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# **Certification Systems as Tools for Natural Asset Building: Potential, Experience to Date, and Critical Challenges**

**Michael E. Conroy**

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Gordon Hall  
418 N Pleasant St., Suite A  
Amherst, MA 01002

Telephone: (413) 545-6355  
Facsimile: (413) 545-2921  
E-mail: [peri@eco ns.umass.edu](mailto:peri@eco ns.umass.edu)  
Website:

<http://www.umass.edu/peri/>



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**Certification Systems as Tools for Natural Asset Building:  
Potential, Experiences to Date, and Critical Challenges**

Michael E. Conroy  
Senior Lecturer and Senior Research Scholar  
Yale School of Forestry and Environmental Studies

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## **Abstract**

Certification systems are becoming important tools to encourage and reward social and environmental responsibility. This paper explores whether these systems, which generally have not been designed for the explicit aim of poverty reduction, can assist poor people, either individually or in community-based and small-to-medium production units, to build their natural assets as a basis for sustainable livelihoods. The paper examines two leading certification systems – the Forest Stewardship Council™ and the Fair Trade Certified™ system – and emerging systems in tourism and mining. The results to date have been mixed. In the forestry sector, poverty reduction benefits of certification have been modest relative to its environmental benefits. In the agricultural commodity trade, where certification systems have been designed with a stronger focus on reducing poverty, the benefits have been greater. The long-term challenge is to ensure that the rapid global uptake and ‘mainstreaming’ of certification systems does not create new hurdles for low-income individuals and communities.

## **Introduction**

‘Certification systems’ are relatively new tools that have evolved globally to encourage and reward higher levels of social and environmental responsibility – and accountability – among producers of all sorts. They have been designed primarily to alter the performance of otherwise unreachable transnational corporations in the fields of natural-resource-based production, such as forestry, agriculture, mining, and tourism. This chapter explores the question of whether these systems, which have not generally been designed explicitly as poverty alleviation tools, can, in fact, assist poor people, either individually or in community-based and small-to-medium production units, to build their natural assets as a basis for sustainable livelihoods and poverty alleviation. From the point of view of the purposes of this volume, the question is whether these systems, developed largely in the global North, have become – or could become – important new international tools for alleviating poverty in diverse international contexts.

The two leading certification systems of this time, the Forest Stewardship Council™ and the Fair Trade Certified™ system, are analyzed extensively here from the point of view of their impacts upon the poor and their ability to contribute, directly and indirectly, to the alleviation of poverty through building natural assets. Emerging certification systems in tourism and mining are also examined, but to a lesser extent, because their standards have not yet been codified, although considerable movement toward that end has occurred in both cases.

The chapter concludes that the impact of certification systems on poverty depends on how they are designed and implemented. In the forestry sector the poverty alleviating benefits have been limited, relative to the apparent global sustainable use and conservation benefits that have been analyzed. In agricultural commodity trade, however, the leading certification systems have been designed from the beginning to have a greater impact on poverty alleviation, and the benefits are now increasingly well-documented. The longer-term challenge in both of these cases, and in others that are emerging, is whether rapid global uptake and the ‘mainstreaming’ of the certification systems creates further hurdles to the benefits that poor individuals and communities can reap.

## **Emergence of ‘Certification Systems’**

A major new movement is emerging in many places around the world that shows considerable promise for transforming the global incentive structure for responsible social and environmental practices with respect to the sustainable management of natural assets. Building on about two decades of previous efforts for promoting ‘corporate responsibility,’ ‘ethical trading,’ ‘alternative trade organizations,’ and on long-developing but poorly-focused ‘fair trade’ efforts, the new movement combines the creation of global standards for sustainable practices (in both social and ecological terms) and market-based public campaigns to bring pressure upon leading corporations to adopt those standards. It can be called ‘market-based voluntary corporate accountability... with teeth.’

To date the movement is best known for the successes of the Forest Stewardship Council – and its social and environmental NGO advocacy supporters – who have created major changes in the forest products industry, including huge improvements in awareness of the minimum standards that must be met in order to maintain a widely-recognized ‘social license’ to produce and sell in that sector. Certification according to the principles and criteria of the Forest Stewardship Council has become a powerful new tool for encouraging and rewarding higher levels of social and environmental responsibility in sustainable forest management in both tropical forests, and temperate and boreal forests. But the vast majority of the forests certified to date have been large-scale operations in temperate and boreal zones. What explanation can we give for the relative slowness of certification in tropical working forests and in community-scale forestry operations worldwide?

The chapter presents data on the evolution to date of forest management certification and will explore a series of hypotheses about the relatively slow development of certification in tropical forests and at the community scale, including a) the relatively low importance of ‘branding’ in markets for tropical forest products, b) the challenge of outright illegal logging for tropical forest markets, c) fundamental problems of aggregation, scale, and species composition vis-à-vis markets in the global North, and d) the distinctive challenges of community-scale forest product processing and marketing. We then review a number of creative options that have emerged in recent years for meeting these challenges.

In quite different form the movement is also increasingly known for the growing success of certified fair trade<sup>1</sup> coffee and other products in the U.S., Europe, and Japan (Conroy 2001a, 2001b, 2002). At a time when real global coffee prices have been at a 100-year low, certified fair trade coffee sales have been booming, especially in the United States, reaching \$131 million in 2002 and doubling in 2003 (Murray, *et al.* 2004). By mid-2005 there were over 600,000 small-scale farmers in 32 different countries on the Fair Trade Register for producers of coffee, tea, and cocoa, the list of those who qualify to participate in the system<sup>2</sup> Fair Trade Certified was created specifically to benefit small-scale, often impoverished coffee producers throughout the world; it can be seen as a direct sales system that provides guaranteed minimum prices that assure these coffee producers the equivalent of an agricultural ‘living wage.’ Yet the very success of the movement is challenging its ability to focus on these producers. There is considerable pressure to expand the eligibility of the Fair Trade Register to coffee estates and larger coffee plantations,

partly to respond to the poverty of the coffee workers they employ and partly to improve the ability of the system to apply its criteria to a much larger portion of the total coffee sector.

