

Responsible trade and market access

**Opportunities or obstacles for
SMEs in developing countries?**



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

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Opportunities or obstacles for SMEs in developing countries?

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Foreword

In our globalizing world, trade liberalization has led to new prospects for business in developing countries. However, many countries have not yet benefited from the trade opportunities generated by rapidly opening markets. While the ability of a nation to create wealth is linked with its access to international trade, economic development can only be sustainable if the interests of all stakeholders affected are given due consideration.

During the past decade, consumers and civil society have played an important role in triggering a debate on the equity, fairness and inclusiveness of globalization. This has led to the emergence of the concept of responsible trade, accompanied by a broad range of initiatives aimed at improving the social and environmental impact of international trade.

This UNIDO report is intended to contribute to this topical debate by examining both the opportunities and the obstacles faced by small and medium enterprises (SMEs) in developing countries as they seek to gain access to international markets. The report provides a thorough analysis of various initiatives and approaches to responsible trade and studies its role in poverty reduction and entrepreneurship development in developing countries.

For SMEs, responsible trade means both a chance to win new customers and a challenge in gaining market access. UNIDO, which has long promoted more equitable trade relations, demonstrates in this report how SMEs can take advantage of responsible trade initiatives and integrate themselves into global value chains. It also presents UNIDO's programmes to assist SMEs to access international markets in a responsible way.

As barriers to trade gradually vanish, responsible trade could become a driver for sustainable growth that contributes to the reduction of economic and social imbalances among nations.



Kandeh. K. Yumkella
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Contents

	<i>Page</i>
1. Executive summary	1
2. Introduction	5
Background	5
This report	7
3. SMEs and export market access	9
Dimensions of trade	9
Trade pressures and trends	10
SMEs and market access	12
Integrating SMEs into global supply chains	15
4. Responsible trade	17
Fair trade	17
Green trade	21
Ethical trade	28
Other developments	32
Lessons learnt	34
Understanding impacts	35
5. Key trends in responsible trade	37
Products and sectors	37
Going mainstream	39
Converging standards	43
Developing domestic markets for responsible trade	48
6. SMEs and responsible trade	51
One of many issues	51
One of many drivers	52
Limited spread to SME tiers	54
Concerns of protectionism	55
7. Action on responsible trade and SME development	59
Understanding responsible trade challenges and opportunities	59
Building the capacity to respond to responsible trade challenges and opportunities .	60
Influencing standards development	62
The public policy connection	64
Integrating responsible trade and enterprise development	65
The role of UNIDO	68
8. Conclusion	77
Bibliography	79

Abbreviations

AGOA	Africa Growth and Opportunity Act
ATO	Alternative Trading Organization
CAFTA	Central American Free Trade Agreement
CSR	Corporate social responsibility
FDI	Foreign direct investment
FSC	Forest Stewardship Council
GI	Geographical indications
GSP	Generalised system of preferences
IADB	Inter-American Development Bank
IFOAM	International Federation of Organic Agricultural Movements
ISO	International Organization for Standardisation
ITC	International Trade Centre
NAFTA	North American Free Trade Agreement
OECD	Organization for Economic Co-operation and Development
REAP	Responsible entrepreneurs achievement programme
RoHS	Restrictions of hazardous waste
SMEs	Small and medium enterprises
SPS	Sanitary and phytosanitary standards
TBT	Technical barrier to trade
TRIPS	Trade-related aspects of intellectual property rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
WEEE	Waste, electrical and electronic equipment
WTO	World Trade Organization

1. Executive summary

Responsible trade covers the broad range of market-mediated approaches, which aim to improve the social and environmental impacts of international production and trade by concentrating on global supply chains. Alongside the traditional technical, quality, safety and price demands of pivotal buyers in the supply chain, suppliers are increasingly being asked to meet social or environmental standards through supplier codes of conduct, fair trade and eco-labelling schemes.

Responsible trade has tended to develop in buyer-driven, labour intensive supply chains for consumer products, mainly destined for Western European and United States markets—most notably in primary industries such as agriculture and forestry and in consumer products such as toys, shoes, garments, and electronics. The focus of responsible trade has depended more on marketing characteristics such as association with health concerns or identity branding than with product characteristics.

Responsible trade pressures are likely to expand further into sectors and broader market niches as entrepreneurial fair trade and green marketers develop new products and target new consumers (including middle class consumers in developing countries), as mainstream companies look at the risks and impacts across their whole supply base as a way to protect reputation, and as legislation in importing countries drives further uptake of environmental and social standards in key sectors.

Understanding the demand for and benefits from improved social and environmental performance is just one aspect of the essential business discipline of knowing your market and targeting your product and service to meet its demands:

- For a minority of SMEs able to link into growing niche markets for fair trade, organic and green products, responsible trade represents an opportunity to win new customers, gain a premium price and access developmental relationships with trading and investment partners. However, the size and scope of these markets, although growing is still extremely limited.
- For a greater number of SMEs seeking to enter international supply chains, social and environmental conditions are a challenge, which increasingly must be met in order to gain to market access. However, whilst compliance is a competitive issue in so far as suppliers can lose contracts through non-compliance, meeting social and environmental standards alone is not enough to win and retain customers.
- For the vast majority of SMEs who produce for local markets, responsible trade has had little impact and even amongst those within export supply chains, many remain

in sectors and supply tiers thus far not touched by the emerging standards and certification requirements. But if current trends continue, other sectors and suppliers within them will also be impacted by new social and environmental conditions.

Irrespective of social and environmental compliance programmes, many supply chains are moving towards more strategic sourcing from fewer, larger and more sophisticated suppliers. Competitive factors including local infrastructure and business environment, as well as the individual firm's own reputation for quality, speed and flexibility, remain important.

Market pressures from final customers through the supply chain to SMEs are only one source of motivation to make social and environmental improvements. Pressure to meet environmental and labour standards come from a range of other sources:

- Own government measures in countries where social and environmental impacts of business are gaining political attention (most notably as part of trade agreement conditionality).
- Need to upgrade production where cleaner technology and better human resource management is a necessary step in moving to higher technology and skill levels.
- Mandatory standards in sectors where importing governments have set minimum standards e.g. on food safety and energy efficiency.

Whilst responsible trade initiatives have so far been able to stay on the right side of the legal assessment of protectionism, it is clear that they can be a barrier to international markets, and in particular may impact disproportionately on SMEs. There are concerns that companies will find it easier to monitor fewer, larger facilities, but as yet there is little evidence of what impact responsible trade initiatives are really having on SMEs. Certainly, audit and certification systems have often not been designed with SMEs in mind.

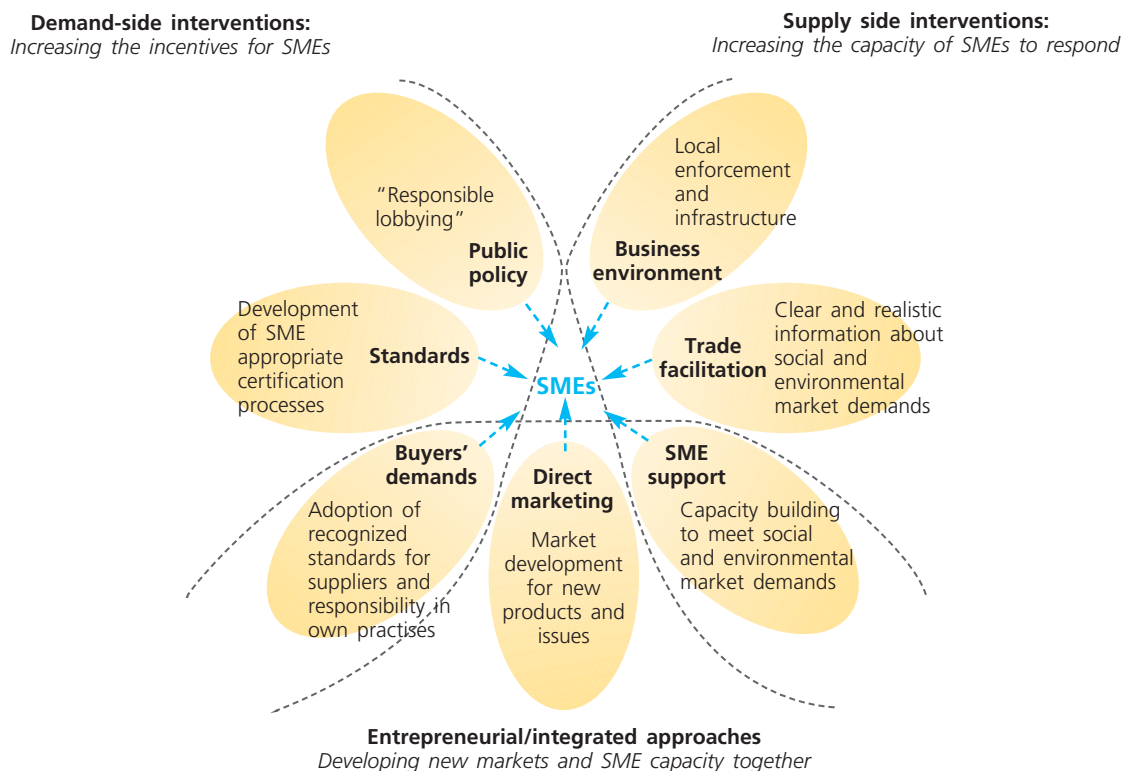
Organizations supporting SME development and those concerned with advancing corporate responsibility have begun to develop approaches to making responsible trade accessible and applicable for SMEs. These include:

- Providing information about market demands—through websites and newsletters, import promotion agencies and SME training programmes.
- Working with SMEs and clusters to overcome capacity gaps and structural difficulties such as lack of local, affordable testing labs, of audit firms as well as a lack of access to finance and technology.
- Supporting more effective government action to enable and enforce international social and environmental standards—this may go as far as developing “whole country” certification.
- Working with SMEs to develop and market products creating and demonstrating consumer demand in new green or ethical niches.

