance of local agriculture and of demand from agricultural producers and households for the urban economy. There is often considerable scope for supporting more local value-added and for increasing local demand (for instance school meals) or local supply (provision for retail farmer markets).

The paper discussing whether markets for environmental services can help conserve forests and reduce poverty highlights the extent to which this depends on competent, effective local governments. For instance, local governments can help ensure an equitable or 'pro-poor' allocation when new property rights for environmental services are defined and attributed (e.g. the right to clean water or flood protection when creating markets for watershed protection). Similarly, natural resource user fees or pollution penalties should be designed with close attention to their distributional impacts, which will reflect the relative importance of resource use and environmental damage among different socio-economic groups. Successful markets for environmental services need supportive regulatory structures. They also need to be developed with an eye to where this can help enhance incomes and diversify livelihoods for the landless and other poor groups – again a critical task for local government.

Where there is no local government

But what do international agencies, companies or national government agencies do when there is no relatively well-resourced, competent, local authority headed by an elected government that has the support of most of the local population? They need to develop policies to guide their operations in locations where local governments are not representative and/or weak. This has to centre around establishing a formal relationship with the inhabitants of a locality and their community organisations, and being guided by their needs and priorities. In effect, trying to work well with informal local governance structures, including those which are not formally recognised by government. There will be many areas where the law provides little guidance; if governance structures are weak and unrepresentative, so too generally is the legal framework regarding citizen rights and the protection of the public good. For instance, many rural dwellers making a living from smallholdings or keeping livestock or exploiting forests have no formal rights to the land, water and forests they use, yet their livelihoods depend on continued access to these resources. The law may provide little or no rights to the inhabitants of villages to influence whether or not new investments take place that will fundamentally change their villages. Working in such circumstances is never easy. And what might appear to be local 'community organisations' may in fact be serving only the interests of a section of the population.

It is worth distinguishing between two kinds of civil society organisation. The first is one whose primary purpose is working at grassroots level to improve conditions or livelihoods – for instance, community organisations or savings and credit schemes formed by the residents of a low-income neighbourhood and the local NGOs that work with them. These are often remarkably effective in making limited funds go a long way. Where local government is ineffective, building long-term relationships and partnerships with these can demonstrate the commitment of a private company or aid agencies to supporting local development. One new model, increasingly used by international funders where local governments are weak or ineffective is support for local funds for community initiatives to which community organisations can apply direct and where there is a transparent local decision-making structure that is open to local scrutiny. One of the best-established examples is the Thai Government's Community Fund that was managed by the Urban Community Development Office (UCDO) which is now part of the Community Organisations Development Institute. The UK Department for International Development is also supporting local funds for community initiatives in two cities in Uganda and two cities in Zambia (see Kiyaga-Nsubuga, Magyezi, O'Brien and Sheldrake [2001]).

In many countries, federations formed by the urban poor are providing a new partner for international agencies, national governments and local governments – and demonstrating how far limited resources can go. What representative community organisations can do with $1,000 is often more than external agencies can do with $10,000. Box 1 outlines the development of urban poor federations and the ways in which they have learnt from and support each other.

BOX 1

Redressing power imbalances; the emerging role of federations of the urban poor

In at least 11 countries, there are federations formed by groups of the urban poor that are helping to change the way that urban poverty is addressed. These federations are demonstrating new ways:

to implement projects – for instance, developing their own housing projects with much lower costs and of much better quality than government-sponsored solutions;

to develop grassroots organisations that are controlled by and accountable to member households (most federations have at their base savings groups formed primarily by low-income women);

to put the knowledge and capacity of the poor and the savings groups that they form at the core of all their work;

to learn from each other; there are constant community to community exchange visits between the different savings groups within each city which roots innovation and learning in what urban poor groups do. There are also exchange visits between cities and between national federations in different countries. The National Slum Dwellers Federation in India helped support the formation of the South African Homeless People's Federation, which in turn helped support the development of comparable federations in Zimbabwe and Namibia. The urban poor federation in Thailand and the NGO based there, the Asian Coalition for Housing Rights, have helped support the development of urban poor federations in the Philippines and Cambodia;

cont'd

to influence policies by setting precedents (a community-designed and managed toilet; a house design developed collectively by the urban poor that they can build far cheaper than public or private agencies; a relocation policy that serves the needs of those relocated) and using these to negotiate, support and change policies (a strategy that develops new 'legal' solutions on the poor's own terms). The federations have legitimacy by being representative and large (many have tens of thousands of members) and by demonstrating feasible and cost-effective solutions.

"Individually and collectively, (these federations) seek to demonstrate to governments (local, regional, national) and international agencies that urban poor groups are more capable than they are in poverty reduction. They also provide these agencies with strong community-based partners through which to do so. They are or can be instruments of deep democracy, rooted in local context and able to mediate globalising forces in ways that benefit the poor. In so doing, both within nations and globally, they are seeking to redefine what governance and governability mean."

SOURCE: This is drawn from the October 2001 issue of IIED's journal Environment and Urbanization which was developed with Slum/Shack Dwellers International, an international people's organisation which represents member federations of urban poor and homeless groups from 11 countries in Africa, Asia and Latin America. This includes papers describing the work of the different federations. The quote is drawn from the paper by Arjun Appadurai on "Deep democracy: urban governmentality and the horizon of politics" (page 23).

The second kind of civil society organisation is one that concentrates on documenting problems and using this as the basis for demanding action – for instance documenting the 'state of the environment' or highlighting the extent to which air pollution standards are being violated and who are the main contributors to this. These often represent the priorities of particular groups within a neighbourhood or district. Both kinds of organisation have long been important in driving environmental reform – and often democratic reform.

One worry is that support for such civil society organisations may be diverting attention away from developing the capacity of local government. But support for civil society organisations that are formed by low-income groups and that are accountable to them is also building local government.

All local governments need a strong civil society to make it effective and accountable. One reason for the many examples of more competent and effective city governments in Latin America has been the pressure 'from the bottom up' that helped drive democratisation at national and local levels. Such innovations as participatory budgeting (through which municipal authorities allow each neighbourhood to set priorities for a part of the municipal investment budget) was promoted and then made possible for citizen groups. Many of the more successful local agenda 21s owe their effectiveness to the introduction of elected mayors and the strong involvement of civil society organisations.

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STANDARDS & CERTIFICATION:

A LEAP FORWARD OR A STEP BACK FOR SUSTAINABLE DEVELOPMENT?

By **Steve Bass, Xavier Font and Luke Danielson**

{2}

Certification presents both potentials and problems for governance. Sorting these out will require better (but carefully circumscribed) governmental participation and more attention to equity in participation and cost-benefit sharing.

THE RAPID RISE OF CERTIFICATION

In a world of globalising business and increasing consumer concern for 'sustainability' in the North, market-led certification is likely to become increasingly important for enterprises exporting to richer countries. Certification of social and environmental performance is already changing the rules of the game for many industries. It is becoming routine in forestry, is emerging in fisheries and tourism, is being explored in mining, and has occupied a key role in the 'organic' and 'fair trade' niches of food production for some time. These are all industries which are important for the livelihoods of poor groups in African, Asian and Latin American countries.

Who is favoured by the new social and environmental standards, and by the process of certification as 'referee'? What does this mean for the relative success of Southern companies, large and small, and for Southern livelihoods and governance? Is there a way in which partnerships, and the sharing of costs, benefits and risks, can be improved along the supply chain?

The following sections begin to address these questions. The first introduces IIED's findings on the impacts of a decade of forest certification on corporate responsibility, on livelihoods and on governance from local to global levels. The second section explores the very recent proliferation of tourism certification schemes and introduces the current search for a scheme which will provide equitable benefits to the diverse range of producers and to consumers. The third lays out the options for developing certification in the mining sector. Finally, we conclude with some common findings, notably on how certification is changing sector governance.

Forest certification and the Forest Stewardship Council: impacts on the ground[1]

Forest problems are on the increase – poor controls on forest use, and a lack of policy and market incentives for sustainability, have meant that asset-stripping approaches remain profitable, especially in the South. This results in deforestation, reduction of forest quality, and marginalisation of forest-dependent poor groups.

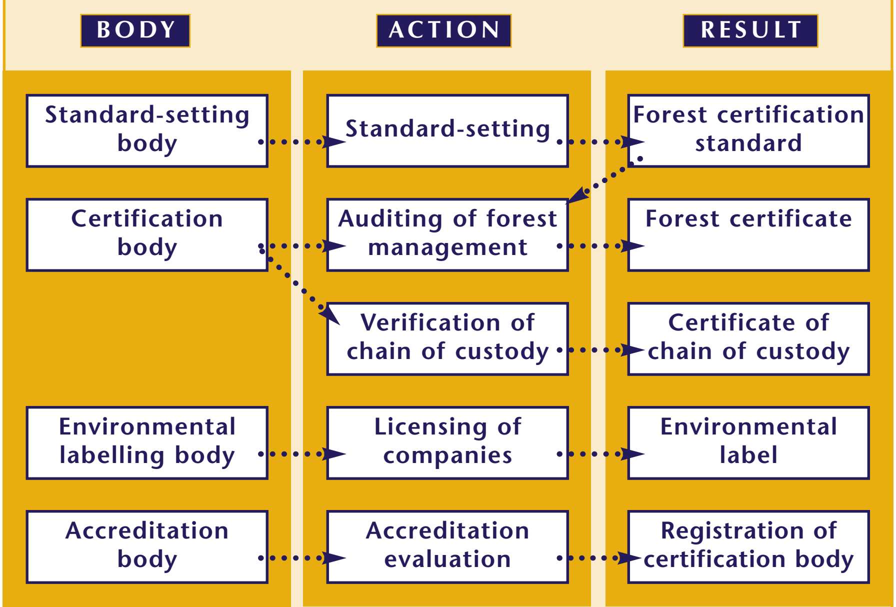
Several driving forces have given rise to forest certification – while consumers like both forests and forest goods, they often dislike what comes in between – forest management – and greatly mistrust the forest manager. Certification emerged as a result of increasing consumer concern over tropical deforestation; forest industry fears of consumer boycotts and regulatory bans on timber imports; and over NGO dissatisfaction with government inaction on forest problems.

The Forest Stewardship Council (FSC) is the major global player – forest certification aims to improve not only forest management, but also market access and share for its products. FSC is the principal international scheme. It maintains both a forest management performance standard that is certified by third parties, and a trademarked label that can be applied to products proven to have been derived from certified forests, through chain of custody certification (Figure 1). Its balanced governance of social, environmental and economic members, and its strong support by NGOs, offer considerable credibility. Agreement amongst groups of powerful retailers to sell only certified products has served as a strong economic driver. These retailers have received many of the benefits, but have been somewhat blind to the actual impacts of certification on producers and forests.

[1] This section draws on recent IIED work assessing the impacts of forest certification. This included field studies of certified community enterprises in Bolivia, Honduras, Mexico, Papua New Guinea and Zambia; and of corporate enterprises in Brazil, South Africa and Poland; as well as analysis of FSC's entire database.

Figure 1

ELEMENTS OF MARKET ORIENTED FOREST CERTIFICATION



Source: Bass and Simula, 1999

Rapid rise in certified forests – over 20 million hectares have been certified to FSC standards – but 84% of this is in Northern countries; and 85% in large operations. Products cover less than 20% of UK trade, 5% in the EC, and 1% in the USA; but very little in the South (it has not affected key domestic markets yet). Products are mainly confined to the DIY sector. Other non-FSC schemes have also reached large areas, notably the Pan-European Forest Certification Scheme – leading to NGO criticisms that these non-FSC standards must be too low. With an almost exponential increase in certification to date, it is timely to review the assumptions behind, and the impacts of certification.

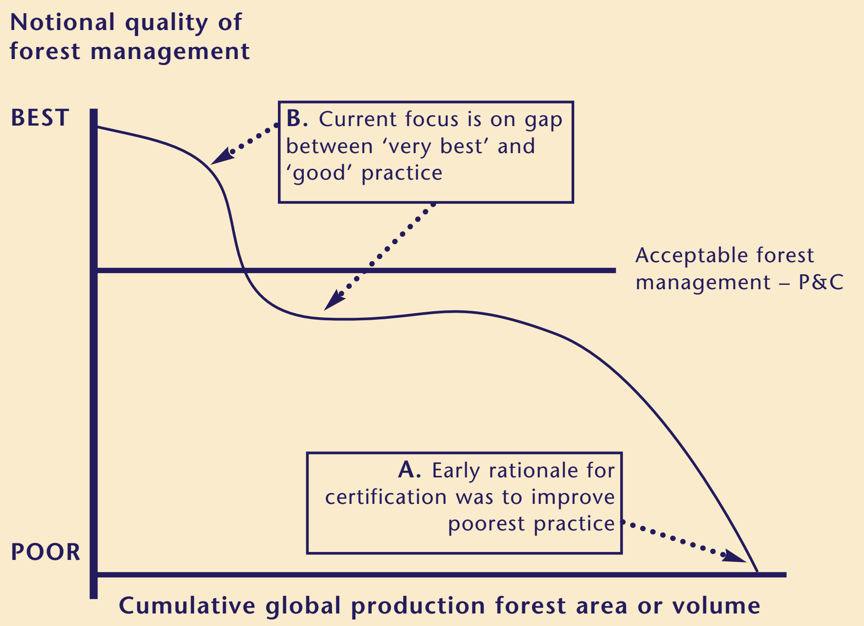
Impacts on already well-managed forest companies – most certified forests and products to date are from larger, more sophisticated forestry companies, operating mainly in the North. The major changes to their practice have been in environmental provisions and management/documentation systems, rather than any fundamental changes on the ground. Their market access has improved, but because the market for certified products is immature, premiums are elusive. Companies report good capacity-building benefits that complement those of ISO E/QMS certification (The International Organisation for Standardisation's environmental/quality management system approaches [ISO 9000 and ISO 14000 standards series respectively]), and some relationship-building benefits.