### **Common Elements of ‘Certification Systems,’ and Reasons for Corporate Participation**

Regardless of the production sector, the movement combines the same basic elements:

- Negotiation of stakeholder-based principles and criteria for social and economic responsibility, including representatives of producers, communities, and social and environmental NGOs;
- Creation of a system for third-party independent certification of the fulfillment of those standards;
- Development and marketing of a ‘logo’ or certification seal that can be placed on products and that indicates that the standards have been met in certified fashion;
- NGO ‘markets campaigns’ designed to bring pressure on leaders in the industry (working especially at the retail end of the commodity chain) to give preference to the products carrying the certification logo; and
- Consumer education campaigns to raise awareness of the need to look for the logo, emphasizing the social and environmental damage being done by firms that are not certified.

The incentive for corporate participation is clear. Participation in a certification system offers companies an opportunity to reduce the risk of criticism of the social and environmental characteristics of the products that they process and sell (Conroy 2001a). With global branding now the most dynamic force in the contemporary marketplace, every dollar invested in increased global recognition increases the vulnerability of branded firms to a well-placed, well-orchestrated campaign directed at the social and environmental characteristics of the products they sell. As with all other risk-reduction strategies, firms have learned that they must be prepared to pay for the risk reduction. Moreover, they often achieve important market advantages by making the socially responsible choice public, especially when it precedes announcements of the same sort by their competitors. Over time, given the presence of continued risk of the ‘discovery’ of inappropriate practices in the value chains of firms in an industry, the minimum standards that they must meet tend to rise. And the only assurance of validation of improved practices comes through independent assessment and certification.

Not surprisingly, the movement has its critics on both right and left. From the political left, some wonder whether using the market to induce change in corporate behavior represents an inappropriate endorsement of the corporate market economy. Others question whether the movement achieves little more than temporary ‘greenwashing’ of the corporations without changing their fundamental practices. From the political right, critics argue that markets campaigns linked to standards imposed on industry are little more than ‘an extortion scheme with socially-redeeming significance’ (Rushford 2001: 41). But Gereffi et al. (2001) suggest that

what has evolved here is a new form of global governance that reaches areas where neither national nor international governance has previously penetrated.

### **Certification, Asset-Building, and Poverty Alleviation**

Imagine the potential if there emerged a process by which broad coalitions of NGOs agreed upon a set of strategies for moving major natural-asset-based firms toward fundamentally higher standards for their social and environmental practices. What if they found ways of presenting credible evidence to the public at large, to financial markets, and to the insurance industry that industry leaders were failing to adopt practices that would seem reasonable to a concerned non-technical majority of consumers? And what if they mapped out the value chain for those products, identifying the points of greatest leverage for a campaign to get ‘downstream’ firms to place pressure on ‘upstream’ firms to improve the quality of their production practices? It is conceivable that such leverage could change the production practices of the suppliers. Fifteen years ago, few would have imagined that this was possible.

Today, few deny that it is happening, to the great consternation of major firms all along the value chain. In fact, it is increasingly clear that new certification standards are driven less and less by sheer consumer demand (requiring huge investments in consumer education). Instead they are driven ever more by the acceptance by producing firms of the standards embodied in certification systems as the minimal indicators of product quality needed to assure investors, boards of directors, and subsequent customers in the value chain, especially retailers, of the ability of the products to remain free of criticism. That is, certification systems are redefining the business-to-business relationships in value chains in ways that are not directly linked to day-to-day consumer demand.

The theoretical bases for building natural assets have been explored by Boyce (2001), Boyce and Pastor (2001), and Boyce and Shelley (2003). Boyce notes that the application of asset-building strategies (Sherraden 1992; Oliver and Shapiro 1995) to natural assets is compelling because ‘strategies for building natural assets in the hands of low-income individuals and communities can simultaneously advance the goals of poverty reduction, environmental protection and environmental justice’ (2001: 268). It countermands the conventional wisdom that the poor face an inescapable tradeoff between higher incomes and a better environment. And building natural assets can contribute not only increased income but also non-income benefits such as health and environmental quality.

Boyce proposes that there are four main routes to increase the amount and value of natural assets in the hands of the poor (2001: 274): a) investment in, or improvement of, the natural resources to which the poor already have access; b) redistribution of natural resources from others to the poor; c) internalization of the benefits (and avoidance of external costs) associated with the natural resources that affect the poor; and d) appropriation of rights of access for the poor to open-access resources. They recognize that building natural assets may require, or may contribute to, building social or community assets, including the community organizations that bring benefits far beyond the economic benefits of turning natural resources into natural assets in the hands of the poor.

From an economic perspective, certification systems can be seen as constituting systems designed to internalize (and, hopefully, monetize) both the economic benefits associated with more sustainable production techniques (such as the biodiversity-conserving benefits of improved forest management) and the negative economic consequences of un-sustainable production – such as the water-polluting consequences of inadequate protection for stream beds and shorelines (Boyce and Pastor, 2001). There is a rapidly growing body of formal and informal analysis of certification systems that provides far more basis now for assessing their impacts and implications than was possible even a couple years ago. This literature suggests that building natural assets may require, and is facilitated by, social and political processes well beyond those captured by the strictly economic analyses.

From a governance perspective, certification systems may be seen as attempts to create non-state market-driven systems to govern the use of natural resources (Cashore 2002: 1; Cashore, *et al.* 2004). And from a sociological perspective, certification systems create new commodity networks that transform the producer-consumer chain in ways that build on progressive ideas and practices related to trust, equality, and global responsibility (Raynolds 2002: 1).

These perspectives provide an expanded, overlapping framework from which to evaluate the ability of these systems to build the natural assets for the poor. Evaluation of the impact of certification systems requires two levels of analysis: broad and narrow. We can ask broad framework questions at the macroeconomic and macro-social level:

- *Context*: Does the system alter the implicit or explicit regulatory context within which natural resource management decisions are being made?
- *Internalization*: Does it alter the ability of natural asset managers to internalize external benefits and costs?
- *Market Access*: Does it change the access that producers have to markets that value that internalization?