- Working to ensure monitoring processes are useable for SMEs both by developing appropriate tools within existing responsible trade initiatives and developing standards and certification systems in producer countries.
- Working to understand how their purchasing practices can affect workplace conditions and supplier viability.

Fair trade organizations were amongst the first to understand the need for a joined-up approach—working on three fronts: to create new markets, to develop the capacity of producers to compete, and campaigning for wider changes in public policy and industry practice. Their entrepreneurial approach has enabled them to grow in terms of products and sales as well as influence. They have struggled with the inherent tensions between on the one hand working to stimulate pressure and demand (where the aim is to raise awareness as high as possible) and on the other to help SMEs to meet these demands (where the aim is to advise SMEs in making realistic levels of investment). But they have demonstrated, albeit within a small market niche, that this approach can be economically viable, and thus laid down the gauntlet for mainstream businesses.

The United Nations Industrial Development Organization (UNIDO) works to promote sustainable industrial development in low- and middle-income economies and focuses on small and medium enterprises (SMEs) due to their pivotal role in socio-economic in the developing world. UNIDO has developed a set of initiatives within its technical cooperation programmes to support SMEs in meeting social and environmental market demands, to support groups of SMEs in their joint efforts to gain market access and to support national governments in creating the business and environment and infrastructure needed to facilitate efficient and responsible trade flows.



Ultimately, initiatives to support SME capacity development in overcoming the obstacles and taking the opportunities of responsible trade should be integrated within existing services and relationships rather than promoted as another set of stand-alone resources. This would mean:

- Integration of social and environmental standards/markets expertise into information provision, trade facilitation and technical assistance programmes aimed at improving market access.
- Wider consideration by brand named buyers (and their industry associations) of their role in supplier development and capacity building, and the “business case” for supporting stronger government regulation and enforcement.
- Embedding social and environmental expertise, and an understanding of how more responsible business practice can contribute to competitiveness, within programmes to upgrade and improve productivity in SME clusters and networks.

There are many opportunities on offer to SMEs through responsible trade. Some of these will be buyer-driven, mainly through ethical trade, but also to a lesser extent fair trade. But there are also opportunities in supply-driven responsible trade, particularly through clustering. At the same time, the spread of corporate responsibility into global supply chains from Northern companies and governments, whether as part of a business contract or international trade agreement, does raise concerns for SMEs in trying to meet the demands put upon them to remain, let alone compete, in the marketplace.

2. Introduction

Background

While debate about the roles of business and governments in a globalized world continue, it is recognized by most that broad-based business growth is crucial for poverty reduction and human development. There has therefore been an increasing focus in international and national policy making on creating the conditions needed to enable individuals, businesses and nations to find paths out of poverty through private enterprise. The United Nations in particular has more recently focused its attention on how trade can help achieve the Millennium Development Goals (MDGs). In the Millennium Project's assessment of progress made towards the MDGs, it recommended that: "High-income countries should open their markets to developing country exports through the Doha trade round and help Least Developed Countries raise export competitiveness through investments in critical trade-related infrastructure, including electricity, roads and ports." (United Nations Millennium Project, 2005).

Access to international markets for imports, exports and investment is one key factor in enabling economic growth. Over the past decades international trading regimes have been liberalized with the lowering of many tariffs and the lifting of some non-tariff barriers, the most recent being the removal of quotas on textile and apparel trade between WTO members.

Whilst significant government-imposed trade barriers still exist, such as the EU system of agricultural tariffs and subsidies, market access is not just regulated through international agreements. Inter-firm relationships within the supply chain are crucial to market access for would-be exporters. Pivotal buyers, such as major brands and retailers govern the supply chain in many sectors and provide the link between consumers and producers. Meeting their technical, quality, safety and other demands—either written into private specifications and contracts or formalized into international standards—is often crucial to securing market access.

At the same time, the wider impacts of businesses on people and the environment have come under greater scrutiny. This has been driven partly by consumer and civil society concerns about the power and influence of multinational companies and their ability to profit from human rights abuse and environmental destruction. It has also come onto the agenda of policy makers and the development community, who realise the need not just for economic growth but for pro-poor growth, which improves the living standards of the poor and their ability to exercise their basic human rights (DFID, 2004). Finally, enlightened companies that want to succeed in the long term recognize that profiting from continued

poverty and environmental damage undermines the healthy business environment on which their own long-term future depends.

Various approaches to responsible trade have been developed in response. This report uses the term responsible trade to cover the broad range of initiatives to improve the social and environmental impacts of international trade by concentrating on conditions of production. In particular it examines the opportunities and obstacles presented by three key trends: fair, green and ethical trade:

- Fair trade is defined as a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers—especially in the South (International Federation of Alternative Trade).
- Green trade encompasses the use of environmental product and process standards whether in production, use or disposal and either applied by manufacturers and producers or demanded by buyers in the supply chain. It is often associated with some form of “eco-label” and includes standards covering issues such as organic food production, pesticide use (integrated crop management), sustainable forestry, energy efficiency and recycled content.
- Ethical trade “means the assumption of responsibility by a company for the labour and human rights practices within its supply chain”. (Ethical Trading Initiative). It has been characterized by independent certification requirements or the use of codes of conduct to ensure that suppliers respect basic standards of human rights in employment.

None of these strands is monolithic, with many different companies, third-party and multi-sector initiatives taking different approaches across each area and a constantly changing mix of consumer concerns, entrepreneurial and technical innovations, reputational pressures and legislative threats driving developments.

For both importers and exporters responsible trade considerations are only one aspect of their overall approach to corporate social responsibility (CSR). Whilst responsible trade tends to focus on the conditions of production or product life-cycle impacts, CSR more broadly includes other spheres of business impact including through investment, site selection and planning, product usage, marketing, lobbying, and asset protection.

For small and medium enterprises (SMEs) whether already part of global supply chains, or seeking to gain a foothold into international trade, understanding responsible trade trends is part of the need to know their market. In any industry, suppliers need to understand how environmental and social standards affect their market niches and what the compliance auditing and certification requirements are. There is a concern that these standards may put developing country SMEs at a particular disadvantage. If they are indeed overtly protectionist or simply over complicated, or disproportionately expensive in their monitoring requirements, they could prevent developing country SMEs gaining the market access

so crucial to their growth and contribution to economic development and poverty reduction. More positively, SMEs in some sectors may be able to win more trade through environmental and social innovations and market linkages such those pioneered by the fair trade movement.

This report

This report provides an analysis of the key initiatives and approaches to responsible trade, their characteristics and drivers, and the key players and industry sectors involved. In particular it examines their potential for contributing to, or conversely for undermining, poverty reduction and entrepreneurship in the developing world. It aims to draw out:

- Key lessons and trends from the history so far of responsible trade and the implications of these for SMEs.
- The crucial factors that are likely to make responsible trade initiatives either beneficial or detrimental to the development of SMEs and their impact on poverty reduction.
- The roles that key players including governments, trade associations, trade unions, multilateral bodies and multisector partnerships can play in ensuring positive outcomes.

3. SMEs and export market access

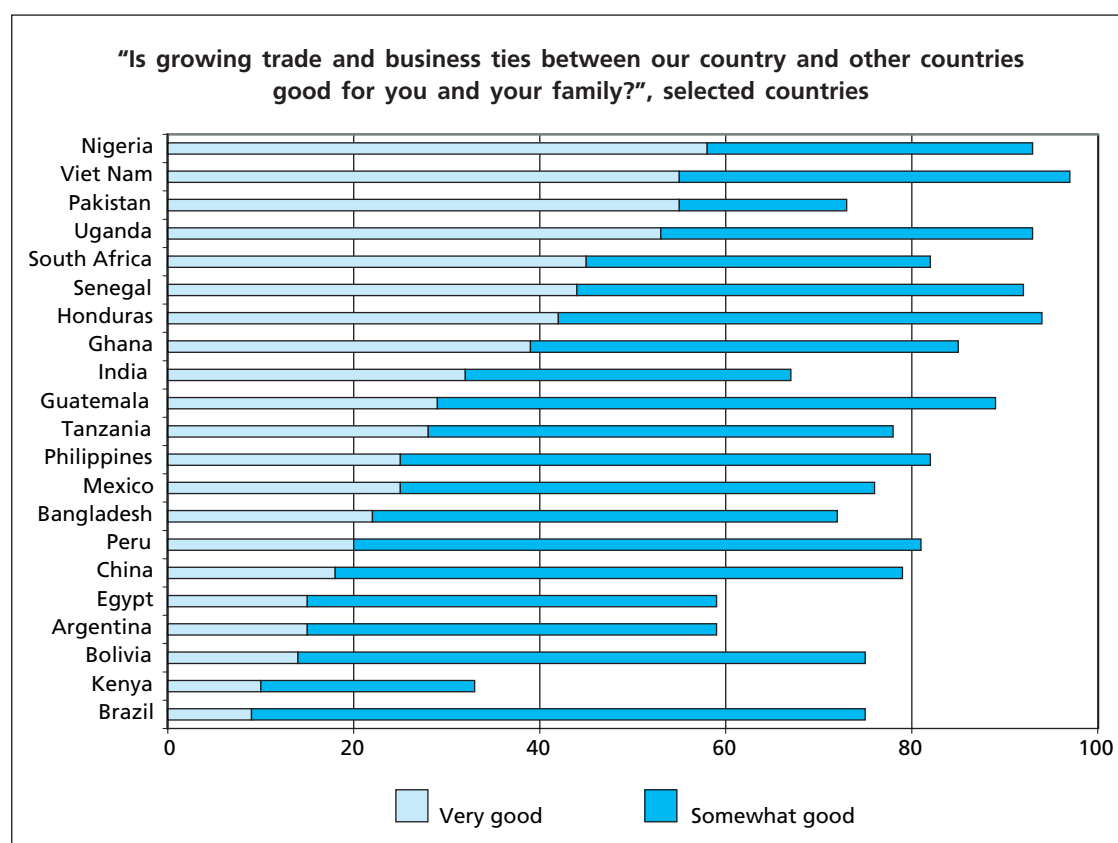
The development of responsible trade has taken place against a background of changing trade patterns which form the wider context for SMEs seeking to succeed in international markets and supply chains.