Poor forest management is little affected – the high threshold level of FSC's standard means that certification has effectively identified good current practice, mainly in richer countries and companies. However, NGOs worry that certification has acted as a fig leaf for logging primary forests, which they believe should be protected even from 'benign' forestry. More significantly, there are few procedures and few incentives in the system to encourage the really bad producers to be certified. Consequently, the worst forestry problems are unaffected by certification. While FSC was founded on concerns about bad, asset-stripping forestry (to the right of Figure 2), its practice has focused on identifying and rewarding good producers (to the left). Most of the investment in time, money and emotion has been on competition between excellent producers just above the FSC threshold of acceptable forest management, and good producers just below it. To avoid 'the best becoming the enemy of the good', the need for several thresholds (step-wise approaches) is being discussed outside FSC.

Small/community companies find it more difficult to benefit – there are aspects of FSC's standards and their assumption of 'western' scientific forestry, that conspire against smaller companies and community groups benefiting from certification (even those with forestry practices that are best for local conditions). The standards do not recognise some of the more complex land use systems of livelihood-based forestry, and are vague about the boundaries of social responsibility. Certification is a regressive instrument: the fixed costs of certification are higher for smaller producers, who do not always have the necessary formal management and reporting systems. Some ask: why should small (community) forest enterprises who occasionally operate on their own land be held as accountable as multinational companies producing millions of cubic metres on leased land? There are also problems deriving from the social standards and their misinterpretation, which sometimes result in poorer groups being further marginalised from the forest.

Figure 2

ILLUSTRATION OF HOW FSC CERTIFICATION HAS DEVELOPED



NB The curve is illustrative only, as there is little empirical basis on which to construct a precise one. (Adapted from Kanowski, Sinclair, Freeman and Bass 2000)

Positive impacts on national governance – the multi-stakeholder process of developing national standards based on FSC's global principles and criteria has had a very beneficial impact on policy discussions and stakeholder relations, especially in countries with otherwise weak forestry governance. National multi-stakeholder FSC working groups have been defining good forestry, how to assess it, and who should be responsible.

Problems with proliferating schemes – globally, FSC has been likened to a 'soft' forest convention. But not all stakeholders agree with it. A perceived lack of equity in FSC structure and operation has led to a proliferation of certification schemes designed to better meet the needs of certain groups

– a problem which has bedevilled tourism certification (section 3). This proliferation has improved local relevance innovation and competition, but is now confusing to both producer and consumer. Certification therefore presents both potentials and problems for governance. Sorting these out will require improved (but carefully circumscribed) governmental participation and generally more attention to equity in participation and cost-benefit sharing.

Tourism certification – resolving the proliferation of schemes[2]

Apart from early work on 'Blue Flags', tourism certification only really took off in 1998. Since then over 100 labels and schemes have emerged, both governmental and voluntary. What is now needed is a global approach that is credible, equitable, effective and efficient. It must also take account of the many local complexities of tourism, and be driven by sustainable incentives.

Tourism products are *intangible* – they cannot be touched, which makes them much more difficult to test. However, because potential buyers have to rely on written information to assess their purchase, certification, as a means of communication, is a powerful consumer tool. Tourism products are also *perishable*. Unlike timber, if a hotel bed or an airline seat is not sold, it cannot be stored. This means that the tourism industry uses pricing to counteract seasonality as well as to reflect quality, and it is difficult to add a certification-related mark-up.

Key tourism attractions are often *publicly owned*, and have no usage price. While tourists will pay for hotels, meals and flights, they are not prepared to pay for access to beaches and national parks, or to walk around heritage towns. This makes it difficult to certify a complete tourism product, since it requires the public sector to invest in the process of certification with little resulting profit. However, tourism products are *inseparable*: the setting and location might carry more weight than the product itself (thus you pay mainly for the view, not for your drink or dinner). Therefore the value of the product is relative. The tourist should be able to assess not only the nature of core products, but also how they are produced, providing greater opportunity to encourage fair working conditions.

Finally, the tourism product is *heterogeneous*: a tourist who goes to the same destination more than once might have very different experiences and impressions on each occasion, hence the difficulty of standardising

[2]This section is based on material supplied by Xavier Font, Senior Lecturer in Tourism Management at Leeds Metropolitan University, and currently leading consultant to the Sustainable Tourism Stewardship Council.

product quality or ensuring that minimum standards or benchmarks in environmental and social quality are met.

This diversity partly explains the many different forms of tourism certification: it is most often hotels that have been targeted for their environmental quality, since their purpose and management is comparable across destinations. The opportunity to make eco-savings is the main incentive for hotels to work towards certification.

Some governments have introduced programmes of certification as a voluntary initiative, to generate interest and create industry leaders. The possibility of an international accreditation body might lead a variety of governments which do not at present have a national system to consider developing one.

NGOs have used self-created certification systems to reward pilot projects for conservation programmes, but these are usually small-scale and do not make a difference to the market unless they take a product or destination cluster. The main interest from NGOs revolves around ecotourism and fair trade tourism, rather than eco-efficiency.

The greatest difference is made by programmes that have been devised for a relatively standardised industry or a small destination, which tend to include *benchmarks*, and for those programmes working at an international or global level, which tend to focus on the use of *management systems*. Ecolabels in Northern countries tend to be run by governmental or quasi-governmental organisations focusing on energy and water conservation. The most successful campaign is the Blue Flag, since this has linked environmental quality with health and safety so that tourists can see the benefits to themselves as individuals. Ecolabels in Southern countries are run by NGOs focusing on a mix of social and environmental issues. The assessment is carried out by applicants themselves, by the awarding body, or, in a limited number of cases, by a third party. Green Globe is the only really global label. It is controversial because it draws little distinction between certified and self-administered logos, and because it has become a for-profit organisation. There are currently no means to control green and quasi-green claims, and customers have limited information to distinguish between 'greenwash' and sound products.

Environmental Management Systems are becoming the predominant criteria in tourism: the global nature of tourism as an industry is fuelling this process, not only because of the increasing number of multinational companies aiming to use the same processes across the board, but also because of the international nature of travelling, which requires consistent products and communication strategies. Green Globe 21, the Green Tourism Business Scheme, the Nordic Ecollabeling of Hotels, Committed to Green and, in the near future, the Blue Flag are examples. Globalisation means process-based labels are likely to become more predominant. Yet some of these are introducing benchmarks to their systems to determine minimum performance requirements; this increases costs – but, as with forestry, it is what many NGOs and customers want.

Take-up of certification has been limited to date: certification programmes tend to have few applicants, and in quite a few cases these are dispersed. Hardly any of the tourism certification programmes are run for profit, and the majority are heavily subsidised. Since certification programmes do not appear to offer tangible (market) benefits to operators, there is limited incentive to apply and comply, and production remains unaltered. This might change in the future with the possibility of accreditation in tourism and hospitality.

Two initiatives have recently been developed to deal with the linked problems of proliferation and low take-up:

- *Principles* for certification of ecotourism and sustainable tourism, developed by participants at a workshop in New York in November 2000, represent the most significant consensus in the sector to date.
- There is also a proposal to develop a global *Sustainable Tourism Stewardship Council*.

The mining sector – what to certify and what incentives?[3]

Many stakeholders in the mining sector are crying out for some form of agreed vision and standards for mining in sustainable development, which should be associated with accountability and market benefits. IIED's *Mining, Minerals and Sustainable Development* (MMSD) project is considering the possible objectives of a certification scheme. It is particularly important to identify the users (consumers, investors, insurers, and others), as this will fundamentally influence the scheme design. Related to this is the optimum level at which to operate a certification scheme: the miner, the mine operation, the company, or the region. Building on the experience of other sectors, particularly forestry, a number of preliminary conclusions are being reached:

- ***Level at which to certify***: the boundaries of a certification scheme need to be explicitly set. The simplest cut-off point could be the individual mining site/operation, including any operations occurring on-site, and excluding those occurring elsewhere. Certification at the level of the mining

[3] This section draws on work for MMSD by Ruth Nussbaum and Sophie Higman of Proforest concerning potential participation and governance structures for mining certification.

operation has the benefit of simplicity and control. However, certification of mining companies, combined with performance checks of individual mining operations, might be appropriate for financial institutions. Specific dispensations could be made in the certification process for small operations.

- ***Certification of processing and labelling***: mining itself is extremely controversial, and is therefore a high priority, especially for environmental NGOs. Mineral processing and the manufacturing chain are very diverse and it would be extremely difficult to include them under a single certification scheme. However, where processing or trade in minerals involves a high profile, high value, niche product, and where there are obvious environmental or social issues which might concern consumers, a post-extraction certification scheme might be appropriate. Such product labelling for consumer reassurance would involve extra requirements (such as a chain of custody certification) and may not be practical for many products with complex chains.
- ***Costs***: the greatest costs for operations looking for certification will probably be the indirect costs of meeting the standard. The direct costs of certification depend on the type and level of standard, the costs of accreditation, and the needs for consultation and transparency. The costs of standardisation itself will be increased by consultation and the inclusion of performance indicators, as will credibility. High accreditation costs will exclude smaller, local certifiers, thereby increasing the costs of certification itself.

Conclusions – improving the role of certification in sustainable development

- ***Certification has regulatory characteristics*** – Certification standards offer 'soft' law, requiring and proscribing specific actions. Because of their multi-stakeholder input and sustainability coverage, they have a credibility that many regulations lack. Certifiers act as inspectors and judges of this 'soft law'. Many also play roles often neglected by government, such as labour scrutiny education and extension roles. They have a credibility that derives from procedures and training for impartiality.
- ***Certification alters stakeholder powers and relations*** – Through its participatory procedures, and where certificates improve the status of certified, good producers, certification plays a role in altering power balances. Sometimes, as in forestry, this can help marginalised groups. But often there are inequitable effects: certification is often granted to the larger, richer groups, whilst

others experience various forms of discrimination (because of costs, or because local norms and practices are not recognised by standards).

- ***Certification plays a policy role*** – Certification provides a 'real-time' policy discussion forum. This derives from its links to many supply chain actors in the market, and through its emphasis on participation and frequent review. It has become the *lingua franca* for good sector practice (as was the case in forestry, which badly needed it). It raises expectations for better-than-legal practice and accountability. However, certification schemes are rarely embedded in the 'set' of regulatory and policy instruments for sustainable development, which is partly because government bodies are seldom involved.

Some preliminary recommendations can be made to improve the effectiveness, efficiency, equitability and credibility:

- ***At the local level***:
  - Exploring locality-specific visions and standards is a necessary precursor to certification schemes, to avoid inequity from top-down standards
  - Diverse livelihood conditions and informal norms need better recognition in standards
  - Barriers to access need to be considered carefully in the design of certification schemes
  - Step-wise and group certification schemes are more likely to help poorer groups than single-enterprise, high threshold schemes, and consumers need to recognise this
  - Efficiency and equity problems can be resolved by locally-based certifiers and inspectors

- ***At the national level:***
  - Whilst certification procedures offer a useful forum for debating policy questions, certification itself is not necessarily the answer to these questions
  - Government needs to play a balancing role, particularly in dealing with equity problems and in ensuring that certification is better integrated into instruments for sustainable development
  - Although certification must focus on what the enterprise (or other certified entity) does, it also needs to account for critical sustainability issues at other levels (such as the landscape or the nation, which may not be under the control of that entity).

- ***At the global level:***
  - The role of certification in sustainable development, and the necessary improvements (e.g. government involvement), need to be discussed in the World Trade Organisation and associated fora, which may impose constraints (e.g. Technical Barriers to Trade)
  - Certification needs to deal with complexity (in standards and their interpretation) and yet also deliver a simple message to consumers and producers. A proliferation of certification schemes reduces confidence and needs to be managed. Global sets of principles need to be built on multiple local realities (i.e. first point under 'local level')

These governance points need consideration in the development of certification. In addition:

- The common assumption that consumers can drive certification schemes has led to inefficient design and disappointment where market benefits have proved elusive. Instead, other incentives need to be explored (access to resources such as land, finance, insurance), many of them with positive governance roles.
- Certification is not a 'magic bullet', and many products and processes are so complex, with multiple drivers, that certification is not the most useful instrument.
- Whilst certification schemes need to build on best practice, this must not only mean the practices of bigger, richer, 'scientific' enterprises. Many other traditions need to be incorporated, and the participation of poorer countries and producers needs more assistance.
- There are tensions between the values that drive some protagonists of certification and the need for objective scrutiny. This means that accreditation of certifiers is both essential and fraught with difficulty.

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CORP.-COMMUNITY PARTNERSHIPS:

FAIR DEALS OR PUBLIC RELATIONS?