But it is important, as well, to ask the ‘narrow’ framework questions that focus on issues directly linked to impoverished and disempowered people and communities:

- *Minimal Entry Level*: Does the certification system specifically privilege or provide benefits for small-scale, community-based, or otherwise disempowered producers?
- *Minimal Impact Level*: Are the changes in context designed to improve the ability of impoverished or disempowered people and communities to develop sustainable livelihoods?
- *Scalability*: Can the impacts be scaled-up so that large numbers of small-scale producers are capable of benefiting?
- *Costs*: Are the actual (or likely) costs of participation reasonable for small-scale and impoverished producers?

## Experiences in Certified Forestry

The building of the Forest (FSC) certification system management practices creation of the FSC itself. by the World Wildlife environmental NGOs, it of a number of larger firms, some smaller U.S. and an array of social from the global North and came from recognition of destruction of tropical



2002, 17). The motivation continued to permit timber, but only if it was under sustainable harvest conditions, was significant. European NGOs began to realize that they could not continue to place effective pressure on retail markets for tropical hardwoods that came from badly-managed tropical forests unless they were able to specify a preferred set of forest management practices which they would consider acceptable. An effective reduction in the imports of tropical hardwoods into Europe during the late 1980s was generating complaints from the global South that apparently-well-intentioned boycotts against all tropical hardwoods were damaging the development potential of countries exporting those hardwoods, without any opportunity for meeting a reasonable set of standards.

Stewardship Council's for sustainable forest began in 1993 with the Developed principally Fund and other gained the cooperation European forest products forest products firms, development NGOs South. Its initial impetus the need to reduce the forests (Mantyranta for creating a system that harvesting of tropical

The FSC organization was deliberately structured in a concerted manner. Each of three 'chambers,' economic, social, and environmental, was given equal representation in key decision-making; and each of those chambers was divided into equal components drawn from and representing the interests of the global South and the global North. A broad set of global principles and criteria for sustainable forest management were negotiated over a period of several years. Though drawing on scientific bases, the resulting standards were primarily a political creation. They were, in reality, the highest standards for social and environmental performance that the social and environmental groups could convince the industry representatives to accept. Local adaptations of the global standards have been approved for nine countries, they continue to be negotiated to this day in some 30 other countries; but certification is underway in more than 60 countries on the basis of the 'generic' international standards that were concluded in the mid-1990s and that are reinterpreted and modified on a continuing basis.<sup>3</sup>

The FSC's ten broad guiding principles, presented in the box on page N involve both social and environmental criteria. Though they might appear quite simple and reasonable from a non-forester's perspective, they represented, when first approved and disseminated, dramatic changes in the rules that the forest products industry would be asked to follow, both in the North and in the South (FSC-US 2003).

In the ten years that have passed since its creation, the FSC has had success that is considered remarkable – even startling – to most observers. By mid-2005 FSC had certified the forest management of nearly 54 million hectares (135.9 million acres), roughly ten percent of the world's working forests. The rate of growth in certified acres remained higher than 50% per year. More than 3850 wood processing firms had established chain-of-custody certification under the FSC, assuring consumers that products that reach the market with an FSC label can be traced back to FSC-certified forests. FSC initiatives and standard-setting exercises were underway in more than 43 countries. And there were more than 20,000 forest products in global markets that carry FSC certification.<sup>4</sup>

Ample anecdotal evidence suggests that the demand for FSC-certified timber for dimension lumber and paper products is now many times greater than the supply. Economic theory would suggest that a price premium would arise; and there is, again, anecdotal evidence that significant price premia are being paid, especially to those suppliers who can provide large quantities to major buyers. It is extremely difficult, however, to gather systematic data on price premia for the simple reason that it is not in the interest of either the supplier or the purchaser to admit that price premia are being paid. The mills and manufacturers who buy FSC-certified timber are constantly seeking to obtain the lowest possible price; so they won't publicly offer to pay price premia. Sellers of certified timber prefer not to publicize the availability of a premium because they don't want to see the premium disappear as more sellers enter the market. Off-the-record discussions with both sides indicate that the price premium comes in the form of both greater assurance of access to markets and, in a large number of cases, actual cash price premia that are being paid quietly and consistently.

Of equal importance to the evaluation of the impact of the FSC, perhaps, is the fact that those firms that have resisted the FSC standards have been forced to create alternative 'standards' which represent, in most cases, significant improvements in their own environmental management of forests, even when they don't reach the 'gold standard' established by the FSC. The Sustainable Forestry Initiative of the American Forest and Paper Association is one example (<http://www.aboutsfi.org/>). The Program for the Endorsement of Forest Certification (formerly the Pan-European Forest Certification system) is another ([http://www.pefc.org/internet/html/about\\_pefc.htm](http://www.pefc.org/internet/html/about_pefc.htm)). In other words, FSC's influence on sustainable forest management has not simply been through its own rule development. FSC has also forced non-FSC companies to create less-restrictive, less-demanding competing systems that now compete with the FSC for the minds and hearts of consumers, financiers, stockholders, and insurers and which continue to evolve, quite rapidly, in directions that are positive for more sustainable management of forests (Cashore, *et al.* 2004).

### **PRINCIPLES OF THE FOREST STEWARDSHIP COUNCIL**

1. *Compliance with Laws and FSC Principles.* Forest management shall respect all applicable laws of the country in which they occur, and international treaties and agreements to which the country is a signatory, and comply with all FSC Principles and Criteria.
2. *Tenure and Use Rights and Responsibilities.* Long-term tenure and use rights to the land and forest resources shall be clearly defined, documented and legally established.
3. *Indigenous Peoples' Rights.* The legal and customary rights of indigenous peoples to own, use and manage their lands, territories, and resources shall be recognized and respected.
4. *Community Relations and Worker's Rights.* Forest management operations shall maintain or enhance the long-term social and economic well-being of forest workers and local communities.
5. *Benefits from the Forest.* Forest management operations shall encourage the efficient use of the forest's multiple products and services to ensure economic viability and a wide range of environmental and social benefits.
6. *Environmental Impact.* Forest management shall conserve biological diversity and its associated values, water resources, soils, and unique and fragile ecosystems and landscapes, and, by so doing, maintain the ecological functions and the integrity of the forest.
7. *Management Plan.* A management plan – appropriate to the scale and intensity of the operations – shall be written, implemented, and kept up to date. The long term objectives of management, and the means of achieving them, shall be clearly stated.
8. *Monitoring and Assessment.* Monitoring shall be conducted – appropriate to the scale and intensity of forest management – to assess the condition of the forest, yields of forest products, chain of custody, management activities and their social and environmental impacts.
9. *Maintenance of High Conservation Value Forests.* Management activities in high conservation value forests shall maintain or enhance the attributes that define such forests. Decisions regarding high conservation value forests shall always be considered in the context of a precautionary approach.
10. *Plantations.* Plantations shall be planned and managed in accordance with Principles and Criteria 1-9, and Principle 10 and its Criteria. While plantations can provide an array of social and economic benefits, and can contribute to satisfying the world's needs for forest products, they should complement the management of, reduce pressures on, and promote the restoration and conservation of natural forests.