Dimensions of trade

Over the past 40 years the pattern of global trade has shifted both in terms of the quantity, type and manner of trade. A number of key trends can be identified:

- *Growth in exports by developing countries.* Global trade in goods has grown from 10% to 20% of the value of the world economy and is now worth around \$6.5 trillion per year. Developing countries managed to increase their share of global exports from one quarter to one third. International trade in services has also risen and is worth over \$1.5 trillion. Developed countries remain responsible for three quarters of service exports, but there is a growing trend towards the outsourcing of services, such as call-centres and software development, to developing countries. Some 40% of the goods developing countries export go to other developing countries, with 60% going to developed countries. The proportion of exports between developing countries has risen from 24% in 1960, due to the increasing demand of the developing South-East Asian countries, in particular China.
- *Manufactures up, primary commodities down.* The importance of trade in primary commodities has fallen from 38% of the value of world exports in 1960 to only 12% in 2001. The fall has been even more marked in developing countries where primary commodities accounted for 63% of exports in 1960 but are now only 13%. Developing countries have increased their market share in exports of manufactured goods, which now account for 65% of developing country exports. Electronics have been a key growth area for international trade, and has been concentrated in those South-East Asian developing countries that have succeeded in integrating into international production networks. Developing country export growth in the past 20 years has been concentrated in three sectors: electronic and electrical goods, textiles and labour-intensive products, and finished products from industries that require high research and development spending.
- *Trade expansion by South-East Asian developing countries.* The developing world's trade expansion is largely accounted for by the export successes of the rapidly developing East Asian countries. Whilst exports from East Asian increased significantly, South American, Central and Eastern European, and African countries now account for a smaller percentage of world exports than in 1960 [1].

Not everyone has been enthusiastic about this increase in international trade. The views of people from around the world, including entrepreneurs from SMEs, vary greatly. According to the 2003 Pew Global Attitudes Project, people in Nigeria, Pakistan, Viet Nam and Uganda are much more positive than most about the benefits—to them and their family personally—of international trade and business linkages. Of Vietnamese citizens polled by Pew 97% were either very or somewhat positive about the experience of international trade for them personally. Chinese, South Americans and Kenyans are much less positive—less than one in five people felt that international trade was very good for them. What is interesting is that these perceptions are not closely correlated to average income, size of export market, or SME success in capturing a healthy share of those exports. Optimism about trade is more to do with perceptions of opportunity and overall enthusiasm for global connectivity (Pew Research Centre, 2003).



Trade pressures and trends

Changing trade flows are affected by a number of key trends in trade policy and supply chain governance:

- *Falling tariff barriers.* Multilateral trade negotiations, most notably the Uruguay Round, have seen tariffs progressively cut to historic average lows of around 3% for non-fuels and non-agricultural products imported into developed countries. However, tariffs remain high for agricultural commodities (especially for processed items which are targeted by escalating tariffs) and free trade is undermined by

agricultural subsidy regimes. Developing country tariffs have also fallen, but remain high with a weighted average above 10%.

- *Increasing importance of international supply chains.* Developing country exports depend less and less on the commodity trade, typified by anonymous international commodity markets and more and more on integration into global supply chains. Key areas of export growth for developing countries have been computers and office equipment, telecommunications, audio and video equipment, semiconductors, and clothing. In each case developing countries have become key actors in global value chains requiring labour-intensive stages in manufacturing. Ability to meet international buyers' basic need for production bases that offer the right combination of stability, infrastructure, skills and cost at an entry level, has enabled countries to gain market access to international supply chains and in many cases to upgrade production.
- *Intensifying competition at all levels of the supply chain.* Key developments in retail and supply chain management continue to shape international trade. These include the ongoing concentration of retailing into the hands of a few dominant globally recognized brand-named companies through the merging and expansion of national brands, and the reduction in market share of smaller independent retailers. This is a process which can already be seen most starkly in Germany, the United Kingdom and the United States, but is increasingly spreading to traditionally more fractured markets such as Italy and Japan. At the same time, these global brands are often working to consolidate fragmentary supply chains into simpler and more easily controlled networks of long-term suppliers. This is currently most significant in the garment and textiles sector where the ending of quota control at the beginning of 2005 freed buyers from the necessity of sourcing from a disperse range of countries in order to secure in-quota supplies.

First tier suppliers themselves have also become global companies, taking responsibility for providing a full-service including design inputs, inventory management and sourcing of a full range of products ("category management") for their clients. Price competition both at a supplier and retailer level is fierce, with high street retailers competing against "big box" warehouse and internet discounters and suppliers competing for the contracts of fewer, stronger buyers. Public sector buyers are also working to consolidate their considerable but often fragmentary buying power through negotiating national level "draw down" contracts with suppliers and using e-auctions to achieve greater value-for-money in their spending.

- *Increasing importance of standards in governing supply chains.* Multinational and brand-named companies act as governors in quasi-hierarchical international supply chains, setting the parameters in terms of product specifications such as design, quality, safety as well as process specifications (Humphrey and Schmidt, 2000). These are increasingly formalized not just within the contractual specifications of individual companies but also within certification systems such as ISO 9000 and other product-specific standards. Environmental and social standards have more recently joined this trend, with the introduction of certification schemes, industry

codes of conduct (now numbering 300+) and company specific initiatives which specify social and environmental standards for production. A survey of environmental and health requirements in international supply chains notes that in practice, supply-chain-driven requirements account for the majority of all environmental and health requirements in international markets and are more dynamic, stringent and complex than mandatory requirements (UNCTAD, 2004).

- *Proliferation of environmental regulation affecting market access.* Environmental and health related requirements imposed by governments in importing countries are increasingly becoming important requirements for exporters. Regulations such as those arising from the EU's Restriction on Hazardous Substances (RoHS) and End-of-Life Vehicle (ELV) directive, sanitary and phytosanitary standards, rules on traceability of food products, energy efficiency and take-back requirements, often demand changes to production methods or development of more sophisticated monitoring systems. These technical barriers to trade are allowed within the framework of the World Trade Organization (WTO)—as long as they meet key conditions. Whilst there has long been a resistance to introducing social or environmental clause conditionality into international trade agreements at the WTO level, they have been included in bilateral trade agreements such as NAFTA, AGOA and the United States-Cambodia textile agreement.

SMEs and market access

Although SMEs make up over 90% of businesses worldwide and typically account for 50% of GDP and 60% of employment, they are under represented in international trade. They only generate 30% of exports and attract an even smaller proportion of FDI. (OECD, 1997a) In developing and least developed countries, SMEs are even more significant in numbers and employment, and even less likely to be successful exporters. On the basis of the available data, which admittedly is patchy, it appears that the strength of SME exporters varies significantly across developing countries even at similar levels of income (see table 1).

It is noteworthy that some countries have managed to dramatically increase the export strength of their SMEs in quite a short space of time. In Thailand, for example, SME share of industrial exports in the early 1990s was reported as 10%—a figure still frequently repeated in current literature. However, according to OSMEP, the Thai Office of Small and Medium Enterprises Promotion, the current share of manufactured exports by SMEs is 38%, almost the same as its share of GDP.

Drawing on an OECD survey (1997a & b) and his own work in Mauritius, Wignaraja (2003) suggests that developing countries have three types of SME. A relatively small group (1-5%) are active in overseas markets, have well-developed manufacturing capabilities and are able to profit from changes in communications, technology and organization of production to compete internationally. In Indonesia, for example, just 2-3% of SMEs are involved in export. For the large majority of SMEs (60-80%), even if they have not yet been involved in export, growing competition demands that they significantly upgrade to

improve output, quality, price and management. Finally, the remaining 20-40% of SMEs will remain largely insulated the competitive pressures of world markets.