By **James Mayers, Dilys Roe and Gordon McGranahan**

{3}

Corporate-community partnerships do not occur in a vacuum. Without good governance they can easily breed corruption, dependency and new forms of exploitation. Many of the ingredients for success depend upon fair and efficient arbitration, active partnership brokerage, and local community empowerment and representation.

A GOVERNANCE CHALLENGE IN AN ERA OF GLOBALISATION

Globalisation is often portrayed as reinforcing differences between:

- '***the connected***' – globally competitive, benefiting from global markets, capital flows and technology;
- '***the disconnected***' – affected but increasingly marginalised, with no credit, fragile entitlements, minimal income and education, and little opportunity to tap the economic benefits of globalisation.

Between these extremes lies:

- '***the confused middle***' – some able to respond to global opportunity, but patchy and unequal – some getting exploited as the 'connected' win at the expense of others;

The governance challenge is to reconcile, trade-off and attempt a balance between the potential benefits of globalisation and the increasing imperative for local control. Can partnerships between companies and local groups provide a key? Corporate-community partnerships are appealing as a potential means of incorporating 'the disconnected' and reducing insecurity in 'the confused middle'.

Partnerships for whom?

It is difficult to define precisely what distinguishes a corporate-community partnership from more conventional corporate-community relations – except that it is meant to be more beneficial to all parties. 'Partnership' is often taken to imply that the partners are working together as equals in pursuit of a common goal. This ideal is unlikely to be achieved in most corporate-community partnerships. 'Collaboration' may be a more realistic aspiration, even if it is a less fashionable term.

An implicit feature of a corporate-community partnership (or collaboration) is that it involves a relationship between one or more corporations and the community as a whole. The skills and resources the community can collectively bring to the negotiation can range from the ability to organise local initiatives (e.g. growing and managing trees or managing wildlife resources in a tourism area) to refraining from engaging in activities that undermine the interests of corporations (e.g. not creating informal connections to a piped water network, not hunting or burning around tourist lodges). The important point is that these interests, skills and resources often go unrecognised in conventional market relations, particularly where globally connected corporations are concerned. The company in turn can provide skills, technologies, resources and access to markets that the community would otherwise be unable to obtain.

Why partnerships?

Under what conditions would business and community protagonists pursue partnerships rather than conventional business deals or exploitative relationships?

Companies may aim for partnerships with communities when there are:

- Public pressures to behave well – increasing intolerance of irresponsible behaviour;
- Discriminating markets – created by certification, fair trade or standards-based stock exchanges (Green Dow-Jones, FTSE For Good), contractual requirements to service low-income communities;
- Cost advantages that the community can provide – through motivated labour, knowledge of local conditions, efficient informal institutions;
- Local risks that the community can help minimise – the destruction or unauthorised use of company property, violence against company employees, locally supported interference from local politicians;
- Collective goods that only the community as a whole can provide – access to communal resources, the support of community institutions.

Communities may aim for partnerships with companies when there are:

- Decreasing opportunities from the public sector – declining subsidies, privatisation of utilities, fewer centrally planned interventions;
- Desirable technologies or services that only companies can provide – capital intensive forestry technology, capital for tourist facilities of international standard, extensive piped water systems;
- Institutions capable of representing the interests of the community to the company – well developed grassroots organisations, community oriented non-governmental organisations, accountable local governments;
- Markets to which the community has limited access – international timber markets, a lucrative tourist trade;
- Scientific knowledge that the company can provide – characteristics of alternative tree species, durability of different water pipes.

Of course there are strong reasons why we do not see *more* partnerships. These include: excessive red tape, weak regulations or conflicting policy signals, inter- or intra-community conflict, a history of bad relationships or mistrust, weak bargaining power, insufficient knowledge and technology, and the reluctance of markets to make deals – all of which encourage companies to consolidate and 'stick to the knitting'. Furthermore, not all partnerships, however defined, are desirable. Nevertheless, it should also be noted that these factors can both change, and be changed.

How partnerships work

Here we look at the nature of partnership agreements, risk sharing, roles of partners and roles of third parties, drawing on three sectors:

- *Forestry*, where corporate players are recognising that they need to contribute to socio-economic aims in order to secure their production base. One of the ways of achieving this is in partnership with communities who also require access to land and who may have the rights and skills to manage that land at a lower cost and at lower risk than the private sector.
- *Tourism*, where co-operative ventures between the private sector and communities are increasingly promoted by governments, donors, conservation organisations and rural development agencies as a means by which tourism can benefit all parties – providing access to natural and cultural resources for tourism companies, and access to capital and to international tourists for communities – and can act as an incentive for biodiversity conservation.
- *Water supply* in urban areas, where there is a growing belief that if private utilities are to provide services to poorer neighbourhoods and house-

holds, they will have to work co-operatively with neighbourhood user associations and community-based organisations.

Forestry company-community partnerships in South Africa

In South Africa, corporate social responsibility initiatives in forestry have been around for years. They formed the basis for outgrower schemes which today involve some 12,000 smallholder tree growers on about 27,000 ha of land. These schemes lie somewhere between corporate social responsibility and hard-nosed business. Under the schemes, trees are grown by small-holders with support from companies who later buy the product for pulp. Outgrowing is a way of allocating risk between producer and contractor: the former takes the risk of production and the latter the risk of marketing.

Outgrower schemes have become a vital part of the commercial strategy of the large forest companies in South Africa, particularly Sappi and Mondi. Whilst outgrower timber only provides a small proportion of the companies' mill throughput, and is the most expensive per tonne, it also provides the fibre that would otherwise be unavailable because of land constraints. This allows a volume of production to be reached which achieves economies of scale. The access to land under communal tenure is thus a major benefit to the companies. And crucially, the schemes provide companies with a progressive image at a time of great change and when land use and control in South Africa is called into question.

For communities, outgrower schemes have contributed substantially to household income (they provide about 20% of the income needed for a household to be just over the national 'abject poverty line') but have not yet taken households out of poverty. In terms of the asset base for livelihoods:

- *Natural capital* has been built by households increasingly substituting trees for cattle as a form of savings. Some have also acquired new land under sale agreement of state assets. However potential negative impacts include the spread of alien invasive vegetation and the lowering of water tables.
- *Social capital* has been built by securing land rights within the communal tenure system through the schemes. However, growers associations (political capital) capable of negotiating better terms of contract with the companies are still weak.
- *Human capital* has been built through silvi-cultural skills development. But there are a number of ways in which women are exploited in the schemes.
- *Physical and financial capital* has been built through access roads, input supply depots and rural credit

provision. However, many growers fell their trees early to meet emergencies, are not paid the full market price by the companies, and are excluded from owning shares in processing.

Small growers also face problems with opaque government policy and unco-ordinated service provision from agencies of national and local government. Their associations lack the power to engage with the policies and institutions that affect their livelihoods.

In contrast to the individually-based grower schemes, community-based forestry partnerships, based on equity sharing or joint ventures, are a more recent phenomenon. These have focused on the Eastern Cape, where potential for new forestry is greatest, but where poor roads, long distances and little primary industry create major disincentives. In general, the companies are reluctant to 'go it alone' as development catalysts in the region and, as a result, partnerships have been slow to get off the ground.

Source: Mayers et al 2001, Ojwang 2001

Tourism company-community partnerships in Namibia

In the tourism industry, partnerships between the private sector and local communities are becoming increasingly common in a number of African, Asian and Latin American countries, especially as communities gain rights to wildlife and other valuable tourism assets on their land through national policy changes on land tenure. In other cases, partnerships are developing on private land as tourism operators recognise that not only is local support essential for the long-term maintenance of the tourism assets on which the industry depends, but that many communities have cultural resources which can greatly enhance or diversify existing tourism products. Communities themselves are also actively seeking to enter into partnerships with private companies, seeing them as an opportunity *inter alia* to exercise rights and to revitalise traditional knowledge or cultural practices.

In Namibia there are five main types of agreement between companies and communities:

1. To develop a new enterprise, share benefits from an existing enterprise or lease hunting rights, on communal land in recognition of the changing land and resource rights – for example, joint venture agreements between communal conservancies and luxury lodge developers;
2. To recognise 'good neighbour' relationships between a company and the community living adjacent or nearby – for example, making cash or other payments in recognition of conservation activities;
3. To utilise an existing, or develop a new community-based facility as a form of product diversification – for example, traditional villages;

4. To 'buy in' services or products – for example, out-sourcing of laundry services, payments for cultural displays – usually to complement an accommodation facility;
5. To develop and market tourist products – for example, providing training and sales outlets for handicrafts.

The inputs that are typically made to the partnerships by communities and the private sector depend on the type of product or service involved. For the private sector partner, in addition to the capital investment that is needed to start up an enterprise, inputs might include revenue shares; land rental; trophy fees; employment and training; outsourcing of services; asset transfer; and equity shares.

From the community side, the inputs for tourism and hunting partnerships are primarily access to wildlife and cultural attractions; access to land; and conservation or resource management activities.

In a number of cases a third party is also involved either in the partnership itself or in facilitating the negotiation process. In Namibia, the Namibia Community Based Tourism Association facilitates negotiations between communities and companies but is not directly involved in the partnership structure once it is established.

Taken as a global industry, tourism is not an equitable one. The three most lucrative aspects of international tourism are marketing, international transport and hotels, and these are often handled by vertically integrated, multinational corporations. This means that people in the North are the major beneficiaries, whilst in the South only a few locations in a few countries receive substantial benefits. At the local level however, where tourism does occur, company-community partnerships can contribute to more equitable sharing of power and improved local governance.

Source: Roe et al 2001, Ashley and Roe, 1998

Water supply company-community-government 'partnerships' in Buenos Aires

Privatisation of utilities is a rapidly growing phenomenon in urban areas, particularly in large cities. Many development assistance agencies, whose principal mandate is to reduce poverty, have supported this trend. Most of the emerging cases are public-private partnerships. The case that follows – based on the experiences of four *barrios* within the concession for water and sanitation services in Buenos Aires – is of a newer tripartite (public-private-community) collaboration.

The collaboration took a similar form in each of the *barrios* in which it operates, with:

- *Residents* providing labour and some financial contributions

- *Local government* sanctioning the project (despite unresolved land issues) and, in several cases, providing materials and more active support
- *Civil society* groups first negotiating for the project and then acting as mediator between the residents and the other parties, as well as organising the residents' contributions
- *Private utility* Aguas Argentinas (which has a multi-national partner in Lyonnaise des Eaux) connecting the local networks to their systems and taking various degrees of responsibility for the construction of the local networks.

The concession agreement was signed in 1992, but did not require expansion to settlements lacking land tenure, where a large share of the city's low-income residents live. The first company-community-government 'partnership' was initiated several years later in a *barrio* still facing tenure insecurity. At least initially, Aguas Argentinas was not the primary driving force – without pressure from civil society organisations and support from local government, the projects would not have come to be. Viewed from a narrow project-accounting perspective, these initiatives may still not have provided Aguas Argentinas with normal profits. However, they provided important indirect benefits, and being seen to address the plight of the urban poor brings its own political and public relations advantages. The results to date indicate considerable potential for engaging private utilities in collaborative improvement efforts, and also demonstrate that switching to a private utility does not in itself solve the problem of improving water and sanitation in low-income areas.

Accomplishments of the collaboration are significant: each of the major parties achieved important goals:

- Residents received reliable and convenient water supplies
- Private utility expanded its system at a low cost
- Local government enhanced its authority and gained local support
- Civil society organisations served the local communities and gained credibility

This was accomplished in the face of:

- Low-income residents' considerable mistrust of politicians and of offers of 'assistance'
- The utility's profit orientation and lack of experience in low income areas
- Local government's persistent clientelism and lack of local accountability
- Civil society organisations' accountability problems, and lack of experience with water and sanitation projects

There are also evident limitations, only some of which can be noted here. Water provision remains highly politicised, with all of the uncertainties this entails (though it must be acknowledged that without political pressure the projects would never have come into being). Moreover, while the water and most of the sanitation systems are in place and functioning, the procedures for maintenance, billing and collecting payments have not been adequately developed. Non-payment is a particular problem. Aguas Argentinas has little incentive to disconnect residents, since this would harm public relations and incur legal costs. However, in order to ensure the long-term viability of the water and sanitation provision, such problems must be solved.

In short, this form of tri-sector collaboration can, in the right circumstances, play an important role in improving water and sanitation provision in low-income urban settlements. Whilst major challenges remain, a well-focused approach can make an enormous difference to the current welfare and the future prospects of those involved. To date, however, very few communities have benefited from such collaboration.

Source: Schusterman et al 2001

Lessons learned

There appear to be a range of factors underpinning progress towards 'real' partnerships – where arrangements have moved beyond mere public relations gimmicks towards equitable deals. These include:

- ***Reliable information on the partners and the context for the partnership*** – including a realistic assessment of the goals, capacities, and flexibility of both sides, and of conditioning factors such as market trends, competitiveness, and policy conditions.
- ***Flexible models*** – that can adapt to suit different and changing conditions, and local circumstances
- ***Negotiated arrangements*** – deals are strongest where they are co-developed and periodically re-negotiated.
- ***Formalised arrangements*** – strong deals have legal status based on clear contracts spelling out rights and responsibilities, with provisions for nullification and compensation.
- ***Secure contributions*** – key assets, notably community land and business viability, should be secure or made more secure through operation of the deal.