#### *Benefits for the Poor*

The more successfully a system challenges the status quo, the more likely it is that it will be criticized by those who question the direction in which it is moving. In the paragraphs that follow, we look at some of the principal criticisms of the development of the FSC system from the point of view of its relevance to building natural assets to reduce poverty and injustice.

One of the broadest critiques of the FSC relates to the fact that the greatest successes of the FSC to date have occurred *not* in the tropical regions for which the system was initially designed but rather in the temperate and boreal forests of the global North. Less than 20 percent of the total acreage certified by the FSC through the beginning of 2002 was located in the global South (Atyi and Simula 2002). Similarly, only 12 percent of the total number of forest management certificates had been earned by *campesino* communities or indigenous peoples organizations, and they represent only 3 percent of the total area certified (van Dam 2002). The conclusion reached by van Dam (2002: 4) is that ‘It is therefore clear that, despite the declared intentions at the start when the FSC was first created, forest certification has ended up benefiting the richer countries, large firms, and temperate and boreal forests (rather than tropical forests).’

There are several counter-arguments. First, there is little doubt that the forest management practices in place in Europe and in some parts of the United States, based on long histories of environmental campaigning and on local and national legislation, made it easier for the forest management firms in those locations to meet FSC standards earlier, and with less effort, than in places where the *de facto* legal requirements were less demanding. It is also true that larger-scale brand-name Northern forest products companies have been the explicit focus of the markets campaigns of environmental and social NGOs in the global North. Both of these factors may have inadvertently shaped the pattern of early success in the forest management certification movement.

Second, a growing body of evidence suggests that low-income forest communities derive considerable benefits from engaging in FSC certification efforts, even if their aspirations for premium prices and greater market access are not fully met. A recent study documents, for example, that approximately 50 community forestry enterprises that have achieved FSC certification worldwide have benefited on several levels (Molnar 2003; Rickenbach 2002):

- Certification has given greater voice to indigenous groups historically left out of forest policy deliberations;
- Many communities have re-invented their businesses, enhanced their products, and established new partnerships thru the certification movement;
- FSC standard setting, under international supervision, has raised greater attention to forest tenure and livelihood rights, conditions of employment, and worker health and safety than had been achievable under prior processes;
- There have been major benefits for communities in industrial concession areas, especially with respect to community relations and worker’s rights; and
- In some places, as in Bolivia, communities benefit from certification as a substitute for governmental audits and controls over their access to public forestlands.

The challenges for community-level certified forests nonetheless remain striking (Molnar 2003). The costs of initial certification assessments and annual auditing are especially high, relative to potential benefits, for communities that are small and/or remote. The costs of changing forest

management practices to meet certification guidelines are, in some cases, quite expensive; and they represent investments with uncertain payoffs, given the limited price premia being found by community based or small-scale certified enterprises. As plantation certification continues to expand, the price competitiveness of small-scale and community enterprises may diminish unless they are able to implement local value-adding processing of the timber, creating products of higher value that generate more local employment.

Forest management certification cannot provide a definitive solution to the issues of tenure reform, violation of indigenous rights, or perverse incentives or subsidies that encourage over-harvesting; although the incorporation of these dimensions into the principles and criteria for FSC certification has been used extensively by communities to strengthen their tenure and rights demands (Ford Foundation 2002). Studies of community-based forest enterprises in Sweden and Canada illustrate that the strongest benefits from certification are reaped by communities that already have secure title and access, developmental support, and quality natural assets (Meek 2001). The communities with lowest initial levels of social, natural, and physical capital derived the least benefit from certification.

The narrow issue at play here is whether the FSC should focus its collective energy on promoting small-scale and community-based certification. This was a major element of contention during the FSC's early years, when local forest community advocates and community enterprise supporters, especially in places like Mexico where the FSC was headquartered until 2003, derided the decisions of the FSC to focus on expanding total certified acreage even if that meant giving priority to large-scale certifications of natural forests and plantations. In retrospect, it is relatively easy to assert, but difficult to demonstrate, that the resulting changes in global perceptions of the standards that need to be applied to the management of the world's forests could have been achieved if the FSC had focused primarily on certification for the benefit of small-scale, community-based, or other impoverished natural resource owners. But without rapid increases in the supply of certified forest products from temperate and boreal forests, it is unlikely that major retailers would have committed to giving preference to certified forest products. And the extension of benefits to tropical forests, though more difficult, is beginning to appear on a number of fronts, as discussed below.

The broader issue is whether certification per se can offset the full range of market disadvantages faced by small-scale, low-technology community enterprises in a global forest products market increasingly dominated by large-scale or plantation-based timber supply and manufacturing operations. There is ample anecdotal evidence, and some systematic evidence, that certification does alter the context within which community-based forest enterprises operate, and that it can provide access to markets where price premia are paid, but that organizational changes, technology enhancement, skill-level development, and quality control improvement are necessary in order to take advantage of the certified markets (Ford Foundation 2002). It would be inappropriate to ask the certification institutions, such as the FSC, to be responsible for all these local improvements; but it may be quite appropriate, and necessary, to expect that national and multilateral development programs that seek to use certification would focus on the full array of dimensions needed to take advantage of the tool.