Table 1. SME share of total exports in selected developing countries

<i>Country</i>	<i>Year</i>	<i>SME share of industrial exports (%)</i>
China	Early 1990s	40-60
Thailand	2002 [2]	38
Colombia	1997	35
India	Early 2000s [3]	35
Costa Rica	1997	29
Peru	1994	25
Brazil	1998	22*
Lithuania	2002 [4]	20
Viet Nam	Early 1990s	20
Uruguay	1988-95	18
Malaysia	Early 1990s	15
Indonesia	Early 1990s	11
Argentina	1995	10
Chile	1993	5
Venezuela	1996	5
Romania	Early 2000s [5]	4-6*
Egypt	2004 [6]	4*
Mauritius	1997	2
United Republic of Tanzania	2002	<1

* = share of total exports. Note: definition of SME varies from country to country.

Source: UNCTAD (2003); Wagnaraja (2003); national SME strategy papers for Lithuania, Egypt, Romania, Thailand.

Economic studies suggest that successful economies are characterized by a vibrant SME sector. Furthermore, it has been shown that SMEs make a critical contribution to poverty reduction because they tend to be labour intensive, are often a first step into employment for the poor, and are a seedbed for entrepreneurship (UNIDO, 2001). However, as other research highlights, the evidence does not support the hypothesis of a straight causal relationship between more SMEs and more growth, or indeed between more SMEs and more poverty reduction. Research by the World Bank concludes that a country's SME sector is not a causal factor in either growth or poverty reduction but simply a sign of a healthy overall business environment (Beck, Demirgüç-Kunt, and Levine, 2003).

Such national level analysis, however, may not though be sufficient to understand the impact of SMEs. SMEs are not homogenous—they include marginal enterprises in the informal economy, family businesses and entrepreneurial start-ups. Jobs and export earnings are not generated evenly amongst SMEs, but concentrated amongst the most entrepreneurial. Jobs are created by rapidly growing firms and new business start-ups. SMEs that engage in international trade tend to be at the larger end of scale, employing 50 to 100 people, far larger than the average SME with a payroll of 10 staff.

What is needed then are not business environments that favour small enterprises over large (even if characterized by low productivity, poverty pay and underemployment) but ones

which enable entrepreneurial SMEs to thrive and gain a foothold in national and international trade in order to grow. Research by the OECD found that export activity is indeed linked to rapid growth of enterprises—not as the end result but rather as its starting point (OECD, 1997a). This is reflected in UNIDO's division of its SME development activities between medium-sized enterprises where the objective is equitable globalization through competitive insertion in global supply chains, small enterprises where their objective is sustainable local development mainly through national sales, and micro enterprises where the focus is on poverty reduction by moving from a survival to growth.

Access to international markets offers SMEs advantages of scale, and access to new technologies and market niches, but also bring risks, which such enterprises may be less well equipped to deal with than larger organizations. Even for firms not geared toward export, greater trade liberalization can cannibalize their local markets with cheaper imports.

Value chain analysis [Humphrey and Schmitz, 2000] identifies four main voluntary routes into international markets:

- *Arms-length*—impersonal relationships between producers and buyers, e.g. the relationship between producers of agricultural coffee beans such as Robusta coffee beans and global food processors.
- *Network*—trade between firms holding complementary assets, e.g. the relationship between computer manufacturers and processor chip manufacturers.
- *Quasi-hierarchical*—supply chains of individual firms coordinated by a dominant governor, e.g. the relationship between contract clothing manufacturers and major clothing and sportswear labels.
- *Hierarchical*—involving joint ventures, equity ties and FDI, e.g. the relationship between a local subsidiary and the head office of an international vertically integrated car manufacturer.

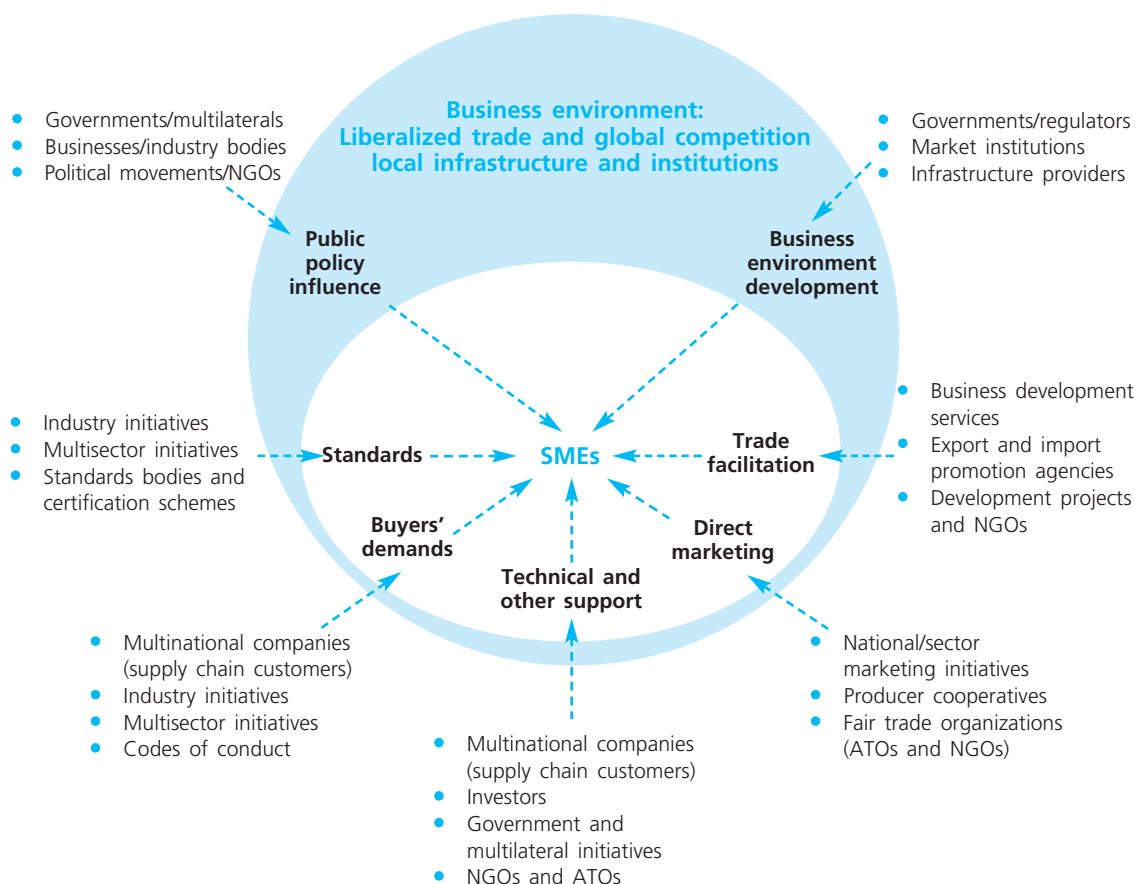
The modern era of globalization has been characterized by the growth of quasi-hierarchical supply chains in which global brands and retailers concentrate on design and marketing while contracting out manufacturing operations. Thus one of the key routes for breaking into exporting for SMEs has been by becoming a supplier within global supply chains.

However, market niches which are easy to get into (with low barriers to entry in the form of capital and technology requirements for example) or hard to diversify out of (as in the case of smallholder coffee production) are also characterized by oversupply, uncertain orders and falling prices. SMEs that have managed to gain a foothold in international supply chains often remain stuck in these unstable positions through lack of capital and know-how needed to upgrade. For example, research on the impacts of the ending international apparel and textile quotas show that it is SMEs in countries with formerly guaranteed markets that are already seeing orders cut and are going out of business in the face of international competition (AccountAbility, 2005).

Integrating SMEs into global supply chains

In recent years national and international policies, as well as the professionals of multi-lateral and private development organizations have turned their attention towards the linkages between trade, SMEs and development. Some of these initiatives have looked at global supply chains from the bottom-up and have specifically concentrated on the barriers to trade for SMEs or small, marginalized producers. Mechanisms used include trade facilitation; technical and other support, such as credit provision and direct marketing. Others meanwhile have taken a more general approach to improving the social and environmental performance of global production—starting from the importers and working down their supply chains. As mentioned above (see Introduction) this second approach includes a range of market-mediated initiatives such as supplier codes of conduct and eco-labels. At the interface between these two perspectives SME development initiatives are now recognizing the need to improve environmental performance in order to secure international market access, whilst supply chain initiatives are beginning to consider how they can include SMEs within their monitoring and certification systems. The figure below takes an SME's-eye view of this universe of approaches.

Interventions influencing SME export market access



As the figure shows, each approach is not limited to one kind of organization: technical support to improve quality and consistency is provided through multinational companies' supplier development processes, although such supplier development is often limited to larger suppliers (UNIDO, 2001); fair trade organizations' partnerships and government and non-government organizations technical assistance programmes. Similarly there are a range of overlaps and linkages between different approaches. Organizations that provide trade facilitation and market information for SMEs have recognized the need to provide information about the range of standards relevant in export markets, whilst some of the companies engaged in multisector initiatives to develop and audit labour standards in the supply chain are beginning to look at the ways this is either supported or undermined by their own buying practices (such as lead times and ordering processes) and their lobbying positions concerning aspects of regulation.

4. Responsible trade

The three types of responsible trade (fair trade, green trade, and, more recently, ethical trade) developed separately and often in competition with each other for consumer attention. But they are now beginning to converge in important ways. This chapter outlines the development, progress and challenges in the three waves of responsible trade, as well as other instruments linking trade with social and environmental protection, and the lessons learnt so far.