Returning to the governance challenge

Corporate-community partnerships do not occur in a vacuum. Without good governance they can easily breed corruption, dependency and new forms of exploitation. Many of the ingredients for success depend upon fair and efficient arbitration, active partnership brokerage, and local community empowerment and representation –

which are also vital elements in improving local governance. One challenge is to ensure that the beneficial elements of successful partnerships contribute directly to strengthening local governance. In addition, partnerships often benefit from the involvement of local government: in the case of water provision described above, the water company would never have agreed to work with local communities to extend the piped system to areas lacking land tenure without the go-ahead from local government. Similarly, tourism partnerships in Namibia have been catalysed by the development of new community institutions for resource management. But if local governance is weak and more profits can be secured through deals with local power brokers than from developing a more widely beneficial partnership, then this is what the market pressures will promote, and responsible businesses will lose out to the irresponsible.

If partnerships are to foster both responsible business and local empowerment, two local governance pre-requisites stand out:

- The development of *third party* brokers or *facilitators* providing information and analysis, legal advice and arbitration to facilitate negotiation and lobby for vital prerequisites.
- The *strengthening of bargaining power and legitimacy of the community partners*. Few partnerships to date can be said to be co-managed by the community partner. Much greater attention needs to be given to revenue-sharing arrangements, share ownership, equity stakes based on the values of land and so on, if partnerships are to have a positive future in contexts of prevailing poverty.

National governance can also be critical. Through arrangements for land tenure and resource rights, as well as rules and incentives for investment, national laws and policies determine the context in which partnerships are set through arrangements for land tenure and resource rights as well as rules and incentives for investment, and they provide the basis for contractual agreements. National laws and policies can either help or hinder the attempts of local communities to organise and make deals to their own advantage. Despite widespread decentralisation, it is at the national level that many of the most important decisions are made, even in relation to local corporate-community partnerships. Of particular significance is the role of governments in upholding the rule of law and protecting the rights of individuals, households and communities. This includes preventing companies from bypassing local rights, ensuring that poor groups have access to the legal means to protect their rights, and penalising companies which pollute or degrade land.

It can be argued that good global governance is of fundamental importance to the success of local corporate-community partnerships. Many of the companies involved – at least in the forest and water sectors – are global players. Much of the motivation for developing partnerships with local communities relates to achieving good international reputations, securing international development funds, and in some cases obtaining international certification. More generally, the increasing involvement of private companies at the local level has been promoted internationally: it is no coincidence that the share of utilities run by private companies has been growing rapidly in so many countries. Even the move towards partnerships is a global phenomenon, and support for 'partnerships' is increasingly evident in the policy documents of international assistance agencies. (What is far less clear is whether such agencies know what they can or should do to help ensure that such partnerships bring the local benefits they promise.)

There is much still to be learned from existing cases of successful and disastrous partnerships in the sectors highlighted here, and in other sectors such as agro-industry, bio-prospecting and mining. Companies cannot be expected to wipe out poverty single-handedly and local groups are rarely the answer to the managing director's dreams. If it is a necessary characteristic of a partnership that both parties are involved in defining how the performance of their collaboration is to be measured, and both partners are involved in the measurement, it is questionable how many of the examples cited would qualify. But communities cannot afford to ignore the opportunities offered by the private sector, and pressure is increasing on companies who wish to expand their businesses to start addressing local concerns. If there is one basic message – it is to urge prospective partners to enter the deal-making arena with their eyes open.

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REGOVERNING MARKETS:

MARKET ACCESS FOR SMALL PRODUCERS

By **Julio Berdegué, Michael Hart, Liz Humphrey, Tom Fox, and Bill Vorley**

{4}

The danger is that globalisation can come to mean only the free flow of goods and finance, the open access to markets, the breaking down of barriers to trade and commerce. The concern for the common good, which characterised the international solidarity we spoke of, is in danger of being lost in the current understanding of a global world.

NELSON MANDELA'S SPEECH TO LABOUR PARTY CONFERENCE THURSDAY SEPTEMBER 28, 2000

INTRODUCTION: RIO'S PRIVATE SECTOR POLICY GAP

Governments South and North are faced with the challenges of achieving equitable local development in a period of globalisation, privatisation and liberalisation of markets. This has called into question the effectiveness of public policy in improving livelihoods.

Inequitable distribution of income-producing assets – land, water, and credit – underlie much inequality in rural areas. The Rio agreements are premised on overcoming exclusion from access to natural resources and exclusion from policy processes, with the state as the primary agent of change. It is assumed that if we just help small farmers produce more and better, they will end up being better off.

The Rio agreements understated two of the key constraints facing small producers: access to markets, and pricing, both related to the terms of trade between small producers and the downstream actors along commodity chains. It is becoming clear that improving governance in public policy making is not enough to reverse the process of marginalisation and impoverishment, when private decisions – especially by powerful private sector players along commodity chains – have such a profound impact on access to markets. The governance of markets must be a key concern of the WSSD.

Part 1 of this paper looks at market exclusion in the agri-food sector, and asks what exclusion from demand-driven commodity chains means for smallholder farmers and small processors, with examples from Latin America, Africa and the UK that link trends in the South and North. Part 2 looks at governance and organisation of supply chains, from production to consumption, and the implications for improving access to markets.

Realities faced by marginalised producers

Participation in commodity chains can link small producers to markets in high-income areas, with lower market risk and expanded potential markets, and also to inputs and financing. But while social responsibility and ethical issues are given far more attention in business circles than a few years ago, efforts by marginalised farmers and businesses to achieve access to export markets are plagued by obstacles (Box 1).

BOX 1

JUMPING THE HURDLES TO EXPORT MARKETS

1. Accessing appropriate market information
2. Achieving standards of quality, consistency, product safety, timeliness and other market requirements
3. Proving that certain market standards are met (eg. organic certification)
4. Developing market linkages
5. Coping with poor credit facilities, technology and infrastructure
6. Coping with adverse international trade policy (e.g. high import tariffs on processed goods)

Source: L. Humphrey (2000) Which way to market?, Traidcraft

These barriers are exacerbated by current trends in global agri-food markets, namely liberalisation, market concentration, and increasingly strict market entry requirements, including 'sustainability' standards. Each of these trends is outlined on the following pages.

Liberalisation

Agricultural sectors in many countries have been liberalised through privatisation and deregulation, often as a result of donor conditionalities within Structural Adjustment Programmes, and compliance with trade agreements. The state (at least in the South) has withdrawn from interference in production activities and the functioning of markets. It is suggested that these reforms should allow small farmers and other producers to exploit their comparative advantage, especially the cost of labour. Small farmers North and South are encouraged to deal with the withdrawal of government from the business of agricultural support and commodity trading by forging direct relations with the market.

In a perfect world, the increased risk from exposure to market fluctuations and removal of safety nets (such as tariff barriers, supply management, price supports, production subsidies, and access to credit) would be countered by improved market information and reduced information asymmetries, efficient scales of production and marketing, contract farming, and improved liquidity. However, the world is far from perfect, and there are two key factors at a global level which limit the opportunities for small producers to engage directly with global markets.

First, world markets are distorted by dumping, especially from the EU and US, whose agricultures are over-stimulated by direct and indirect production subsidies amounting to nearly US$170 billion in 1999. Countries in the South have neither the budgetary resources nor the room to manoeuvre under structural adjustment programmes to get anywhere near the levels of support which the EU or US provide by way of subsidies and other supply-side measures to retain competitiveness.

Secondly, the state has withdrawn from investment in extension, public research, rural infrastructure and credit provision under the same fiscal constraints and donor influence that brought about economic liberalisation. This limits access to technology, information and markets, even for strong local peasant organisations.

Market concentration

The nine years since Rio have seen an astonishing process of concentration in upstream and downstream global agri-food industries (Box 2). Since 1992 global *retail* has consolidated enormously and three retailers – Carrefour, Ahold and Wal-Mart – have become truly global in their reach. In 2000 these three companies alone had sales (food and non-food) of US$300 billion and profits of US$8 billion, and employed US$1.9 million people. Partly out of necessity food *processing* industries are also rapidly consolidating their economic and market power, with Nestlé, Philip Morris and Unilever emerging as the Big Three of global food producers. In 2000 alone, US$87 billion in food industry deals were announced. 80% of *pesticide* sales are now controlled by just six companies, down from 12 in 1994. Dense clusters and networks of relationships exist between these huge firms, with 'field-to-dinner' pipelines. As *corporate convergence* and '*co-operative capitalism*' become the norm, transactions become based on industrial relationships rather than on open markets. Valuable agricultural markets are subsumed into relatively closed supply chains governed by downstream actors. In agri-food we are witnessing a profound shift to *buyer-driven* commodity chains with sophisticated forms of *co-ordination and integration*, and *rules of participation*. For 'buyers' we refer here to retailers and processors, rather than consumers.

The control of commodity chains in agri-food by clusters of powerful downstream industries has profound impacts on agriculture, especially in weakening the link between farm prices and food prices, and reducing the share of the end price retained by local communities. Price pressure is forcing farmers into unsustainable practices in order to sustain the family income from a fixed land base. Overstocking, and neglect of practices which favour biodiversity or soil quality, are typical features of areas farmed under price pressure.

BOX 2

AGRI-FOOD CONCENTRATION IN LATIN AMERICA

With globalisation and the liberalisation of trade and foreign direct investment brought about by structural adjustment programmes and the GATT in the 1990s, Latin American agri-food systems have undergone rapid and profound changes in just one decade. One of the novel aspects of this change is the rapid concentration 'downstream', including in the retail sector (with the rise of supermarkets and fast-food chains) and in food processing, even in rural areas of Central America. This is quite different from the image of traditional rural spot markets. A few figures illustrate:

- During the 1990s alone, the share of the Argentine retail sector controlled by supermarkets went from 20 to 80%;
- In 1994, 23% of the Brazilian food retail sector was controlled by the 10 largest supermarket chains; the figure was 44% five years later; and in 1999, 72% of food purchases were in supermarkets;

▶

BOX 2 (cont'd)

- 35% of the Mexican retail sector was controlled by supermarkets by the end of the 1990s, and the share is rising rapidly;
- Of the 15 main food products in Chile previously sold in the main through spot markets, 14 are now sold through contracts between farmers and supermarkets and processors;
- A single firm controls 60% of chicken purchases in Central America;
- 20-35% of the rural retail sector in Central America is already controlled by supermarkets.

Source: Reardon and Berdegué (2000)

Market entry requirements

Highly concentrated actors in the food processing, retail and food service industries are able to reduce their supply base and demand increasingly stringent levels of quality, compliance with standards and codes of conduct, and post-production service from their suppliers.

Restructuring of commodity chains is proving to be a powerful driver of divergence and marginalisation within farm communities. Only large farmers have the capital, the infrastructure (e.g. access to post-harvest cold storage and refrigerated transport services), the technical expertise and market information to meet the stringent quantity and quality standards and speed of response required by the governors of commodity chains. Buyers prefer to deal with larger farms and firms that can meet these demands, because they deliver lower transaction costs and risk. This is an extension of the *technological treadmill*. Early adoption of technological change in response to buyer demands leads to the accumulation of resources by a small number of farmers, who have the assets and capabilities to lead the innovation process, whereas the majority are unable to compete and are forced to move out of agriculture. Firms producing the technologies also benefit from the treadmill, adjusting their economic behaviour according to the dynamics of adoption, and taking advantage of their monopolistic power.

As buyer power increases, small-holders are faced with increasing barriers to markets beyond those for basic commodities. Such barriers have little to do with classical notions of 'efficiency'. Smaller farmers with little land and capital see no benefit from making the necessary investments to meet the expectations of agribusiness processors, even in the unlikely event that they could raise the capital. Furthermore, these chains impose new financial conditions (for example supermarkets often have a 45-60 day payment cycle) and these can drive out all farmers who do not have access to financial markets to fund the cash flow consequences. In both the South and the North, small farmers often lack the strong and direct relationship with the market enjoyed by large-scale producers, and consequently experience declining returns from agriculture (Box 3).

Part of the trend towards increasingly strict standards which govern entry into buyer-driven commodity chains is the introduction of requirements for 'sustainable agriculture', often in response to pressure from NGOs or state regulators. 'Sustainability' as a set of process standards can provide leverage for large enterprises to control markets and *raise barriers to competition*. When processors or retailers develop strategies for sourcing more 'sustainable' products, they can, as governors of the chain, push all compliance costs and risks down to suppliers (Box 4). Standards and codes of practice thus favour capital-rich farms. Standards are seen as another example of the North 'pulling up the ladder of development' on smallholders. Grades and standards are increasingly being privatised, as the huge conglomerates are in a position to impose their own conditions and definitions.