A related concern is the suggestion that no mechanism exists for ‘fair trade’ pricing of forest products certified to the highest social and environmental standards. As noted by van Dam (2002: 6), certification implies that the producer takes on rigorous commitments to respect international standards that generate external environmental benefits for the rest of the world, but consumers make no commitments to pay for those benefits. A proposal floated in the UK, discussed below, calls attention to this dilemma and may provide a payment mechanism that would assure certified forest land owners the premium needed to provide the incentive for certification itself.

### **Experiences with Certified Fair Trade Coffee**

Certified Fair Trade coffee and other products represent a kind of certification system that has been designed from the outset to focus on the poor, small-scale producers, and workers. Fair trade certification systems differ substantially from the older and broader variety of fair trade as practiced by alternative trade organizations (ATOs) and ethical trade initiatives (ETIs) (Tallontire 2002: 13). ATOs are largely firms, often not-for-profit, that source from developing countries and sell directly to ethically-motivated consumers. They assert – and seek to assure consumers – that their trading relations are ‘fairer’ than those of commercial traders in similar products. There are, however, no common standards covering pricing and other relations between those well-intentioned traders and the people or communities from whom they purchase. They are also distinct from ETIs, more common in Europe, which combine the efforts of large-scale commercial firms, NGOs, and trade unions to determine a set of standards for workers employed by producers of all sizes. The gap between certification and the ETIs may narrow in the future, however, as discussed below.

Certified fair trade emerged as a successor to the ATOs, partly because the demand that ATOs could generate for the products they were selling never exceeded miniscule portions of the supply of the products, and partly because confusion was caused by the varying standards and procedures used by ATOs. As noted on the website of Fairtrade Labeling Organizations International, the international association of certified fair trade groups:

*In order to generate greater sales on Fairtrade<sup>6</sup> terms for the benefit of many more disadvantaged and marginalised producers, it was important to get commercial manufacturers involved, and to get Fairtrade into the supermarket where most people do their shopping. As long as manufacturers agreed to buy from registered suppliers according to Fairtrade criteria, their products could carry a Fairtrade seal of approval. In 1988, the Netherlands became the first country to launch the Fairtrade consumer guarantee. Today there are labeling initiatives in 17 countries, mainly in Europe, but also North America and Japan, and the products range now includes coffee, drinking chocolate, chocolate bars, orange juice, tea, honey, sugar and bananas. On sale in most major European supermarket chains, Fairtrade is now available to a much wider public with some Fairtrade products achieving 10% of national market share. (<http://www.fairtrade.net/>)*

### *Benefits for the Poor*

To receive the fair trade roasters must pay a pound to producers, at the dry, unroasted coffee they are also certified past ten years that price commodity 'C' price for which most coffee is 2002). During the period prices fell to historic lows, price was double the and, according to some places in Central times the prices actually commercial brokers Comparable minimum been negotiated for cocoa, number of other fruits.



seal of approval, coffee minimum of US\$1.26 per site of production, for beans (and US\$1.41 if organic). For most of the has been well above the coffee in New York at bought and sold (Conroy from 2000 to 2004, when the effective fair trade market commodity price; anecdotal evidence from America, nearly three received by farmers from ([www.transfairusa.org](http://www.transfairusa.org)). price guarantees have tea, bananas, sugar, and a

Certified fair trade must meet other conditions as well. Membership on the Fair Trade Registry of producers is available only to very small-scale producers organized in democratically-managed cooperatives, or, in the case of tea and banana plantations to those that have well-established worker-management agreements. And they must commit to improved environmental management of their farms, with strong price incentives for moving to certified organic production. To qualify for the certified fair trade label, buyers must agree to provide payment of a significant share (up to 60%) of the purchase price of the coffee at the moment of purchase, if the farmers request it, rather than holding the products until they are sold and paying only after they have been sold. Buyers are also encouraged to establish longer-term purchasing arrangements with their coffee producers in order to increase the stability of income flows.

An important dimension of fair trade certification that makes it attractive to small-scale producers is the fact that the costs of registry, assessment, and monitoring are born by the system, not by the producers. The seventeen national affiliates of the Fairtrade Labelling Organizations International (FLO) levy a 'labeling fee' of approximately US\$0.10/pound for each pound of coffee that carries the Fair Trade label, and comparable labeling fees for other products. Worldwide that presently generates several million dollars in annual revenues that cover much of the administrative costs of the system.<sup>7</sup> In the case of organic production, however, certification is not costless to the producer. In Mexico, for example, the cost of organic certification to international standards includes a US\$250 yearly fee, plus the travel costs of inspectors each year (US\$400-500), and a fee of 0.5% of the wholesale price of the coffee for the use of the organic label.

Using certified fair trade coffee as an example, the benefits to participating producers would appear, at first, to be obvious. Doubling the price for that coffee which is placed in fair trade

markets should generate direct and immediate benefits for the producers; and the available evidence suggests that this is generally true (Boot 2002). There is, however, new recent information that suggests that fair trade processes have considerably broader sets of impacts upon the coffee producers who are able to participate in fair trade markets (Murray, *et al.* 2004). According to Murray *et al.* (2003) case studies of the impact of participation in fair trade marketing by nine cooperatives with total membership in excess of 20,000 coffee producers tend to support the following conclusions:

- Fair Trade has raised family incomes of those who participate in Fair Trade markets, relative to those who do not; it has also generated family benefits from the social development projects organized by their cooperatives with part of the price premium. The benefits included small credit programs for family emergencies, training that has facilitated diversifying sources of income, and marketing assistance to develop alternative sources of income.
- Fair Trade has promoted enhanced family stability through new employment opportunities, increasing employment for additional family members (especially when the coffee is also produced organically, which requires additional family labor), and lessening the tendency to migrate from the coffee producing regions for members of the families.
- Fair Trade has promoted community-level benefits, including the strengthening of social networks, improved community health, and diversification of local economic opportunities.
- Fair Trade appears to have strengthened democratic institutions and the empowerment of poor people in the coffee growing regions where it is most concentrated; for continued presence on the fair trade registry of producers requires monitoring visits, and some co-ops have been de-certified when members complained that internal practices had lost their democratic nature.
- The international recognition brought by Fair Trade seems to have conferred increased credibility for the producer organizations among government and other external organizations, including improved access to financial resources for developing the processing facilities for the coffee.
- Finally, a commonly reported benefit has been an increase in self-esteem among the coffee producers themselves, as well as renewed pride in coffee farming as a sustainable livelihood.