Fair trade

Fair trade has been defined by its practitioners as “a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers—especially in the South.”

The development of the fair trade movement has its origins in the gradual increase of awareness of the impacts of trade in the nineteenth and early twentieth centuries. Critiques of international trade practice date back at least 150 years in Europe, with the first detailed examinations of the work conditions and terms of trade of commodity producers in the colonial era. In 1860, for example, Eduard Douwes Dekker, a former Dutch colonial official, wrote a book *Max Havelaar or the coffee auctions of the Dutch Trading-Society*. This novel is an exposé of the appalling work conditions imposed on Indonesian farmers by the Dutch colonial system. It became a best seller in the Netherlands, and was translated into 30 or more languages. Harriet Beecher Stowe’s *Uncle Tom’s Cabin* (1850) did a similar job of exposing the dire conditions of slavery in the production of tobacco and cotton in the United States.

In 1898, the Anglo-Irish civil servant Roger Casement investigated atrocities committed by Belgian soldiers against African rubber workers in the Congo. In his consular diary, Casement recorded “the daily agony of an entire people”—whippings, mutilations, and starvation by “the savage soldiery”. Casement was transferred as consul-general to Brazil in 1908, where he uncovered more exploitation—this time of Brazilian Indians by a Peruvian rubber company. Casement’s official findings, released in 1912 as the *Putumayo Report*, made Britain and other world powers take a hard look at the abuse of colonized people, and Casement was honoured with a knighthood (he was executed for treason in 1916, but that is another story).

These exposés aroused considerable public anger but efforts to promote solutions to the international commodity trade took much longer to develop. In 1911, the Triangle

Shirtwaist Company factory burned down, killing 146 young and mainly female workers. This event, one of the worst industrial accidents of its time, took place in New York City. Only in the 1920s-1930s did working conditions in Europe and North America improve enough to allow factory workers and farm labourers the breathing space to empathize with commodity producers overseas. Arguably, in fact, the first moves towards fair trade, ensuring producers an adequate price irrespective of the world market price, began not in Europe or North America, but in producer countries.

In 1927, for example, the Federación Nacional de Cafeteros de Colombia (FNC or Colombian Coffee Federation) was founded to support small coffee producers. Over time FNC developed a financial mechanism to provide a buffer to support small producers in periods when the world market price fell—an essential component of fair trade. Today, the organization claims that it “represents commercially successful fair-trading, proven over 70 years”. In its own eyes at least, FNC is the world’s oldest fair trade organization (Colombian Coffee Federation, 2005).

In the post-war period, Christian activists in the United States and Northern Europe began to develop a model of North-led fair trade. In 1946, Edna Ruth Byler of the Mennonite Central Committee (MCC) began importing handicrafts from Puerto Rico to the United States, followed by products made by Palestinians and Haitian's. In the early 1970s, the initiative moved out of her basement, first as SELFHELP Crafts of the World and then in 1996 as Ten Thousand Villages.

During the 1960s, other organizations became involved in fair trade: Oxfam in the United Kingdom and Fair Trade Organisatie in the Netherlands launched trading subsidiaries. In 1979, Richard Adams set up the company Traidcraft in the United Kingdom. Fair trade companies work in partnership with their suppliers, who are often producer cooperatives. They offer premium prices, advanced payments and help with product development. Some fair trade projects also aim to help producers secure greater returns through upgrading from primary production into processing, design and marketing.

Through the 1980s, handicrafts remained the key fair trade commodity, though “solidarity coffee” from small producer cooperatives in countries such as Nicaragua and Guatemala made its entrance too. The first fair trade labelled coffee was launched in the Netherlands in 1986-1988 under the Max Havelaar mark, on coffee sourced from Mexico, apparently in response to a demand for assistance from Mexican producers. The roast and ground coffee sold well and quickly established a 3% market share in the Netherlands. CaféDirect soon followed in the United Kingdom, and was launched in mainstream supermarkets in 1992. Fair trade tea, coffee and chocolate are now available in supermarkets across much of Western Europe and increasingly in North America and Japan as well. Recently mainstream tea and coffee brands and coffee-bars have also adopted the fairtrade standard on some of their range. The fair trade market has traditionally been dominated by Europe, but the North American market is also growing rapidly from a smaller base. According to a 2005 survey by the European Fairtrade Association the fair trade market in Europe was worth over \$785, while the United States fair trade market was reported to be worth around \$250 in 2003.

Box 1. Fair trade—Key initiatives

FLO is the International Fair Trade Labelling Organization which since 1997 has been coordinating the various national initiatives by gradually drawing up international standards for each commodity and promoting a single fair trade label.

IFAT is the International Fair Trade Association for fair trade organizations with 220 members in 59 countries, 65% of them in the South. IFAT has three goals: market development, advocacy and building trust. It allows accredited members to use its FTO Mark—which it emphasizes is distinct from the FLO product label.

NEWS is the Network of European World Shops, and EFTA the European Fair Trade Association. As if this was not enough acronyms, these four groups have also formed an informal network known as FINE.

The Fair Trade Federation (FTF) is the Washington DC grouping of 115 organizations in North America, including the Transfair label.

Southern fair trade networks are increasingly being set up: in Bangladesh (ECOTA Fair Trade Forum), India (Fair Trade Forum India), Nepal (Fair Trade Group Nepal), Kenya (Kenyan Federation of Alternative Trade), Sri Lanka, Indonesia, Zimbabwe and Brazil, as well as regional groups covering Asia, Africa, and, soon, Latin America.

In the past decade, fair trade coffee has overtaken handicrafts. Other food commodities are also of growing importance, including tea, sugar, bananas, chocolate, nuts and fruit juices. Coffee and bananas are largely responsible for the recent growth in overall Fairtrade sales. The Fair Trade Federation has yet to report on recent sales in North America and Japan but TransFair recorded growth of 23% in 2003. Most recently the fair trade movement has begun certifying a few non-craft, non-food items such as footballs and cut flowers.

In recent years a number of independent clothing brands have launched, such as “No Sweat Apparel”, “People Tree” and “Made in Dignity” growing on the one hand out of the European fair trade movement, and on the other on the United States anti-sweatshop campaigns. They aim to show that it is possible to run a viable, fashionable clothing company sourcing from factories in which workers enjoy all basic rights.

A number of national and international fair trade networks and labelling organizations have been developed to regularize and promote claims to fair trade status and to support producers in accessing fair trade markets (see box 1 for an outline of the key initiatives) In the past five years there has been considerable progress through IFAT and FLO in developing international standards, certification and removing the margin for error. But debate is hard-wired into the fair trade movement.

IFAT estimates the number of “beneficiaries” from fair trade at around 800,000 people. The data is patchy, but FTF reports that Asian countries supplied 46% by value of purchases by fair trade companies in North America, in 2002, with Latin America close behind with around 40%. Africa supplied just 5%. Evaluations show that fairtrade payments and other benefits are valued by producer groups, and generally successfully delivered, even though some of these evaluations are rather patchy.

Fair trade aims to change the structures and relationships which govern international supply chains. In coffee and chocolate for example they are trying to shift the supply chain from one characterized by arm's length, commoditized trade to one of closer "quasi-hierarchical" linkage typified by supply chains in which buyers and suppliers are committed to longer term trading relationships. In some cases, fair trade initiatives are further aiming to vertically integrate the supply chain through joint ownership structures in which primary producers, prevented from upgrading into higher value processing activities at home by escalating tariffs, instead own a share in the fair trade brand which processes and markets their product abroad. In this regard, box 2 below highlights the examples of Divine Chocolate and Progreso coffee bars.

Box 2. Divine Chocolate and Progreso coffee: fair trade as brand ownership

Kuapa Kokoo is a cooperative of Ghanaian cocoa farmers. Since 1993 it has sold part of its purchases to Fair Trade organizations. Fair trade sales have risen steadily by weight, but remain a small proportion of Kuapa Kokoo's overall sales (currently around 2%). Nevertheless they consider this important, as the "fair trade premium" has enabled Kuapa Kokoo to invest in infrastructure and education projects which contribute to creating better living conditions for the Kuapa farmers enabling their diversification.

In 1998, in its bid to increase profits from cocoa, as well as to gain greater understanding of the western chocolate market, Kuapa Kokoo set up a partnership with Twin Trading and The Body Shop, with the support of Christian Aid and Comic Relief, to create the Day Chocolate Company. The Day Chocolate Company launched "Divine", the first ever mass-market fair trade chocolate bar.

The farmers' one-third ownership stake in the company is a first in the fair trade world, and means that Kuapa Kokoo has a meaningful input into decisions about how Divine is produced and sold. Two elected representatives from Kuapa Kokoo are on the company's Board, and one out of four Board meetings every year is held in Ghana.

Day Chocolate recognized that most of the profits from chocolate occur downstream and accrue to the powerful brand-named chocolate manufacturers while cocoa farmers are trapped in a price driven commodity market. The price of the average chocolate bar has increased by 60% in recent years, but the price paid on the world market for cocoa beans has almost halved. Tariff barriers to processed foods, the difficulties of processing and distributing eating chocolate as opposed to cocoa beans and European consumer resistance to explicitly "African" branded food products, all meant that it made more sense to locate manufacturing and marketing in the United Kingdom. However, since the farmers own one third of the company they receive a share of the profits from the brand.