BOX 3

MARKET EXCLUSION OF SMALL FARMERS IN THE UK

Plans for rapid consolidation and mechanisation of farming in India echo policies in the UK, leading to increasing farm size and removal of barriers that protect domestic food production and food security. Imports and concentrated market power in very few hands at the far end of the food chain are leading to depressed farm gate prices, often below the cost of production. Farmers all over the world are struggling to maintain incomes, as traders set the market price to suit their profits. Debt among farmers is increasing. The connection between what people buy in their local supermarket and where it comes from has been lost. We also now appear to be thinking that we should divorce environmental protection from food production, so farmers can be paid as guardians of the countryside while cheap food is imported from the world market. We all have to wake up to the fact that food and farmers are vital to our very survival. Governments and NGOs around the world must be prepared to have a real dialogue with farmers and rural people, in order to make decisions for sustainable world food production which do not exploit rural people and the environment for the financial gain of the few.

Source: Michael Hart, Small & Family Farms Alliance

Northern environmentalism, in catalysing a public-private response which packages 'sustainability' into technical, regulatory and managerial frameworks, is thus an important and unwitting driver of consolidation within the rural world, and may hold back smallholder farmers from building equitable (and therefore economically sustainable) trading relationships with downstream actors.

WAYS FORWARD: HOW CAN MARKETS BE REGOVERNED FOR SUSTAINABILITY?

The restructuring of markets and power relations beyond the farm gate has been under-reported in the debate about sustainable agriculture and rural poverty, both North and South. The trends were considered to be typical of agriculture in OECD countries rather than peasant systems. Agenda 21 reflects this: the private sector and the market hardly figure. Chapter 14 on

BOX 4

SMALLHOLDERS AND AGRIBUSINESS: HORTICULTURAL EXPORTS FROM KENYA

Supermarkets now control the largest proportion of fresh produce from Africa. Direct sales to supermarkets differ from traditional auction markets in the sourcing and preparation of products. The volume, quality and prices are negotiated and fixed over a long term (usually one year), thus stabilising the price throughout the season. The market and price risks to suppliers are also minimised. Producers can plan their planting regimes to meet market demand with a high level of certainty.

The down side to this arrangement is the specificity of supermarket requirements on volumes, quality attributes and production standards – including environmental protection and labour standards – which require highly sophisticated production facilities with a high capital outlay. These requirements favour the well capitalised large exporters, who can organise and supervise production by contracted growers, and wash, sort, pack and bar-code produce ready for supermarket shelves.

With increased demand for higher production standards, costs to producers and exporters have escalated. Exporters find that costs of ensuring compliance and traceability across large numbers of scattered and fragmented small farms are becoming prohibitive. Supermarket sales have led to widespread frustration and anger by farmers who accuse the supermarkets of exploiting their gatekeeper position in horticulture marketing by pushing increasingly stringent production standards onto growers, without sufficient market reward.

Source: James Nyoro, Tegemeo Institute of Egerton University, Nairobi

Promoting sustainable agriculture and rural development makes *no* demands on the private sector and little mention of markets. If the marginalisation of small producers is to be reversed, new forms of governance must be developed at the local and global levels and in the public and private sectors. We can identify eight ingredients for regoverning markets:

1. Producer organisations

Developing organisational capacity among small farmers would offer them more benefits and less risk from participating in buyer-driven commodity chains. Governments and international co-operation can assist these small-holder economic organisations, by recognising them as partners in decentralisation, and providing a legal framework covering the management of contracts and the provision of bank credit. These reforms would enable smallholders to access lucrative markets and work with intermediaries without losing commercial advantage. In addition to a legal framework, producer organisations need access to financial resources (particularly long-term) and technical and managerial know-how.

2. State support for building small producers' capacity

Governments can help producers to develop new competencies for participation in commodity chains, particularly in meeting quality standards. Agricultural development programmes cannot only be demand-driven where 'demand' is understood to mean 'that which is of interest to the farmers'; they must also be market-oriented, at least for those categories of small farmers who are or would like to be linked to markets for inputs, services and products. There is an urgent need for pro-active public policies aimed at strengthening the capacities (human, social, physical and financial capital) of smallholders to participate successfully and sustainably in the new market economies; the market by itself will not do the job and, if left alone, the 'invisible hand' will strangle millions of current and potential small-scale rural entrepreneurs. As part of these pro-active public policies, new institutions and organisations need to be developed to reduce transaction costs faced by smallholders. These should include mechanisms for *informing farmers about the market* to overcome information asymmetries that disadvantage remote farmers in market transactions, and for *provision of training* for farmers and their organisations in how best to use market information. State support can also provide alternative structures to conventional buyer-driven commodity chains, such as school meals programmes and local farmers' markets. Urban governments often under-estimate the importance not only of local agriculture *per se*, but of demand from agricultural producers and households for the urban economy. Local government should assess the current or potential importance of local agricultural/livestock production for local livelihoods (including the forward and backward linkages with other enterprises) and for meeting local nutritional needs.

3. Industrial policy

Policies that develop more transparent and competitive markets are as important to sustainable development as those that protect land and water. Competitive and transparent markets need adequate legal frameworks, judicial systems that work for all, and regulatory agencies that prevent anti-competitive behaviour and abuse. Vigorous *competition (antitrust) policy* must address *buyer concentration* (oligopsony) and its effects on supplier welfare and the *distribution of profits*, as well as profit levels along the agri-food chain.

4. Mainstreaming fairtrade

Improving access to UK and other European markets requires an increase in the number of companies which wish to engage with marginalised producers in their supply base, including through the fair trade movement, thereby raising awareness in mainstream business of the challenges faced by marginalised producers. The most clearly defined way for conventional companies to become involved in fair trade is to establish lines of their products which qualify for the Fairtrade Mark. However, the use of labelling does not appeal to all companies, and the Fairtrade Mark is available only for certain commodities. Companies are unsure how to achieve a marketing payback for investing in a fair trade model without labelling. There is also concern that the Fairtrade Mark can be undermined by other claims, such as 'ethical' trade.

5. Corporate ethics and private sector policy

Industry has understood its sustainable development challenge primarily as one of eco-efficiency, reducing impacts of production processes though self-regulation. A clear commitment by industry to move beyond its eco-efficiency positions laid out at UNCED is essential. Food retailer and processor policies affect livelihoods and environmental health right along the commodity chains, way beyond the points of production and sale. Accountability of global food processors and retailers, as drivers of agri-food markets, must extend beyond their consumers, to include national objectives for sustainable development.

6. Civil society scrutiny

Increased size and concentration in agri-food industries has advantages for sustainability. Large companies become sensitive to scrutiny by civil society groups, in the defence of brand equity and shareholder value. Civil society benchmarking is another way of improving the governance of agri-food chains. It raises public expectations of private sector support for sustainable agriculture, draws consumer and investor attention to best practices, and can provide tremendous educational opportunities (Box 5).

7. Strengthening the farmer's voice in setting standards

Standards and codes of conduct, including those for sustainability, should be undertaken through partnership with producers rather than being enforced from a distance, to ensure that local realities and aspirations are taken into account. They should be accompanied by training and capacity building to prevent exclusion of small producers, and ways of sharing the cost of compliance should be explored.

8. Removing market distortions

Trade liberalisation exposes Southern countries to highly subsidised competition in both domestic and export markets, potentially undermining more sustainable, less intensive local models of agriculture. There is a clear role for the WSSD specifically to support actions in other fora such as the WTO to bring an end to overt and disguised dumping of agricultural produce.

BOX 5

SCRUTINY OF UK SUPERMARKETS: THE 'RACE TO THE TOP' PROJECT

A project being co-ordinated by IIED is measuring the performance of supermarkets in promoting a greener and fairer agriculture and food system. The Race to the Top project is benchmarking and tracking the social, environmental and ethical performance of UK supermarkets – including comparative data on the relationships of supermarkets with farming at home and abroad – and thereby aims to catalyse change within the UK agri-food sector and beyond. A broad alliance of organisations representing farming, conservation, labour, animal welfare, and sustainable development communities, has developed a series of indicators of supermarket performance. These indicators will provide comparative data for an annual independent benchmarking process. By identifying, highlighting and rewarding best practice by supermarkets, the project will point to key issues for public policy, consumers, investors, retailers and campaigners.

Conclusion

Massive changes are taking place in the geography of agricultural production in response to the creation of commodity chains, governed by non-agricultural sectors and driven by global sourcing and advances in processing and transportation technologies. At the same time, we are witnessing a divergence between and within agriculturally dependent rural economies, North and South. The integration of some farmers in agri-food systems, and the simultaneous exclusion of others mirrors the emergence of the dual economy across the farming world. Access for small farmers to dynamic markets will require 'pull' factors at the level of markets, policy and institutions that create adequate incentives and the right conditions for fair trade between business and small farmers. But we also need capacities at the level of farmers' organisations, communities, advisors and economic organisations to respond to these incentives, which can improve quality and consistency of product. The survival of rural areas at the margins, in the competition for a global pool of capital, depends on the creation of those conditions without delay.

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MARKETS FOR ENVIRONMENTAL SERVICES

By **Natasha Landell-Mills, Joshua Bishop and Ina Porras**

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Can markets for forest environmental services help to reduce poverty, as well as protect the environment more efficiently? Are market-based approaches the 'silver bullet' that can meet both environmental and development goals, or are they just 'fools' gold', promising more than they can deliver?'

SILVER BULLET OR FOOLS' GOLD: CAN MARKETS FOR ENVIRONMENTAL SERVICES HELP CONSERVE FORESTS AND REDUCE POVERTY?[1]

Agenda 21 called on governments to adopt measures to "internalise" environmental values in the market place. Since then there has been an explosion of interest in the use of market-based approaches to achieve environmental goals. Forestry is no exception, as seen by the increasing participation of commercial firms in a range of activities previously entrusted to governments, including land use planning, management, monitoring and enforcement. One of the most exciting and controversial developments is the creation of markets for previously non-traded forest environmental services, such as forest carbon sequestration, biodiversity conservation, watershed protection and landscape beauty.

Practical guidance is sorely lacking, however, especially in the South. A major gap in knowledge is how market creation affects the poor. Can markets for forest environmental services help to reduce poverty, as well as protect the environment more efficiently? In short, are market-based approaches the 'silver bullet' that can meet both environmental and development goals, as proponents claim, or are they just 'fools' gold', promising more than they deliver? The upcoming World Summit on Sustainable Development offers an opportunity to take stock of recent efforts, and to re-orient market-based environmental initiatives in ways that truly benefit the poor.

Forest benefits and missing markets

Forests are widely appreciated and extraordinarily useful. They are also under-valued and under threat in many parts of the world. Forests provide both timber and non-timber forest products such as fuelwood, nuts, fruits and medicinal plants. They also provide critical environmental services, such as protection from erosion, regulation of natural water supplies, habitat for wildlife, carbon storage and landscape amenities (or "view-scapes").

Forests are under-valued and under threat partly because many of the benefits they provide are not rewarded in the market place. In most parts of the world, forest owners and managers have little incentive to invest in maintaining or enhancing the environmental functions of forests, which generate little or no financial return. An important underlying cause is the absence of property rights or other legal means to require payment for forest services rendered or damages incurred.

The absence of markets for environmental benefits significantly influences the way that forests are managed, particularly by private land owners. Where prices are missing, forest environmental services will tend to be under-provided by private producers, relative to marketed goods such as timber. As a result, logging and other forms of resource extraction are often conducted with little regard for their impacts on environmental services. The failure of markets to recognise and reward the provision of forest environmental

[1] This chapter is based on a global review by IIED of markets for carbon sequestration, biodiversity conservation, watershed protection and landscape beauty in countries around the world. More than 280 initiatives were analysed with respect to market form and evolution (i.e. participants, level of competition, payment mechanism, geographical scope, institutional context and maturity), as well as their economic, social and environmental impacts (to the extent these may be identified). A detailed report has been published by IIED; copies may be requested from any of the authors.

services can lead to excessive deforestation and conversion of forested land to other uses, notably agriculture, which may in turn accelerate land degradation (Contreras-Hermosilla 2000).

Seeking solutions to market failure: From state provision to market creation

Conventional approaches to dealing with market failure in the forest sector have relied on heavy government intervention, including public ownership of forested land and elaborate regulation of extractive uses by the private sector. More recently, in the face of budgetary constraints and increasing pressure to liberalise economic policy, many governments have increased their use of market-based approaches to achieve environmental objectives in the forest sector (Landell-Mills and Ford 1999).

The most ambitious intervention is to develop new markets for previously non-traded forest environmental services. By promoting market development, governments seek to ensure that the beneficiaries of particular environmental services compensate service providers, i.e. landowners or land users, for actions undertaken to maintain or enhance the quality of environmental services. Table 1 lists examples of forest environmental services, how they can be 'commoditised' to facilitate trade, and the sources of demand (i.e. potential buyers).