### *Challenges to Fair Trade Certification*

Critics of fair trade processes often confuse the older, less-well-specified fair trade efforts with those that have relatively clear standards and procedures. But some of their critiques ring true, nonetheless.

Certified fair trade may be self-limiting in terms of market access because of contradictions in its own internal goals. Certified fair trade limits itself, by current rules, to the smallest producers and their cooperatives. Some coffee wholesale buyers and roasters have argued that this does not generate the highest quality coffee, nor is it likely to provide coverage of a significant share of the total world supply of coffee. Total sales of certified fair trade coffee in 2002 approximated 3.0 per cent of total coffee trade; though less than 20% of the coffee produced by farmers on the registry was sold through fair trade markets. The sales of all fair trade products in 1999, both certified and not certified, was estimated at US\$400 million, or approximately 0.01 per cent of global trade (Littrell and Dickson 1999).

A second criticism is that fair trade certification reinforces a reformist approach to globalization by encouraging the consumption of products shipped long distances rather than those that are locally produced (Tallontire 2002: 21). The question is largely trivial in the case of coffee, since there is virtually no coffee produced in the global North; but it is illustrative of competing agendas. Reforming the trade process by improving the prices received by some small proportion (at present) of the producers in those markets may give legitimacy to trade that some believe will never be fundamentally more equitable. And 'greenwashing' the images of major transnational corporations, by giving them credibility on the basis of fair trade in a very small proportion of their purchases, may have a similar effect.

The counterargument is that fair-trade pricing, and ultimately sustainable-production pricing, may represent the most important example of an approach that could bring greater equity to fundamentally inequitable trading relations. If producer groups worldwide were to build alliances with international NGOs for the negotiation of 'fair, long term, sustainable prices,' the inequities inherent in the monopsonistic purchasing at both local and international levels might be partially offset. Consumers, financiers, stockholders, and insurers become the ultimate court of financial appeal for the appropriateness of these practices. Whether their motivation is altruistic or fear of NGO advocacy, firms can reap tangible economic benefits from fair-trade pricing over the long run.

### **Ecotourism Certification**

Few industries are more dependent on the natural assets of local economies than tourism. And few industries have attempted to compete on the basis of environmental sensitivity more than the tourism industry, especially the niche component generally called 'ecotourism.' Recent research on certification systems in tourism has found that around the world in 2000 there were no fewer than 260 programs or voluntary initiatives, and some 100-plus ecolabeling and certification programs offering logos, seals of approval, or awards to illustrate superior tourism practices (Honey 2002).

Ecotourism today can be subdivided into three alternative tendencies, according to Honey (2002: 6-7):

- a) 'Ecotourism lite' such as programs to install water-saving showers and to encourage tourists to lessen the laundering of their sheets and towels;
- b) 'Greenwashing' of projects that merely use environmental and ecological language in their advertising, and
- c) Authentic ecotourism, closely related to concepts of sustainable development, that involves social, cultural, political, ecological, and economic effects of tourism, with special attention to local communities.

In her pathbreaking earlier work, Martha Honey (1999: 21-26) defined this authentic ecotourism to have eight characteristics:

- It involves travel to natural areas;
- It minimizes impact of the travelers presence;
- It builds environmental awareness;
- It provides direct financial benefits for conservation;
- It provides financial benefits and empowerment for local communities;
- It respects local culture;
- It is sensitive to the host country's political environment and social climate;
- It supports human rights and international labor agreements.

A November 2000 conference at the Mohonk Mountain House, outside New York City, focused on creating a set of global standards for certification of authentic sustainable tourism and ecotourism. Participants in that meeting, representing a wide range of industry and NGO stakeholders, set about crafting an initial framework now known as the 'Mohonk Principles for Sustainable Tourism and Ecotourism' (Honey and Rome 2001). The conference participants delegated to the Rainforest Alliance the task of conducting a set of global negotiations on how the Mohonk Principles might be communicated widely, broadened or sharpened as necessary, and made an element of a global system for determining whether claims of sustainability could be tested against a set of well-developed standards.

In 2003, the Rainforest Alliance released the results of two years of deliberations, including discussion at the World Ecotourism Summit held in Quebec City in May 2002.<sup>8</sup> The shape of the recommended global system has the following characteristics (Sanabria 2002, 2003):

- A new Sustainable Tourism Stewardship Council (STSC) will be proposed as a global institution for developing and certifying compliance with a full set of multi-stakeholder standards for Sustainable Tourism.
- The standards for Sustainable Ecotourism will include fulfillment of all those required for tourism in general, but will also carry more stringent social, educational, and community-involvement requirements.
- Given the large existing number of tourism certification programs, some of which are considered to be excellent; the STSC would focus on accrediting existing programs that meet the highest standards that will be set (implicitly, discrediting others).
- The STSC would begin as an international network, based on national and regional tourism initiatives already in place; it would then lead to the creation of an STSC Association, which would be an international office designed to facilitate marketing, training, and information sharing among existing certification schemes.
- STSC Accreditation would then provide a basis for identifying and distinguishing to tourism mass marketers and consumers those facilities around the world that represent those who best fulfill the negotiated set of standards for ecotourism.

Whether this effort will provide significant benefits for communities will depend on the nature of the system that evolves and its costs. If a system emerges that is analogous to certified fair trade, where the principal costs of certification are financed by labeling fees paid by consumers and borne by the accreditation agency, there could be significant opportunities. It is not likely that accreditation alone would counter all of the structural obstacles faced by community-based ecotourism operations. But standards that are global, that could be reflected easily on the websites through which an rapidly-increasing portion of all ecotourism is sold, and that create a context where major operators would have an incentive to involve local communities in tangible ways, could assist with the development of sustainable livelihoods in those communities based on natural assets.