This model of producers gaining ownership stakes in Fairtrade brands is now being extended into the coffee sector. Coffee-growing cooperatives La Central in Honduras and Oromia in Ethiopia together with Oxfam and the United Kingdoms top independent coffee roaster, Matthew Algie have set up the Progreso chain of coffee bars. They have opened two coffee shops in London and have plans to open 20 more. Some 25% of the shares in Progreso Cafes Ltd are owned by the co-ops who supply the coffee. Another 25% is held by a Coffee Producers' Trust and will pay for development projects in poor coffee growing communities. Oxfam holds the other 50% of the shares.

Source: www.divinechocolate.com; www.progreso.org.uk

Challenges

Fair trade has historically been seen as a small niche operation (1-3% of the relevant market), but its recent growth, improved quality and marketing put it in a position to be able to gain further mainstream sales and broaden its impact. Much of this has to do with its advocacy role in trying to influence more the mainstream market. However, there are a number of challenges ahead:

How to respond to the competition from major brands setting up their own “fairtrade lite” and cause-related marketing schemes that offer similar sounding products for lower prices?

How to ensure that fair trade benefits the poorest countries and producers? Currently Latin America and Asia are benefiting more from fair trade than Africa, which now has a small and declining share of the market.

Can fair trade marketing secure consumer loyalty in the face of price competition and competing products making health and environmental claims which target the same consumer base?

Green Trade

Green trade encompasses the use of environmental product and process standards concerning the environmental impact of products whether in production, use or disposal and whether applied by manufacturers and producers or demanded by buyers in the supply chain. It is often associated with some form of “eco-label”.

Green trade includes a range of sector specific labelling schemes such as those covering organic agriculture and sustainable forestry, non-sector specific product labels such as the European Union eco-label, management system standards such as EMAS and ISO 14001 and companies’ own environmental standards and green claims. Some of the key initiatives are outlined in the box below:

Box 3. Green trade: key initiatives

IFOAM, the International Federation of Organic Agriculture Movements, is the umbrella body of organic agriculture organizations with 750 members in 100 countries. It was founded in 1972 in Versailles. Its mission is to lead, unite and assist the organic movement in its full diversity, with the goal of “the worldwide adoption of ecologically, socially and economically sound systems that are based on the principles of Organic Agriculture”. Moves by the European Union and United States government to harmonize organic standards have also helped build consumer confidence.

Box 3 (continued)

Founded in 1993, the Forest Stewardship Council (FSC) is an independent, membership-based organization that brings people together to promote responsible management of the world's forests through forest management standards, an accreditation and certification system and trademark recognition. FSC's mission is "to promote environmentally appropriate, socially beneficial and economically viable management of the world's forests." FSC is the leading forest products label.

The EU Eco-label scheme was launched in 1992 amid concern about false green claims and the limited international recognition of leading national schemes like the Nordic Swan and German Blue Angel. The scheme got off to a slow start, but recently progress has been more impressive. Ex-factory sales value of labelled products increased from €195 million in 2002 to €482 million in 2004. There are currently 256 companies running around 2,500 products with the "Flower" label. Greatest uptake has been in textiles (67 labels), cleaning fluids and detergents (50) and paints and varnishes (46). Tourism, paper, soil improvers and footwear also have had some success. To date, only three electrical appliances and one light bulb have received the label.

Meanwhile, two key environmental management systems have been developed for companies. The EU Eco-Management and Audit Scheme (EMAS), a streamlined management tool for companies and other organizations to evaluate, report and improve their environmental performance, was launched in 1995. The following year, the EN ISO14001 environmental management standard appeared, available in theory to any company worldwide. In 2001, the two systems were coordinated, although EMAS remains more stringent, requiring for example an initial review, more detailed verification and publication of an environmental statement. The EMAS logo was introduced at the same time.

Some of the most widely recognized of green trade schemes are the various organic labels. These have their origins in the biodynamic agriculture inspired by Rudolf Steiner, which developed in the late 1920s in Germany, Switzerland, United Kingdom, Denmark and the Netherlands and is now practised under the Demeter label. Organic agriculture soon followed: in the 1930s by H. Müller in Switzerland and, after the publication of *The Living Soil* by Lady Eve Balfour in 1943, in the United Kingdom, where the Soil Association was set up in 1946. Organic labels proliferated across Europe and then North America from the 1970s. In the 1990s, the first organic box schemes and farmers' markets began to appear in Europe. In some countries, organic agriculture now accounts for 10% of land area. The key product range is baby food, suggesting that perceived health benefits are at least as important in the minds of consumers as on-farm environmental benefits.

Green trade initiatives were originally more interested in the area of land covered by the scheme than by the impact on communities. However, they have worked to build stronger social and economic components into their standards and are starting to be able to demonstrate benefits to small farmers and forest operators. The recent Code of Conduct for Organic Trade has a list of eight principles defining core values shared by the organic trading community including transparency and accountability in negotiations, equitable distribution of returns, skills development and capacity building.

The organic market worldwide was valued at \$25 billion in 2003, according to IFOAM. Some 97% of sales are in Europe and North America, with the United States now the biggest market and growing fastest at 12%. Smaller markets have developed in China, India, Brazil, Argentina and South Africa. The Latin American market is estimated to be worth around \$100m. Around seven million hectares of land are certified organic in developing countries (29% of the total), with over 280,000 organic farms. There are more organic farmers in Mexico than in Italy. It is estimated that smallholders produce up to 70% of organic products imported into Europe.

Table 2. Number of certified organic farms

<i>Continent</i>	<i>Number of farms</i>	<i>Area (hectares)</i>
Africa	71 000	320 000
Latin America	150 000	100 000
Asia (excl. Japan)	61 000	875 000

Source: Willer & Yuseffi, 2004.

In the 1980s, the organic food market was dismissed as a niche or fad, but a series of food scandals, careful coordination of standards, improvement in quality and price reductions have seen a massive rise in consumer interest, first in Europe and then in North America. An achievable target for the organic movement is 10% of both agricultural area and relevant food markets, though some are more ambitious.

In the 1990s, forest management labels joined organics and developed fast, through buy-in from major retailers such as B&Q in the United Kingdom and OBI in Germany. In 1994 retailers and environmental NGOs met in Toronto to set up the Forest Stewardship Council, with a set of environmental, social and economic principles for certifying forests as being responsibly managed.

The market for sustainable forest products is estimated at \$3-5 billion in 2004, according to FSC. Over 45 million hectares are certified worldwide, with about 45% of this in developing countries. Some 10-15,000 smaller or community operators have now been certified, including significant numbers in Brazil, Bolivia, Ecuador, Guatemala and Mexico. There is also growing activity in Cameroon and Papua New Guinea. Of the 57 countries in which there are FSC-certified forests, six are "low income" countries, and 17 are "middle-lower".

FSC's 10 principles include four social and economic ones—actually more than the number of environmental ones, as Alan Smith of FSC points out. Green trade can deliver price premiums that are bigger than those stipulated by fair trade: "[FSC] certified producers of tropical hardwood in Brazil and Papua New Guinea report that they are receiving premiums of up to 20% for well-known commercial species", according to Stephen Bass and colleagues at IIED in their evaluation of certification's impacts on forests, stakeholders and supply chains.

Between them, organic and other commodity-producing green trade initiatives have a world market approaching \$30 billion and benefit some 300,000 southern farmers and foresters.

Although consumer concern rose in the 1980s and early 90s inspired in part by the best-selling *Green Consumer Guides* (1988-1992), environmentally driven marketing did not develop a mainstream market niche. Throughout the late 1980s and early 1990s, technical experts proposed a large number of competing lifecycle analyses for different product groups. Not surprisingly, consumers were confused and their expressed desire to purchase green products did not always translate into choices at the checkout.

Outside of forestry and agriculture, green claims and standards are fragmented making it difficult to estimate the overall scale of these markets. However, partial indications suggest a substantial uptake: for example China is now the world's leading manufacturer of energy-efficient light bulbs and over 15,000 companies in developing countries have environmental standards certification.

The European Union sponsored the development of eco-labelling schemes for a wider range of consumer products, however, uptake and recognition has not been high. With the exception of energy efficiency labelling, eco-labelling remains largely a company-specific initiative by niche players (e.g. Ecover), innovators or mainstream producers who seek to win market share (or fend off regulation) with a green product range. Box 4 highlights the case of the own-brand sustainability initiative of Interface carpets—seen as a leader in the field, whilst box 5 discusses the independent labelling approach taken by Ecotex in the textile and apparel industries.

Box 4. Interface carpets

Interface is the largest commercial carpet manufacturer in the world. Since the mid 1990s, Interface has re-developed itself as a sustainability-led company.

The company has established seven priority areas for promoting sustainable business practices. These include:

- Eliminating waste in every area of business;
- Eliminating toxic substances from products, vehicles and facilities;
- Operating facilities with renewable energy sources;
- Redesigning processes and products to close the technical loop using recovered and bio-based materials;
- Using resource-efficient transport;
- Creating a culture that integrates sustainability principles and improves people's lives and livelihoods;
- Creating a new business model that demonstrates and supports the value of sustainability-based commerce.

The company has manufacturing outlets on four continents, though most are in North America and the United Kingdom in Europe. The company also has a plant in Bangkok, Thailand. Interface's Sustainability Report demonstrates the progress made across the company towards achieving its goals.