TABLE 1

COMMERCIALISING FOREST ENVIRONMENTAL SERVICES

Environmental service	Commodity	Sources of demand
Watershed protection (e.g. reduced flooding; increased dry season flows; rainfall augmentation, reduced soil erosion; reduced downstream sedimentation, improved water quality)	Watershed management contracts; tradable water quality credits; water quantity credits, salinisation offsets; transpiration credits, conservation easements, certified salmon-friendly agricultural produce	*Domestic/regional* – hydroelectric companies; municipal water boards; irrigators; water-dependent industries; domestic users; regional co-operatives
Landscape beauty (e.g. protection of scenic 'view-scapes' for recreation or local residents)	Eco-tourism concessions; access permits; tradable development rights (TDRs); conservation easements	*Domestic/international* – local residents, tourist agencies; tourists; photographers; media; conservation groups; foreign governments
Biodiversity conservation (e.g. conservation of genetic, species and ecosystem diversity)	Bio-prospecting rights; biodiversity credits; habitat credits; research permits; biodiversity concessions; protected areas; TDRs; conservation easements	*Domestic/international* – pharmaceutical, cosmetic and biotechnology companies; agri-business; environmental groups; foreign governments; the global community (e.g. via the Global Environment Facility
Carbon sequestration (e.g. absorption and storage of carbon in forest vegetation and soils)	Carbon offsets/credits, TDRs, conservation easements	*Domestic/international* – major carbon emitters (e.g. electricity, transport and petro-chemical companies); environmental groups; foreign governments

For any environmental service to be effectively commercialised, two fundamental conditions must be satisfied: firstly, consumers must be willing to pay for the good or service in question, and secondly, producers must be willing to supply it. These conditions are not easily met. However, several factors have conspired to make market-based solutions more feasible and attractive in recent years, especially in industrialised countries. These include:

- Increased understanding of the economic importance of environmental services to consumers, and the need to ensure their continued provision in the face of growing scarcity of natural forest ecosystems;
- Improved methods for monitoring the status, impact and consumption of environmental services;
- Better appreciation of the institutional requirements for market-based provision of environmental services (see Table 1), including well-defined property rights and transparent trading mechanisms;
- New commitments by public authorities to quantitative environmental targets (e.g. net national carbon emissions), combined with growing interest in finding cost-effective means of meeting those targets;
- Declining costs of communication, trading and enforcement, which enable producers and consumers of environmental services to come together and reach agreements, while at the same time facilitating the role of governments in upholding environmental service contracts; and
- Increased public acceptance of market-oriented approaches to development and environmental protection generally.

While the conditions for market development have improved in many parts of the world, markets for environmental services only rarely emerge spontaneously. In many cases government intervention is required to set up and sustain new markets. Two broad approaches to public sector promotion of markets may be distinguished: (1) stimulating demand for non-marketed goods and services, and (2) stimulating supply. On the demand side, governments may sponsor research into potential commercial uses of non-marketed forest services, undertake public education campaigns to increase awareness, require that private beneficiaries of environmental services pay for their use, or even pay private forest owners directly. Government interventions on the supply-side include: restricting allowable land uses to secure environmental services, setting quotas or permits to increase the financial returns to sustainable management, and establishing legal liability for damages to public and private environmental goods, e.g. fining firms when their activities harm wildlife on public lands, or permitting property owners to sue for damages when floods result from logging in upland areas. Governments can also play a catalytic role simply by bringing producers and consumers of environmental services together.

Market development and the poor

The impact of markets on livelihoods is a key factor in their success or failure. Where the gains from commercialising non-timber forest benefits are not shared with local people, or benefit only a small segment of these communities, local support for conservation efforts may be undermined. On the other hand, the contribution of forest environmental services to rural livelihoods means that there are often prospects for 'win-win' outcomes, benefiting both local and global communities. For instance, the impacts of forest protection may be felt locally through improved soil fertility, reduction of soil erosion and prevention of flooding, all critical for maintaining agricultural productivity. In addition to such indirect environmental benefits, the commercialisation of environmental services can offer local people potential new sources of cash income, e.g. through employment, royalties, benefit-sharing agreements, etc. This is not only critical for raising living standards, but by diversifying the local income base, it may reduce the vulnerability of communities to external shocks, e.g. drought or a fall in agricultural prices. Moreover, there may be significant benefits in the form of local capacity-building and improved linkages with the outside world. Market development may spur new forms of co-operative institutions and strengthen local project management skills. This is particularly true where market participants need to cooperate in order to generate supply, or to form groups of buyers.

Of course, local communities are not homogenous and the distribution of benefits from market creation among different individuals and groups will have critical implications for market success. Where powerful segments of local societies capture market benefits, marginalised individuals may continue to pose a threat to environmental integrity. Understanding who gains and loses within local groups is essential. The challenge facing policy-makers and others is to design appropriate policy frameworks to achieve efficient and equitable benefit-sharing outcomes. The issue of equity is central to this approach.

Evidence to date

Growing enthusiasm for market development is not matched by practical understanding. Information on existing markets for forest environmental services is widely scattered and not easily accessed. Research to date has focused on valuing forest environmental services, with some attention to designing market-based incentives, but there has been little documentation of the process of market development, and virtually no rigorous assessment of impacts. Moreover, since most existing material is based on experience acquired in Northern countries, there is a need for guidance based on actual experience from a range of African, Asian and Latin American contexts.

Notwithstanding these constraints, a review of over 280 examples of payments for forest environmental services undertaken by IIED in 2000/2001 points to several key lessons:

Defining commodities is fraught – While commodities in existing markets are easily identified, this is often one of the most challenging aspects of market creation. It is also one of the most important steps for determining whether or not the market will take off and be sustained. In the case of environmental services, commodities must overcome the hurdles of non-excludability and non-rivalry to make the service marketable. They must also move in line with services such that payments for the commodity translate into payments for the service. Achieving these twin goals is extremely difficult.

Markets are multi-stakeholder affairs – While the private sector tends to be the main player, local NGOs, communities, governments, international NGOs and donors also play key roles as buyers, sellers, intermediaries and suppliers of ancillary services. Efforts to promote markets for environmental services should seek to capitalise on the contributions of local stakeholders and avoid alienating particular groups that may block market development.

Markets remain immature, but momentum is growing – Despite their rapid growth in popularity amongst academics and policy-makers, in the majority of situations markets remain nascent affairs characterised by unsophisticated payment mechanisms, low levels of price discovery, high transaction costs and thin trading. Yet, the picture is changing. Growth in pooled transactions has given the market a boost as more and more buyers come together to spread risks and the emergence of 'over-the-counter' trades reflects a growing confidence amongst suppliers who are beginning to set the terms of deals. Gradually, case-specific negotiations are being replaced by trading systems that seek to promote a greater volume of payments at lower costs. Retail-based trading, clearing-house mechanisms, investment funds and exchange-based platforms are all testimony to this effort.

Global services do not require global markets – The extent of the market depends on the nature of the service and on market design. Given the difficulties of defining property rights and regulatory oversight, local level markets for global services may offer the best starting point for market development.

Markets are nested – Markets do not exist in isolation and should be evaluated with reference to their interaction with other hierarchical, co-operative or market institutions. Not only do markets mould to fit existing institutional landscapes, but they also have repercussions on these landscapes. Successful markets often depend on the emergence of supporting regulatory and co-operative arrangements and may lead to the abandonment of outdated institutions. Efforts to build markets as alternatives to non-market institutions are misplaced.

Market drivers evolve – Just as markets develop, the factors driving their emergence alter over time. While demand-side drivers are most closely associated with market creation to date (e.g. based on a growing appreciation of benefits provided by forests, awareness of threats to supply of services, company initiatives to improve their public image, efforts to exploit niche market opportunities, ethical concerns), suppliers are becoming increasingly forthright in demanding payment – often supported by government environmental regulations.

Market development takes time and effort – A number of steps are involved in establishing payment mechanisms for environmental services. Services need to be identified and clearly linked to forestry activities that will ensure their delivery; willingness to pay established; commodities defined and the trading infrastructure set up. Time is also needed for feedback and gradual improvement. The process can be long and may involve set-backs.

Market benefits are widely applauded, while costs are poorly recorded – Very few thorough assessments of the costs and benefits of emerging markets exist. For the most part, market descriptions are general, ad hoc and vague. Moreover, because literature tends to be written by proponents of markets, there is a heavy emphasis on benefits, and little critical analysis of costs.

Markets may or may not benefit the poor – The lack of critical analysis is particularly prevalent when it comes to impacts of emerging markets for the poor. There are a number of reasons for concern. Market development reflects local conditions, including power relations. Where poor groups have little voice in the development process, there is a real risk that they are marginalised. Markets may be structured to recognise formal property rights, certification systems and systems of credit which fail to encompass assets and rights of the poor. However, markets also offer a potentially powerful tool in the fight to alleviate suffering of poor rural communities. By helping these groups to transform natural capital embodied in forests into financial flows, markets provide local people with greater flexibility in exploiting their natural assets and help to reduce vulnerability by diversifying income base.

Capacity strengthening and research priorities

Markets for forest environmental services are developing at an increasing rate all over the world and their emergence has critical implications for welfare. There is an urgent need for policy-makers to respond to this development. As a first step, it is critical that lessons are learnt from experiences on the ground and guidance compiled on how to create markets that benefit all, and in particular the poor.

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INVESTMENT FOR SUSTAINABLE DEVELOPMENT: THE PUBLIC PRIVATE INTERFACE

By **Maryanne Grieg-Gran**

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The challenge is to ensure that flows of private capital are directed to activities which secure the economic benefits of investment but also contribute to poverty reduction and environmental improvement.

THE RISE OF PRIVATE CAPITAL FLOWS

While official development finance from North to South has been declining over the last ten years, private capital flows have increased dramatically. The financial upheavals in Asia and Latin America in the latter half of the 1990s saw a fall in these flows and the high level of 1997 has yet to be regained. Even so, in 2000 private capital flows were still more than four times official flows (World Bank 2001). The major part of this is foreign direct investment (FDI) which, unlike portfolio investment and commercial bank lending, was not cut back in reaction to financial instability in emerging markets. Given the decline in official flows, the spotlight must fall on foreign investment and FDI in particular, as a driver for sustainable development.

Concern is often expressed that private capital flows are concentrated in a small number of mostly middle-income countries and that foreign investment is therefore irrelevant to the sustainable development aspirations of most low-income countries. In absolute terms this is the case, but when considered in relation to the capacity of countries to absorb investment as indicated by GDP, capital flows appear to be more widely distributed. World Bank figures show that the average ratio of FDI to GDP in 1997-1999 was almost the same for low-income countries as for middle-income countries, although the former group was heavily influenced by the inclusion of China. Moreover, some of the poorest countries, such as those in sub-Saharan Africa, and others without mineral resources, have seen increases in FDI. The potential of foreign investment to promote sustainable development should not be ignored even in low-income countries.

Investment is crucial for an economy because it is the engine of economic growth and is the first stage of decision-making on the allocation of resources. While North-South flows of capital provide only a part of the investment finance mobilised by African, Asian and Latin American countries, they have a wider impact. Foreign investment at its best brings not only finance but also access to technical and managerial expertise, technology and markets. This can lead to economic growth, employment generation and poverty alleviation, both directly and indirectly through spill-over effects on local enterprises and government revenue. It may also be beneficial for the environment because of the use of clean technology, pressures for efficient resource use and policies of multi-national companies to operate to uniform international standards.

Foreign investment at its worst can result in enclave-style companies with heavy reliance on imports and minimal linkages to the rest of the economy. Added to this is the fear of the 'race to the bottom'. It is claimed that governments have to offer generous financial incentives to attract inward investment, while investors seek out countries with less stringent environmental and social standards or persuade governments to relax standards as a condition of investment. More seriously, the competition between countries to attract investment creates incentives for rent-seeking and corruption. This implies the diversion of resources into non-productive activities and can have longer-term effects on the host country because it can undermine systems of corporate and political governance (Oman, 2000). In some cases, the pace and scale of foreign investment may be too great for the regulatory and negotiation capacity of the host country to adjust.

The challenge is to ensure that these flows of private capital are directed to activities which secure the economic benefits of investment but also contribute to poverty reduction and environmental improvement. Northern governments may no longer dominate financial flows to the South but they can still have influence in other ways, primarily through leveraging private capital for development, but also through policy interventions. Ultimately, the policies of the host country and its ability to implement them have a major influence on the form that foreign investment takes and its impact. The extent to which such policies address the interests of different stakeholders is also crucial. However, policy interventions in the investing country and at international level can serve to reinforce efforts at country level to steer foreign investment towards sustainable development.

The leverage function of official finance

Official finance as well as funding sustainable development activities directly now has a different type of role to play – that of encouraging private capital to support sustainable development. Multi-lateral and bi-lateral development finance institutions which support private sector activities are not new – the International Financial Corporation (IFC) claims to draw in several dollars in private capital for every one dollar it contributes. Similarly, officially backed export credit agencies play an important role in facilitating private investment by acting as insurer of last resort. This enables investors to do business in countries considered to be politically high risk. These official institutions are therefore well-placed to influence private sector behaviour so that activities that support sustainable development are funded, and that finance does not flow to activities which are unsustainable.

However, these institutions vary in the attention they give to sustainable development. While IFC has been addressing environmental and social impacts of its projects for some years, export credit agencies whose mandate is to promote the industry and exports of the home country, have been slow to broaden their focus to consider the impacts on the host country and the wider sustainable development impacts of their financing decisions. Pressure from NGOs and the call for 'joined up government' are forcing them to reconsider their approach. For example, in 2000 the UK Export Credit Guarantee Department published a statement of business principles with the aim of ensuring that its activities reflect the government's policies on sustainable development, environment, human rights, good governance and trade.

Even among the more progressive institutions, the emphasis has been more on avoiding bad practice than on actively seeking out and promoting innovative sustainable activities. The approach of the IFC, which has been copied by other institutions, centres on screening techniques to categorise projects according to their potential impact. Moreover, certain activities are excluded altogether from IFC support, eg, logging in tropical forests. IFC also promotes environmental screening techniques for the private equity funds it supports. NGO pressure tends to be in support of these exclusionary approaches, if not goes further. For example, Friends of the Earth is advocating that all international finance institutions should phase out the financing of mining and fossil fuel projects.