### **Certification of Mining Operations**

There is a long history of organizing to discourage mining companies from the most egregious of their environmentally damaging practices. In recent years, some of the most effective work has been done through the Mineral Policy Center, in Washington DC, which has developed a series of guidebooks for local communities faced with mining problems, whether it is the proposed opening of mines, mitigation of environmental damages during mine production, expansion of mines, or the closing down of mines with attendant problems of reclamation and continuing damage from tailings (<http://www.earthworksaction.org/>).

In 2000, the World Mining Conference, organized among mining and natural resource ministers worldwide, dedicated nearly a quarter of its annual meeting to the question of whether the world needed a common global mining certification system and whether this should be developed and supported by governments. The mining industry had begun to respond to growing concerns over

its social and environmental legacy in the previous year by organizing a three-year multi-million dollar inquiry, called *Mining, Minerals and Sustainable Development*, that released its final report at the 2002 World Summit on Sustainable Development in Johannesburg (MMSD 2002). The report recognized that the mining industry has not been sufficiently responsive to public calls for improved social and environmental stewardship and that it must reform its practices if it wishes to continue to obtain the social license to function. Fundamentally defensive in stressing the critical need for mineral products and the benefits mining brings to local communities, the report nonetheless admitted that community issues require a level of planning that ‘has too often not been achieved,’ that issues of managing waste from mines remain ‘unresolved,’ and that in mining ‘there are often problems and disagreement around issues such as compensation, resettlement, land claims of indigenous peoples, and protected areas’ (xvii).

The only discussion of certification during the three-year MMSD process focused on how it ‘couldn’t work in the mining sector because there would always be too many small-scale producers who would never comply’ (personal communication, 2002). Follow up to that meeting has included the creation of the International Council on Mining and Minerals ([www.icmm.com](http://www.icmm.com)), which continues to provide a forum for debate among industry leaders, but without much outside input, on the nature of the industry’s responses to continuing challenges to its social and environmental responsibility.

Serious discussion of the creation of a global system for establishing mining standards and certifying mining practices began in 2001 through a loosely-organized global network of mining advocacy groups. Based on a meeting of many of the members of this network in 2002, a Global Mining Campaign Network began discussions with several leading mining firms that expressed interest in playing a leading role in building credibility for efforts by the mining industry.<sup>9</sup> Recognizing that most mineral products have no retail markets, the Global Mining Campaign is now launching a campaign focused on mining practices for gold and silver, which can be linked to major leading jewelry and watchmaking firms.<sup>10</sup>

Earthworks, the NGO successor to the Mineral Policy Center, produced and released in early 2005 a draft set of guidelines for responsible sourcing of gold and silver (Miranda, *et al.* 2005). And some members of the mining industry responded positively to these guidelines as a starting point for conversations. For the NGO community, this represents a first opportunity to begin to clean up the full mining value chain by exercising pressure from the retail end, backed by the threat of NGO markets campaigns against gold and silver, and against leading name-brand firms if no progress is made.

While the link to environmental quality is clear, the impact on local communities and poverty is not. Will the standards call for greatly reduced mining, focusing on the use of ‘above ground’ stocks of gold and silver, including those stored in bank vaults? If so, the employment impacts on existing mining communities could be severe. Will the standards favor mining practices in the global North, rather than improving those of the global South, creating new barriers to trade? And what will be done to affect the myriad un-branded small-scale mining operations in the global South?

## Summary of Potential Impacts of Certification on Poverty

The potential contributions of existing and emerging certification systems to poverty alleviation, in terms of the questions posed at the beginning of this chapter, are summarized in Table 1. At the beginning of this chapter, the potential ways in which certification systems can promote poverty reduction were divided into the following ‘macro’ and ‘micro’ dimensions:

Macro dimensions:

- *Context*: Does the system alter the implicit or explicit regulatory context within which natural resource management decisions are being made?
- *Internalization*: Does it alter the ability of natural asset managers to internalize external benefits and costs?
- *Market Access*: Does it change the access that producers have to markets that value that internalization?

Micro dimensions:

- *Minimal Entry Level*: Does the certification system specifically privilege or provide benefits for small-scale, community-based, or otherwise disempowered producers?
- *Minimal Impact Level*: Are the changes in context designed to improve the ability of impoverished or disempowered people and communities to develop sustainable livelihoods?
- *Scalability*: Can the impacts be scaled-up so that large numbers of small-scale producers are capable of benefiting?
- *Costs*: Are the actual (or likely) costs of participation reasonable for small-scale and impoverished producers?

**Table 1: Criteria for Assuring that Certification Systems Reduce Poverty**

Fundamental Dimensions	Certification System			
	FSC	Fair Trade	Tourism	Mining
Macro dimensions				
Context	Strong	Weak	Strong	Strong
Internalization	Strong	Weak	Strong	Weak
Market access	Strong	Strong	Not clear yet	Not clear yet
Micro dimensions				
Minimal entry	Weak	Strong	Weak	Weak
Minimal impact	Weak	Strong	Weak	Weak
Scalability	Strong	Strong	Not clear yet	Not clear yet
Costs	Weak	Strong	Not clear yet	Not clear yet

The FSC exhibits strong characteristics on the ‘macro’ level, largely because it has been negotiated among producers, NGOs, and industry representatives to transform fundamentally the nature of sustainable production and conservation in the industry. It is weak, however, on the ‘micro’ dimensions, other than scalability; and its direct poverty-alleviating effects are as limited in theory as they seem to have been in practice. Certified fair trade, on the other hand, was developed explicitly to provide direct market access for small-scale, often impoverished producers; so its strongest characteristics are the micro-dimensions needed to assure that poverty is alleviated through the system.

Whether new certification systems for sustainable tourism and ecotourism, and for the responsible sourcing of minerals develop into strong tools for poverty reduction will depend on the specifics of the systems that emerge. In both cases, there are grounds for believing that they *could* become effective tools for poverty alleviation; whether the ongoing negotiations will take them in that direction remains to be seen.

### **Responses to the Challenges**

A number of interesting responses are emerging to the challenges to certification systems from the point of view of their ability to provide significant improvements in asset building for small-scale and impoverished producers. Although developed for individual certification systems, but their applicability may extend to others.