For example, in Bangkok, Thailand, Interface has achieved:

- Cumulative avoided costs from waste elimination activities since 1999 totalling over \$596,000;
- Reduced greenhouse gas emissions per unit of product;
- Reductions in non-renewable energy used to make one unit of product;
- A 65% reduction in water consumption to make one unit of product since 1998.

Ultimately, the company's goal is to become the world's first environmentally "restorative company" which provides more in terms of resource input than it demands.

Box 5. The Oeko-Tex (ecotex) label

The Oeko-Tex (ecotex) label was established in 1993 by the Austrian Textile Research Institute and is considered to be one of the most important textile eco-labels in the world [7]. Since its launch, the label has been adopted in a range of textile producing countries (e.g. Egypt and India), with over 4,200 textile and clothing manufacturers worldwide involved in the Oeko-Tex system.

The scheme aims to reflect the use of "eco-friendly" manufacturing processes used in the production of textiles. The original Oeko-Tex 100 standard set out a list of potentially harmful substances that need to be controlled or avoided in textile production. Subsequently, the Oeko-Tex 1000 standard expanded the requirements to consider activity at the production site and the processing involved. Affiliation to the scheme is seen to offer a range of benefits:

- *Enhanced export market opportunities:* following liberalization of the textile market in 2005, ecolabels are seen to offer a potential market advantage for those seeking to maintain exports to European countries where high value is put on evidence of sound ecological processing.
- *Improved product quality:* by removing harmful residues.
- *Financial savings:* which can be delivered by process optimization and improvements and result in savings of water, chemicals and energy.
- *Improved environmental performance:* through phasing out of toxic and hazardous substances and conservation in water, energy and raw material usage. This leads to a reduction in the quantities and pollution potential of various emissions.
- *Providing a step towards ISO 14001 and ISO 9000:* as quality control procedures are an integral part of product eco-labelling, it becomes easier to implement the ISO 14000 and ISO 9000 systems [8].

According to the Eco-Label Help Desk, the majority of companies receiving the EU "Flower" label are SMEs, producing for "own labels" of major retailers. To date, only a few companies are outside Europe. One of these is a Chinese paint manufacturer; an ongoing project is working with textile producers in India and China. The Global Ecolabelling Network (GEN)

coordinates the activities of 26 national ecolabelling schemes worldwide. According to GEN's *Annual Report 2003* [9], several schemes are now operational in developing countries, for example the Thai *Green Label* (31 companies, 140 products), Croatia's environmental label (11 companies, 14 products), the Indian *Eco-mark* scheme (2 companies, 3 products), the Philippines *Green Choice* (1 company, 2 products), and Brazil's *Certificado do Rótulo Ecológico (Qualidade Ambiental)* (no data). There is no sales data for these schemes, but the totals seem likely to be quite small.

Recently, GEN has been working on the development of an International Coordinated Ecolabelling System (*GENICES*). A team from Japan, Republic of Korea, Thailand and Taiwan Province of China has been leading the development of common core criteria for paints and toner cartridges, followed by televisions, video players and multifunctional office equipment. Progress on worldwide labels appears to be slow, however.

More successful in achieving recognition and uptake have been the environmental management and audit systems which apply to companies rather than products. These have been standardized by the EU's EMAS and then the ISO 14001 standards.

ISO 14001 was initially seen as most relevant for companies in advanced economies. But the number of certifications has recently grown in Asia, Latin America and Eastern Europe. In December 2003, there were roughly 12,650 certified companies; by October 2004 the number had increased 22% to 15,430. In China alone, over 5,000 operations have certified environmental management systems [10].

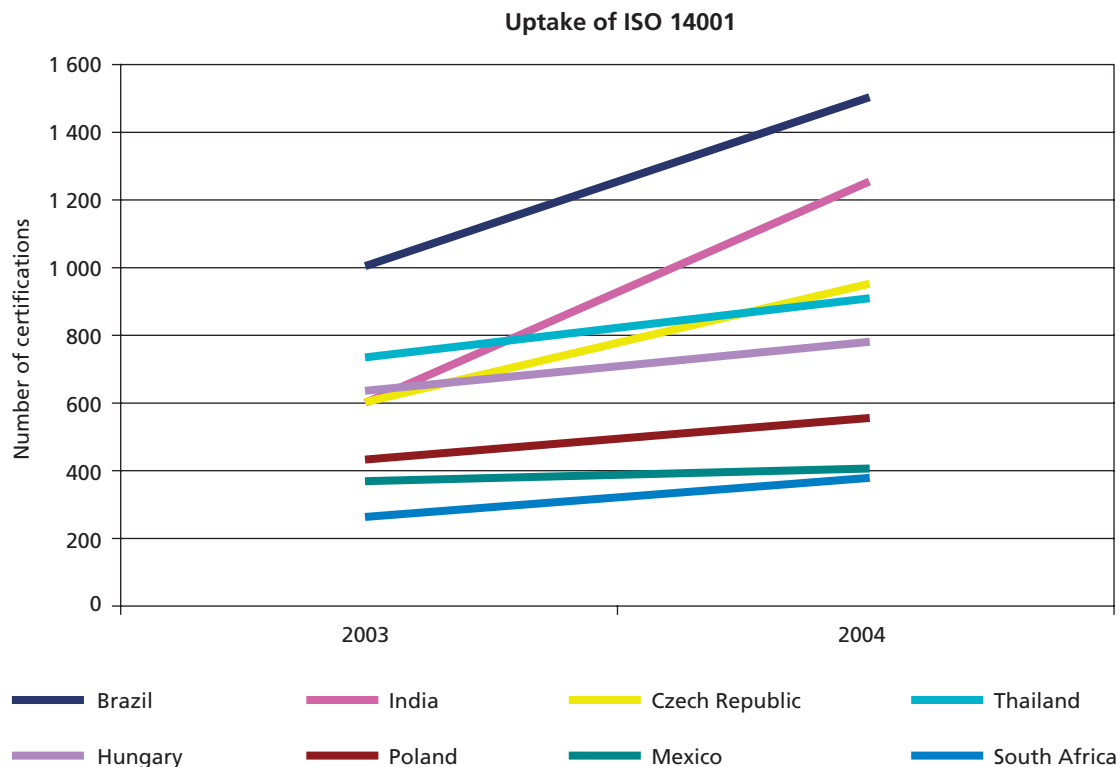
As the chart below shows, the rate grew fast in Brazil and India. Certifications in countries from Ghana and Egypt to Slovakia and Turkey have also grown fast, albeit from a lower base. The Czech Republic has twice as many certifications per unit of GDP as the United Kingdom; and Thailand has more than France, according to the International Network for Environmental Management.

To what extent do these systems address the realities of SMEs? A 1997 survey found that 47% of EMAS-registered organizations were firms with fewer than 250 employees and 14% had fewer than 50 employees. There is a useful toolkit for European SMEs on how to implement EMAS, and a guidance note to verifiers stating that procedures should be "proportional" and do not necessarily have to be documented. There is unfortunately no data on the average size of ISO14001-certified companies in developing countries, or on the cost of implementing the standard. In comparison, EMAS certification will cost a minimum of Euro 10,000 in external fees for a micro enterprise. In 2001, ISO issued a 200 page manual on environmental management aimed at companies from developing countries, and recently launched an action plan to promote ISO standards generally in the South.

There may be an important lesson for ISO14001 in EMAS, which grew rapidly from 1997-2001, but then stalled. Latest statistics suggest EMAS has reached a plateau of around 3,200 certified companies, with just four countries (Denmark, Germany, Italy and Spain)

accounting for 84% of certifications. Some leading economies, e.g. France and the United Kingdom, are basically non-participants in EMAS [11].

A growing number of larger companies are making efforts to “green their supply chain” by requiring that their suppliers meet standards equivalent to their internal standards or become certified to with an environmental management system such as ISO14001. The International Organization for Standardisation says on its website that “It is becoming more common for companies to include ISO 14001 compliance as a minimum standard in their procurement policies.” Companies which require their suppliers to meet ISO 14001 or other environmental management systems include pharmaceutical, mobile phone, automotive and computer manufacturers such as Bristol-Myers Squibb, Ericsson and Nokia, General Motors, Ford, Toyota and Mitsubishi, Hewlett Packard, IBM and Dell.



Challenges

Green trade has had limited success in gaining market share, although more generalized environmental management schemes have fared better than product and consumer based schemes in gaining mainstream acceptance. The challenges for product level certification are:

- Recognition.** Organic labels have high consumer recognition but other environmental labels do not. This can change rapidly with awareness campaigns. In 2001, just 1% of consumers in the Netherlands were aware of the FSC label; by 2004 it had increased to 33%. Despite the EU eco-label flower, at least 14 national schemes remain in operation, including new schemes in accession States.

- *Credibility.* Some evidence of consumer cynicism in Europe on organic labels and confusion over fair trade/organic choice. There are at least eight forest certifications schemes in operation, but a recent assessment by FERN, the European forest campaign, found that only one (the FSC) was credible. The influence of eco-labels on consumer goods, including energy ratings, on purchasing patterns appears to have been limited.
- *Opening markets to southern producers.* Organic movement closely associated with farmers markets and other “local food” schemes. Certification costs and some parts of standards (e.g. United States National Organics Program 2002) are seen as Northern bias by some Southern producers.
- *Getting benefits to small operators.* FSC has two working groups addressing issues facing small producers: one on Small and Low Intensity Managed Forests (SLIMF), and the other on the potential for “mutual recognition”. Regional offices have been set up in Africa, Asia and Latin America. The organic movement has done a lot of work to bring down the cost of certification for small farmers.
- *Scanty impact assessments.* Both organic movement and forest certifiers admit lack of central databases on total sales or beneficiaries by country. Anecdotal evidence on benefits is offered based on one-off evaluations with differing methodologies.