Most promising for sustainable development are the venture capital funds that some of these institutions are supporting, particularly where they are dedicated to specific development aims such as renewable energy, biodiversity conservation or employment-intensive small and medium enterprise. They are important because they provide finance to companies in the crucial start-up phase or where some major restructuring or expansion is required. Given that sustainability orientated enterprises are often considered too high risk to warrant support from traditional financial institutions, these funds are filling an important gap. But it is rare to find a fund which integrates both environmental objectives and social objectives, in particular, poverty reduction.

BOX 1

VENTURE CAPITAL FOR BIODIVERSITY CONSERVATION

The Terra Capital Fund in Latin America aims to invest in activities which promote sustainable resource use and biodiversity conservation. A2R, a Brazilian Fund Management company, is the lead manager of the fund. Investors in the fund include IFC, SECO (Swiss Government Agency of Economic Co-operation) the Multilateral Investment Fund of the Inter-American Development Bank, Triodos Bank and private institutional investors. In addition, the Global Environment Facility has provided funding to cover the additional costs involved in biodiversity-related project development, i.e. screening, technical assistance, monitoring and evaluation. The fund is seeking a minimum 20 per cent return from its projects, which is low by comparison with most venture capital funds. The focus is on small and medium companies in agriculture, forestry, nature tourism, aquaculture and non-timber forest products. Investments made by the fund range from US$0.5m to US$2m over a period of six to eight years. Projects in its portfolio include palm heart processing in Brazil, certified under FSC, and organic fruit in Chile.

Source: Moles, 2001

A major challenge facing these government-backed institutions is to determine the environmental and social standards by which projects should be assessed. While most would agree that a 'one-size fits all' approach is not appropriate, the challenges involved in setting standards to take account of local perspectives and priorities are formidable.

As a way of dealing with this issue, institutions are citing business case arguments which highlight the financial advantages to companies in addressing environmental and social impact. This is the approach used by IFC in training the fund managers of its private equity funds. It is argued, for instance, that clean technology can reduce production costs; good working conditions can lead to higher productivity; and that better relationships with regulators and local communities can result. While undoubtedly valid in some cases, there are limits to such arguments, particularly in conditions of strong competition.

Another significant challenge is to mainstream sustainable development across all divisions of an institution, and create incentive structures that reward staff for addressing these issues. IFC is currently trying to do this, but all too often the environmental group or sustainable development group is a separate unit within these official institutions – and rather than propose sustainable projects, it assesses projects proposed by other divisions. Incentive structures for employees in such institutions are often based on banking criteria for performance such as the amount of funds committed or return on investment. This creates pressures against rejecting projects on environmental or social grounds.

There are also potentially conflicting pressures for these institutions to operate on a more commercial footing. The Commonwealth Development Corporation, now CDC Capital Partners, is being transformed into a public-private partnership with the use of private capital. While it is a clear statement of business principles addressing social, ethical and environmental issues, it has moved out of sectors it traditionally supported, like forestry and agriculture, to concentrate on higher-return sectors such as oil and gas. Concerns have been raised, for example by *The Economist*, that CDC's attention is being diverted away from key sustainable development challenges such as poverty reduction, although it has strongly rejected these criticisms.

The role of public policy

Host country level

While the investment policy regime in the host country is key, there are strong pressures to relax requirements because countries are often in competition with each other to attract investment. One of the advantages claimed for FDI over other types of investment is that it provides a source of capital for countries with less-developed financial systems and regulation. But these same characteristics affect their ability to develop and enforce effective frameworks for inward investment and resist 'investor bullying'.

There are some positive examples, however, where host country policy has helped to influence investor behaviour. Tax concessions given by government were an important incentive for multinational companies to participate in the Thailand Business in Rural Development (TBIRD) initiative to promote rural livelihoods. In this case the support given by PDA, the NGO that set up the TBIRD, in the form of training and community liaison was also crucial. Thailand was also one of the first countries to make environmental impact assessment one of the information requirements for a stock market listing.

Investing country level

Public policy in the investing country can target both the companies engaged in FDI and the investors that finance them. In practice, there is little justification for the source country government to control the overseas operations of companies or the working practices of their overseas suppliers. It can, however, require companies to report more comprehensively on their practices, the justification being that they must provide information on relevant risks to their investors.

It is the investors in these companies that potentially have most influence on their sustainable development performance. Another route for policy intervention is therefore through the requirements placed on investors and the incentives they are given.

Large amounts of investment are held by institutions that manage pension funds and mutual funds. There is a growing interest in the North in socially responsible investment (Box 2), but a major constraint has been the separation in decision-making between the scheme contributor and the fund manager. For individuals buying into funds in the retail market, there are now several SRI schemes to choose from in most European countries and North America. However, a major part of assets lie in occupational pension funds where choice is restricted and scheme contributors often have little information about the investments being made on their behalf. Pension fund trustees have also been concerned about possible conflicts with fiduciary duty. The UK Government has aimed to address these constraints. As of July 2000 trustees of occupational pension funds in the UK are required to state what their policies are in relation to social, environmental and ethical issues when making investment decisions, which has raised public awareness about SRI.

Other countries, like Australia, are following suit. The approach of the Netherlands has been to offer economic incentives, and there has been a boom in green investment funds stimulated by generous tax concessions to investors (van Bellegem 2001).

BOX 2

SOCIALLY RESPONSIBLE INVESTMENT AND THE SOUTH

SRI in its broadest sense includes both screening (selecting investments on the basis of social, environmental or ethical criteria) and shareholder advocacy or engagement. According to EIRIS, in the UK 'narrow' SRI accounts for roughly four billion sterling – tiny in relation to the estimated 828 billion sterling of occupational pension fund assets, but double its level only two years ago. Engagement is considered to be the most rapidly growing area of SRI. In the US the Social Investment Forum estimates that 13 per cent of funds under professional management are SRI in the broad sense. In the UK some institutions, for example, Friends Ivory and Sime and Henderson Global Investors, are adopting engagement approaches with companies outside their screened SRI funds.

As a rule SRI funds invest very little in the South, mainly concentrating on European and North American companies. Some notable exceptions are the NPI Global Care Asia Pacific Fund which has holdings in India, China and Thailand amongst others, and the Calvert New Africa Fund which has invested in countries considered as frontier markets by rating agencies, such as Botswana.

But SRI funds have an indirect leverage point as many Northern companies have operations and/or supply chains in Southern countries in their portfolios. Screening criteria often address these issues, for example the Calvert World Values fund in the US avoids companies that engage in forced or child labour, or that fail to meet international standards in their overseas operations. Issues such as working conditions along the supply chain, and human rights often form the subject of shareholder advocacy campaigns or engagement.

International Level

Because countries are in competition with each other to attract investment, co-ordination of policies at international level is often encouraged (e.g. Oman, 2000). The challenges involved are enormous, as evidenced by the opposition to and eventual abandonment of the proposed agreement on investment (MAI). The main concern was that it would constrain the ability of of host country governments to impose environmental and social standards on foreign investors. However, a multi-lateral agreement which did attempt to address these issues would be equally contentious and fraught with difficulty.

Difficulties have been encountered even by more modest attempts at policy co-ordination. The OECD is working on common environmental guidelines for export credit agencies to ensure a level playing field for companies, and to avoid a race to the bottom. NGOs have criticised the pace at which is this is being conducted and the relative lack of involvement of Southern country governments.

More fruitful perhaps are approaches that target companies directly and are voluntary in nature. The OECD guidelines on multi-national enterprises, which set out non-binding principles on issues such as employment, environment, information disclosure and corruption, have been endorsed multi-laterally. Moreover, when they were last reviewed in 1998, extensive input from business, labour and civil society was sought. Their weakness, however, lies in their vagueness and the lack of guidance on how they should be implemented. Similarly, the voluntary nature of the UN Global Compact can be considered both a strength and a weakness.

Conclusions

Common to all these types of policy intervention is the need for agreement on standards. These must be appropriate locally, and thereby avoid making it more difficult for poor countries to access foreign capital, while not precipitating a race to the bottom.

While most people would support the need for international policy co-ordination on investment, this is likely to remain an elusive goal. It is therefore necessary to focus on more modest aims: These might include:

- Supporting local and national processes of stakeholder debate on sustainable development strategy and standards. Out of these processes legitimate national standards can emerge.
- Supporting international processes such as that of the Forest Stewardship Council to develop and agree on standards at international, national and local level for specific sectors. These can provide a reference point for investors.

- Building local capacity to monitor and assess the sustainability performance of foreign investment.
- Support host country governments in developing policy frameworks to deal with investment, both foreign and local, and to integrate sustainable development objectives in such frameworks.

"Important as it is to reduce the frequency and the costs of crises, it would be a Pyrrhic victory if crises were eradicated by killing the capital flows that create them. These flows can benefit both developing and developed countries: borrowing by developing countries allows them to accelerate their development, and lending by developed countries allows their citizens to place part of their savings in high-yielding assets and diversify their portfolios. Both therefore have an interest in allowing private investors in the developed countries to invest in emerging markets where the investors find that to their advantage."

Zedillo Report

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GLOBAL GOVERNANCE

RE-DESIGNING THE GLOBAL ARCHITECTURE

By **Camilla Toulmin**

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Were all humanity a single nation-state, the present North-South divide would make it an unviable, semi-feudal entity, split by internal conflicts. Its small part is advanced, prosperous, powerful; its much bigger part is underdeveloped, poor, powerless. A nation so divided within itself would be recognised as unstable. A world so divided should likewise be recognised as inherently unstable.

THE CHALLENGE TO THE SOUTH, REPORT OF THE SOUTH COMMISSION 1990

WHAT'S WRONG AND WHERE DO WE GO NEXT?

Good design of public buildings combines the satisfaction of certain functions with expression of purpose and vision. Great buildings not only provide for certain needs, such as shelter, and separation of different domains, but also demonstrate the power and wealth of those who commissioned them. Thus, both the Great Mosque at Rabat, and the Basilica at Yamoussoukro provide far more than a simple space for reflection and prayer, but confer status on those behind their construction, and awe in the heart of the onlooker. Equally, the headquarters of financial institutions aim to impress upon the viewer a strong sense of solidity and strength, through choice of architectural design and materials. Buildings from every age and place betray their origins like an open book, which can be read with ease. The great public institutions of our world have in similar fashion been designed with particular aims in mind. They too conform to certain principles of institutional architecture, although a reading of their style, structures and form is a harder task than recognising a Corinthian column, or load-bearing beam.

This paper argues that the architecture of our global governance has been designed to suit certain groups and their goals, but has failed to respond to a wider circle of interests. Underlying assumptions have served to skew their performance in ways which have exacerbated inequalities at global level. The current architectural form provides shelter and comfort to the few and gives pleasure to those able to harbour within its walls, but large numbers are excluded, and can only press their faces against an unyielding façade. Today, many buildings incorporate areas of public space at their heart, and use glass to ensure light reaches all areas. Our global institutions need a re-design to bring equivalent transparency, illumination and access into the core of their decision-making processes to address the urgent challenges we face.

Institutional design is not a neutral issue

Institutions are the rules by which we organise ourselves, negotiate arrangements and make decisions. At local level, they are embodied in the norms and values we hold within family and community, as well as the more formal procedures and laws governing our behaviour within society. Global institutions cover representation within international bodies, rules for the negotiation of trade, aid and debt, as well as processes for bargaining and debate on environmental and other issues. We have agreed to be bound by international agreements on those topics where we admit to there being an important broader social purpose at global level, such as with climate change, human rights, and biosafety, and for which we are willing to give up a measure of national sovereignty.

Today, many buildings make explicit the materials and supports underlying their construction, so that the main beams, air ducts, and central heating systems are laid bare for us to witness and admire. When it comes to institutional architecture, we are much less skilled in seeing how structures have been put together and learning how to identify the components to understand how they work. Yet such questions of design are fundamental to the effectiveness, legitimacy and outcomes associated with a given institution. These questions have become increasingly obvious at local level, where the effects of a particular pattern of governance, representation, accountability and decision-making can be more easily traced. At global levels, it is often harder to decipher institutional processes and, being more distant from events on the ground, the threads linking institutional design to eventual outcomes are more tricky to disentangle.

CHOICE OF INSTITUTIONAL DESIGN MUST CONSIDER SEVERAL DIMENSIONS:

- Which groups are represented and on what basis?
- How are their representatives chosen and can they be de-selected?
- How are decisions made, where and by whom?
- What evidence is brought forward to help guide decision-making, who pays for this research and what room is provided for discussion of alternative views?
- How much time is made available to reflect and consult with different interest groups?
- Is a commitment to participation backed up by practical measures to ensure it influences the institution's policies and decisions?
- Are deliberations open to the public, in what languages and at what cost? How accessible and transparent are procedures?
- Is there commitment to assess whether policies are meeting expectations, and a process for evaluating impacts from decisions made?

The legitimacy of an institution is based partly on its adherence to such considerations, and partly on practical demonstration of its effectiveness over time.