Efforts to reduce the costs of certification for small-scale timber operations are advancing rapidly in the U.S. Midwest. The Minneapolis-based Community Forestry Resource Center is experimenting with a form of umbrella-certification that would provide the full range of FSC certification services at a cost of as little as US\$0.20 per acre per year. The Center proposes to offer these services to several thousand landowners simultaneously. The key to their model is the recognition that for small landowners, logging occurs relatively infrequently. Their team of consulting foresters will provide initial certification assessments based on a sample of the landowners. They will gradually develop forest management plans for all, but they would be monitored simply on the basis of a sample of those landowners who had actually done some logging each year. If successful, this model will respond to key cost concerns of small-scale landowners in both the North and the South.<sup>11</sup>

Another model for improving access by communities in the global South has been created by the Tropical Forest Trust (TFT), based in London. TFT is a not-for-profit organization that ‘sells’ its services directly to the forest products industry. Working with firms that seek to clean up the supply chains for their tropical timber, initially in Southeast Asia, they contract to teach existing local suppliers how to make certain that their logging is, first, fully legal; and they then work with the suppliers to move them toward FSC certification. For example, TFT has assisted several suppliers for the European furniture manufacturer, Scancom, to become FSC certified.<sup>12</sup> TFT has been especially successful in navigating the difficult waters in Malaysia where significant criticism of the FSC has centered on the certification of concession lands where indigenous land claims had not been fully resolved (Majid Cooke, 1999). Recent FSC certifications there,

facilitated by TFT, have been based on innovative new schemes for integrating local communities by pursuing certification of non-traditional forest products as well.

The brilliance of the TFT model is that it is almost completely supported by the firms whose supply chains are being improved. TFT has also earned the trust of European and U.S. environmental NGOs who are willing to accept that good faith efforts are being made to move supply toward FSC certified suppliers, so long as the firms continue to support TFT. Advocacy campaigns against some of these firms have been halted, pending the results of the TFT work on the ground. And TFT has recently developed contracts with US retail forest product firms who are attempting to improve the sourcing of their imported tropical products, such as luaun plywood, a material widely used for doors and sub-flooring.

Certified fair trade institutions are beginning to explore the possibility of creating a mechanism for monitoring working conditions on coffee estates. Analogous to the mechanisms that are now in place for monitoring tea plantations, mostly in India, the expansion of fair trade certification is driven, in part, by offers by major coffee roasters to purchase significantly larger quantities of fair trade coffee if efforts are made to improve conditions on farms that are larger than the micro-farms of the cooperatives presently enrolled in the Fair Trade Registry. This change offers one opportunity to respond to the criticism that fair trade certification limits itself to a niche market by not offering to certify larger coffee producers who do produce the majority of what is presently considered the best coffee in the world. The dilemma, however, is a classic one. Given that there remains a very large oversupply of coffee, of varying quality, from farmers presently on the registry, would certification of coffee estates represent an abandonment of the largely-impooverished small-scale coffee farmers who still cannot place their coffee in Fair Trade Certified markets? Would the potential improvements of working conditions for hundreds of thousands of day laborers on coffee estates offset the reduced benefits for some on family-owned micro-farms? Or would the overall expansion of the fair trade market make the fair trade criteria a mainstream, industry-recognized fundamental quality criterion, expanding sales for all producers on the Fair Trade Registry, smaller as well as larger?

## **Conclusions**

The building of certification systems to negotiate stakeholder-based social and environmental standards and to provide independent third-party certification of their fulfillment does have the potential to build natural assets for the reduction of poverty and injustice. Each of the systems reviewed, however, faces challenges to its effectiveness with respect to these goals, in part because poverty reduction was not necessarily among the main goals for which they were initially established (with the exception of certified fair trade).

The superimposition of a poverty reduction goal, and a focus on the poor and disempowered is a relatively heavier burden for the FSC than it is for Fair Trade Certified coffee. Whether poverty reduction becomes a key focal point for the emerging certification systems in ecotourism and mining will depend greatly on the development of standards in the coming years. Those who are assisting with the development of the systems may need to focus not only on which functions are critical for the accrediting and certifying organizations themselves, but also on which asset-

building functions require additional support programs to assist poor communities to take advantage of the opportunities provided by the certification systems themselves.

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<sup>1</sup> 'Certified fair trade' will be used throughout this paper to refer to that form of trade that corresponds to the public standards and procedures of the Fairtrade Labelling Organizations International (FLO), as distinct from the generic kinds of 'fair trade' that are discussed widely by everyone from politicians in the global North to a wide array of NGOs, without clarity about what makes these systems somehow 'fairer' than ordinary commercial trade.

<sup>2</sup> <http://www.transfairusa.org>.

<sup>3</sup> For example, the standards under which certification of forest 'plantations' may take place is undergoing significant review during 2005 and 2006 in often heated discussions of whether plantations could ever be considered 'forests' and whether certification of plantations can have the beneficial effect of reducing pressure on natural forests.

<sup>4</sup> *FSC News & Notes*, Volume 3, Issue 5, June 3, 2005

<sup>6</sup> In this case, 'Fairtrade' as used by the Fairtrade Labelling Organizations International (FLO) is the same as 'certified fair trade' used throughout this chapter.

<sup>7</sup> In 2005, however, coffee producers agreed to begin to pay a small levy on all of the coffee sold through certified fair trade in order to strengthen the certification and monitoring services of FLO and to protect better the legitimacy of the certified fair trade system. The International Standards Organization rules for certification systems require that the accreditation of certifiers who conduct the monitoring and auditing be separate from the establishment of standards and criteria, to avoid conflicts of interest. Producer contributions for the monitoring and auditing were a partial result of FLO changes to respond to those mandates.

<sup>8</sup> For further information, see <http://www.rainforest-alliance.org/programs/tourism/certification/index.html>.

<sup>9</sup> <http://www.globalminingcampaign.org>

<sup>10</sup> <http://www.nodirtygold.org>.

<sup>11</sup> For further information, see <http://www.forestrycenter.org/>.

<sup>12</sup> For further information, see <http://www.tropicalforesttrust.com>.

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