Many of our global institutions are failing to establish their legitimacy because they are perceived as responding to the needs of particular interest groups, while neglecting others. Small poor countries have faced especial challenges in addressing complex, multiple agendas in the fields of environment, trade and patent law, which require extensive skills and experience in the field, as well as in-depth understanding of how strategic and political issues have been woven over time into the fabric of current negotiations.

Global institutions and bilateral development agencies have not made formal provision to allow the views and priorities of low income groups to shape their policies, practice, or priorities. The target to halve global poverty by the year 2015 has focused attention on 'the poor', yet rarely do they have a means to voice their concerns. Global institutions have been designed on the assumption that national governments represent and articulate the needs of their citizens, rich and poor alike. By the late 1960s, the limitations of this were recognised, with many representatives to the United Nations body coming from undemocratic regimes, responsible for abuse of citizens' rights and neglectful of the needs of poor people. The increasing shift towards democracy in the 1980s and 90s has helped reduce this gap, but most government representatives can only inadequately represent the poor, excluded and marginalised within their own nations.

As with national governments, global institutions can also marginalise and exclude certain countries. Experience with the Trade-Related Intellectual Property Rights (TRIPs) negotiations shows how decision-making and debate have effectively been dominated by a core group of countries, and how very difficult it has been for 'outsiders' to play an effective role.

A small group of Northern countries drafted the basis for the final deal, in close collaboration with private business, in a process of consensus seeking amongst key countries. Thus, the negotiations were carried out in a highly hierarchical manner with most decisions taken by an inner circle made up of US, Europe, Japan and Canada. African, Asian and Latin American countries were presented with a *fait accompli* which they had to accept, with the US using the 301 trade retaliation measures to penalise those countries opting for non-compliance. Even in global processes where care has been taken to try and be as inclusive as possible, as with the Inter-governmental Panel on Climate Change (IPCC), questions of language, ways of doing business, and existing friendships and alliances make it hard for some to participate effectively.

Choice of institutional design is key to successful governance at all levels. At local level, there is much emerging experience with building institutions and inclusive processes to ensure effective incorporation of different stakeholders. Findings from community-based natural resource management programmes across Africa, Asia and Latin America also point to the great importance of process-led approaches, building confidence amongst stakeholders, and taking time to ensure that everyone has the same level of information about the issues up for discussion. Transparency, clarity of vision, and effective communication are central to ensuring that democratic structures can deliver for the weak as well as the powerful.

Market liberalisation favours the strong

Even before the fall of the Berlin Wall, the market economy had become dominant in policy debate and government practice around the world. Its proponents have argued that such liberalisation is the best hope for poor and rich alike, by unleashing private initiative, removing the dead hand of government from areas of rightful private activity, and freeing up space for entrepreneurial endeavour. Such liberalisation should generate increased economic growth from which all will gain increased incomes. A clear contrast is presented between the failed attempts by the state to engage in delivering effective goods and services, and the effectiveness and readiness of private sector operators to take on a range of new functions. Cash-strapped governments have been forced to accept such rhetoric in favour of liberalisation and its consequences, given a history of poor performance by state-managed enterprises. Private commerce has sought to press home its advantage by emphasising the superiority of its experience and ways of working, with little challenge. The arguments have relied more on elementary economics than a clear-sighted review of how business actually works.

In the rush to pursue liberalisation at speed, the caveats associated with welfare economics have been pushed aside. They caution that there will be problems in achieving a welfare optimum where there are significant externalities, an undesirable distribution of income and assets, asymmetries in economic and political power, imperfect knowledge amongst actors, and an economy which is not in perfect equilibrium. Despite such constraints being widespread, theory concludes that it is still better to behave as though such imperfections did not exist and aim to address problems of inequitable outcomes afterwards. But while distributional issues can be handled in this way within national economies, there is no mechanism such as international taxation through which they might be handled at global levels.

Redistribution and provision of public services in Europe and North America are the consequence of democratic structures, which have forced governments to be accountable to their citizenry. The inequalities of market driven development have been modified by progressive taxation and provision of education, health, water and other essential services. Safety nets have been put in place to help the unemployed, while compulsory contributions provide pensions for the elderly. But there is no democratic mechanism at global level to press for redistribution and global service provision. Aid budgets remain a puny element within national budgets, and bear no comparison with the magnitude of sums collected for health and education domestically. The two and a half billion people in poverty today have no vote in the World Bank, or UNDP, and hence do not wield the political power to demand change.

Proponents of globalisation argue that it should lead to more competition and lower prices for consumers around the world. Companies will no longer be able to shelter from more efficient competitors and the general public will reap the benefit. Governments continue to exercise considerable power through regulation and taxation, so that fears of their being pushed around by global corporations are not well-founded. But such examples tend to stem from European or US government administrations which can indeed exercise considerable check on private sector activity. By contrast, the governments of most Southern nations may find it much harder to withstand commercial pressures and lobbying, while being unable to enforce standards and regulations regarding product and process. Equally, while globalisation should wear away any tendencies towards monopolistic behaviour, in practice there seems to be an opposite trend underway, towards greater and greater levels of concentration within global business.

Thus, for example, in agribusiness, only 6 companies now control 80% of pesticide sales, down from 12 in 1994 (Berdegué et al 2001). Markets have been restructured with the vertical integration of many activities, and the establishment of closed chains in food processing, retail and service industries. Farmers are linked into these corporate structures through contracts linking input and credit provision to supply of outputs. While these arrangements bring lower risk, they also are pressing further down on farmer margins, with the bulk of the final price being taken by the agribusiness, often as much as 75-85%. With increased buying power comes increased demand for quantity and quality standards which larger farms are more able to meet than smaller producers. Such patterns of production and marketing have little or nothing to do with notions of economic efficiency and competition, given the degree of market concentration.

How might market-led processes be better balanced by a broader vision and set of social goals? In West Africa, there is growing worry that the smallholder farming system is at serious risk from market liberalisation. The opening up of West African markets to cheap food may bring devastating consequences for the family farm. Rice, maize, oils, meat and cotton produced in the Americas and Asia will provide stiff competition for the region's farmers, especially in countries reliant on the CFA Franc which has been less able than the Cedi and Naira to ratchet down its value through continuous devaluation. How far will governments be able to support the smallholder sector, given the broader social benefits associated with its continuation? Is it inevitable, as some perceive, that farm size will rise, as holdings become more concentrated and capitalised? And what cost in terms of increased landless and impoverishment will this bring? In the short term, countries can argue for a delay in dismantling tariff barriers, but in the longer term, trade negotiations need to take proper account of the multi-faceted nature of agriculture and rural society. Trade liberalisation should not be promoted above all other objectives, as though it served some higher level goal.

One rule for the rich, another for the poor

Market liberalisation in the poorer parts of the world has been strongly emphasised by many donor nations while at the same time they maintain very substantial agricultural subsidies, combined with a range of tariff and non-tariff barriers. It is estimated that US$170 billion of subsidies is spent to support farmers in the US and EU member states, a sum which dwarfs several times the aid budget devoted to Africa. Such subsidies are not neutral in their effect, but render uncompetitive in price the farm goods produced by other countries. Farm products and textiles have been particularly subject to such forms of protection, despite these products offering the most immediate trading opportunities to many poor nations.

Despite rhetorical commitment to eliminate tariffs on goods exported by the poorest nations, a range of non-tariff barriers have remained and if anything are becoming more binding. Hence, EU health and safety controls on pesticide residue and contamination of various sorts will probably block opportunities for many Southern countries to export fruit and vegetables to Europe. The combined effects of tariff and non-tariff barriers are estimated to cost Southern countries some $700 billion in trade each year.

A growing array of commodities are now available in various ethical, organic, or fair trade formats with differing processes of certification. Could they provide the major channel for exports from poorer countries or producers in future? Will they manage to capture the mainstream market in many rich consuming countries, and are there ways of reducing transaction costs to the primary producer? So far, these new trading opportunities have often been biased against the poor, since it is generally better-off producers who can demonstrate that their operations conform to organic, ethical or some other form of practice. Fair trade systems must address this bias, and improve ways for smallholders to benefit from better market access, by encouraging farmer co-operatives.

Maybe selling carbon credits could generate income for developing country farmers. An initial assessment of the carbon credit market suggests in fact that it is the entrepreneurs acting between land user and governments who have done best in capturing the value to be gained from such transfers. Perhaps, over time, the entry of other agents into the market could beat down this profit and provide greater benefits to the creators of carbon.

The private sector has been strongly promoted as providing a more efficient system to that of the state sector, whether in terms of producing goods or delivering services. 'Public-private partnerships' have also been recommended in many fields on the grounds that each side can draw on its comparative strength. Typically, government provides certain safeguards and targets for companies so that they will invest in a given activity, with the hope that their expertise and access to capital will lead to improved effectiveness and investment. Opinions are divided as to the real distribution of benefits from such arrangements. In some cases, these deals do no more than shift monopoly power from a public to a private company. The end result depends very much on whether the government can exercise effective monitoring of the company's activity.

A recent look at the much vaunted 'success story' of public–private partnership for water supply, concerning Aguas Argentinas in Buenos Aires, shows results are less impressive than has been advertised, in terms of impacts on the poor and enforcement of strict targets (Loftus & McDonald 2001). In the case of Ghana, there is lively debate and press comment about current proposals to hand over water distribution in Accra and Kumasi to a French water company. Those against argue for the re-invigoration of public institutions through greater leadership and demonstration of accountability, and note the risks of selling rights for the next 25 years to a foreign company that will be unaccountable to Ghana's citizens. Rockefeller's attempt to establish a public-private partnership to disseminate 'miracle' rice has led it to complain of premature and dangerous hype by the companies involved, and their use of miracle rice for public relations purposes, having paid nothing towards its original development. With the UK government taking Railtrack back into public ownership, it may be time to reassess the benefits that private sector involvement are meant to bring and to reassert the merits of collective ownership for certain kinds of goods and service provision.

Challenges we should be putting to the global system

As our world becomes increasingly integrated, we need stronger not weaker global institutions to check the power of different groups, and provide legitimacy to joint decisions and actions. No country can opt out by choosing when it wishes to adhere to global agreements, and when to ignore what has been decided. There is wisdom and constraint in collective decision-making, as well as conferring authority and protection.

Securing strong local governance is the foundation for sustainable development at all levels. It serves the global agenda by providing the channels through which the interests and needs of all groups can be addressed. The principles underlying effective local governance – inclusion, attention to process, taking time, establishing legitimacy – are equally relevant at global levels.

We face major challenges in alleviating the poverty of many in ways which do not deplete further our natural resource base. We must review our commitment to social and environmental goals and find means of turning these into action. We need to link international trade and development with environmental and social concerns without retreating into protectionism and tit-for-tat reprisals. To do this means combining a sense of vision and commitment to democratic principles and process with the search for practical tools to achieve more sustainable livelihood systems for all. Market based approaches provide one of several means to achieve these ends. Another is through collective action. Group rights and joint responsibility may be politically out of favour in a market-driven globalising world, but at both global and local levels, its acceptance is essential to manage common resources, whether it be the earth's atmosphere, or common grazings.

Our global architecture needs a fresh look to be sure it can protect all the world's inhabitants from hazards and extremes. Ethical concerns should temper the steely resolve of market advocates. Exclusion and marginalisation bring despair and a strong sense of injustice – these must be acknowledged and addressed. Sustainable development represents a set of principles and approaches which could provide a solid foundation for renewed global institutions.

But change must be more than superficial – the Preamble to the Agreement establishing the WTO already commits the organisation to achieving trade liberalisation that is consistent with the objective of sustainable development. In practice, this has had no profound impact on the way the institution functions or the values it supports. In 2002, the World Summit on Sustainable Development and the UN Conference on Financing for Development offer timely opportunities to review the plans for our global institutions and redesign their architecture.

The UN and the International Financial Institutions

Many of today's problems and suggested solutions are so well-rehearsed that they have grown stale through repetition. Even at the original 1944 Bretton Woods conference, John Maynard Keynes advocated a world trading currency, strict controls on private capital flows, and a tax mechanism for redistribution from surplus to deficit countries, all designed for a world system biased towards growth, stability, employment expansion and development. At the creation of the UN, US President Harry Truman stated that:

'A just and lasting peace cannot be attained by diplomatic agreements alone, or by military co-operation alone. Experience has shown how deeply the seeds of war are planted by economic rivalry and social injustice. The [UN] Charter has set up machinery of international co-operation … to help correct economic and social causes for conflict.'

US Department of State Bulletin vol.XIII, 9 September 1945

Since then, new problems have emerged and some old ones have got worse – including unstable capital markets and the dramatic rise between rich and poor, up from a ratio of 3:1 between the richest and poorest 20% of countries in 1820 to 30:1 in 1960 and 74:1 in 1997.

Effective solutions have not been sought and applied because of the jigsaw's missing piece – democracy and accountability in the dominant institutions of global economic government. While this can be dismissed as the result of the unavoidable exercise of diplomatic power by the richest countries, it misses an obvious point. Conflict, disease, climate change, financial instability – the great problems we face, and the fall-out from them – do not respect national boundaries. They demand collective action. Real democratic accountability is needed because it is right, equitable and just. But it is also needed because it is better at solving problems than the opposite – institutions which are closed, ideologically entrenched and which deflect and avoid criticism.

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