Ethical trade

Ethical trade is the approach of mainstream brands and retailers to ensuring that their supply chains are free from reputation damaging problems such as human rights abuse and child labour. It aims to ensure that production facilities in supply chains respect basic standards of human rights at work, protect health and safety, and avoid using child or forced labour.

1995-1996 was dubbed “The Year of the Sweatshop” by Andrew Ross of New York University. But why did ordinary consumers become so obsessed with labour standards at this precise time—far more widespread than the Boycott South Africa movement of the early 1980s, for example? There were a number of reasons: terrible industrial accidents like the 1993 Kader toy factory fire in Bangkok; the murder of Ken Saro-Wiwa; campaigning CEOs and companies like Anita Roddick and the Body Shop breaking ranks with the rest of their industries; the blatant inadequacies of the first generation of corporate environmental and social reports; the growing financial, technical and networking resources of NGOs; and the mainstream media’s sudden interest in exposing sweatshop stories about wholesome companies like the Gap, Kathie Lee Gifford, Guess, Mattel, Disney and—especially—Nike and Wal-Mart.

Ethical trading can be seen as a response to The Year of the Sweatshop: a concerted attempt to tackle working conditions throughout the supply chain. Ethical trade most often takes the form of individual companies setting their own codes of conduct and monitoring systems, as the Cadbury Schweppes example below shows.

Box 6. Cadbury Schweppes: human rights and ethical trading policy

Cadbury Schweppes sources cocoa, sugar, milk, flavourings and other ingredients, goods and services from tens of thousands of suppliers around the world. In 2000 the company developed a Human Rights and Ethical Trading Policy which covers core labour rights, health and safety in the workplace, fair remuneration, diversity and respect for differences and opportunity for development. It is generally seen as leader in the field (for example, it was found to be one of the furthest advanced companies in AccountAbility's Gradient survey of supply chain management). However, their ethical trade policy has been criticized by some NGOs for failing to address broader issues concerning clearing of rainforest and community impacts.

The policy applies to all internal business units and the company began to roll it out within the supply chain in 2001 through an initial risk assessment and a series of pilot programmes to help understand how the policy could be applied in different local settings.

Cadbury's approach is one of mainstreaming "ethical trade" within their operations. They believe that Fairtrade principles and practices are too limited for such a global business. Fairtrade, they argue, generally works with farms that have access to good communications and warehousing facilities and can form co-operatives. The majority of cocoa farmers are small family businesses in remote areas, and are therefore seen to be beyond the reach of the Fairtrade system.

In addition to their HRET policy Cadbury Schweppes work with cocoa farmers' organizations, international organizations and governments to support marketing, crop management, pest and disease control and infrastructure improvements to enable farmers to improve the quality of the beans and gain a higher price in the market. Indeed they are working with the fairtrade-supplying cooperative Kuapa Kokoo to improve local water supplies in Ghanaian cocoa farming villages.

Despite Cadbury Schweppes' dismissal of fairtrade in terms of transforming their mainstream business model, they are aware of consumer concerns and the growing niche market for both organic and fairtrade products. In 2005 they bought the luxury chocolate company Green & Black's which has become the United Kingdom's fastest growing confectionery brand on the basis of its high quality and ethical branding.

Internally monitored, company specific codes of conduct have met criticism for lacking rigour, leaving suppliers with different criteria for different brands and being open to manipulation by buyers and suppliers. More recently a number of partnership approaches have developed between major retailers, producers, NGOs and trades unions to develop rigorous and workable codes of conduct and monitoring systems across whole industries and sectors—the example of the Ethical Trading Initiative is outlined in box 7. There are now at least half a dozen active schemes in Europe and North America, though some have failed. Most initiatives are partnerships of big-name companies, trades unions and NGOs. They draw on ILO conventions and other principles to draw up codes, and devise mechanisms for inspection and audit to check compliance and drive improvement throughout the supply chain. Many ethical trade projects remain specific to the country of final retail, and focus down on especially sensitive sectors or product groups like clothing or food but other more specialized projects are addressing commodities like minerals and paper. There are also a number of generic certification based approaches.

Box 7. Ethical trade—key initiatives

The leading multi-stakeholder schemes are:

Ethical Trading Initiative (United Kingdom) set up in 1998, with 36 corporate members with a combined turnover of approximately \$180 billion; and trade unions representing 157 million workers worldwide. The number of suppliers covered increased from 14,470 in 2002 to 16,800 in 2003 (ETI 2004), of which almost half (48%) were found to be non-compliant.

Clean Clothes Campaign (Europe) & Fair Wear Foundation (Netherlands): campaigns on labour abuses but has also developed a model Code of Labour Practices and encourages target companies to sign up to it.

Social Accountability International SA8000: generic approach which by 2004 had certified 430 facilities covering 234,000 workers in 40 countries and 44 sectors.

Fair Labor Association (United States): combines 12 big-name apparel and footwear companies with universities and NGOs to run a program of workplace standards implementation, monitoring and remediation. Over time companies will be FLA-accredited.

Worker Rights Consortium (United States): powerful web-tool allowing 100 colleges and universities in the United States to undertake and publicise factory investigations and use “campus power” to enforce corrective action.

Other noteworthy schemes are the Belgian Social Label scheme, Canadian Retailers Advancing Responsible Trade (CRART), a Norwegian ETI that includes environmental principles, and a number of sector-specific initiatives in minerals, cocoa, coffee, toys, tourism, electronics etc

Box 8. The Ethical Trading Initiative

The Ethical Trading Initiative (ETI) was established in the United Kingdom in 1998 and works to identify and promote good practice in the implementation of codes of labour practice, including the monitoring and independent verification of code provisions.

ETI operates as a tripartite alliance of companies, trade union organizations and non-governmental organizations (NGOs). Members include well-known high street stores like Marks and Spencer, as well as foreign-owned companies such as Gap Inc., and Chiquita International Brands. The ultimate goal of ETI is: “to ensure that the working conditions of employees in companies that supply goods to customers in the United Kingdom meet or exceed international standards” [12].

The ETI has established a Base Code for labour practice. This stipulates that:

- Employment is freely chosen;
- Freedom of association and the right to collective bargaining are respected;
- Working conditions are safe and hygienic;
- Child labour shall not be used;
- Living wages are paid;
- Working hours are not excessive;
- No discrimination is practised;
- Regular employment is provided;
- No harsh or inhumane treatment is allowed.

Results to date:

- Currently the ETI has 33 corporate members, 4 Trade Union Members and 16 NGO members [13]. Corporate members commit to implementing the ETI base code throughout their supply chains. Every year, they submit reports against set criteria to enable assessment.
- In 2003/2004, eight of the 27 companies providing reports improved their performance ranking and only two deteriorated. This is viewed as good year-on-year progress. In addition, the quality of reporting increased to 66% of reports being considered as “good” [14].
- The number of suppliers covered by the initiative increased from 14,470 in 2002, 16,800 in 2003, to 20,963 in 2004 [15].
- Of the total number of suppliers, 8,817 have been monitored for code compliance. However, most companies look only at first tier suppliers, while eight companies have continued to the second tier.

As the evaluation of suppliers has become more rigorous, so the number of non-compliances has increased—up from 26% of evaluations in 2002 to 48% in 2003. This has led to a number of corrective actions being instigated. In general, however, companies are more willing to work towards corrective actions rather than disengage suppliers.

Given the dominance of multinational brands in many sectors, ethical trade has the potential for wide impact amongst suppliers. However, at present many companies are only monitoring the first tier of their supply base and not covering smaller subcontractors. There is no international coordinating body for ethical trade, so no reliable source of data exists on whether the approaches are successful and growing.

Does ethical trade work? Rigorous evaluation was conspicuously absent in the early years, but the ETI has commissioned a major independent impact assessment, with case studies in Delhi (garments), South Africa (fruit), Costa Rica (bananas) and Viet Nam (footwear and garments). The results will be shared with ETI members in mid-2005. “Ethical trade *is* having an impact”, according to Sally Smith of the Institute of Development Studies in the United Kingdom, leading the ETI impact assessment. “The impacts may not be great so far, but the potential is substantial. There is a real risk that ethical trade could be discarded because it has been slow to bring results. This would be premature. On the other hand, there is emerging evidence that SMEs could face some barriers—and they could do with focused help [16].”

Challenges

Ethical trade has the potential to impact on a large number of companies and their workers, given the size of the major companies involved and the extent of their supply chains. However, it faces key challenges in keeping large consortia of different stakeholders working together:

- Staying power: it is difficult to keep NGOs and retail consortia in the same room. Some retailers have abandoned ship if they face commercial pressures or change

of management, while NGOs face pressure from constituents to mount adversarial campaigns. If consumer pressure tails off, will schemes continue?

- Slow progress has been revealed by some evaluations, especially on key social conditions outside health and safety, such as overtime and fair wages. Freedom of association is especially difficult as China increases its share of the global supply chain. Some companies are beginning to look at the way their own purchasing practises (e.g. demands over timing and pricing) can lead to excess or unpaid overtime—but they are rarities.
- “Whose is the best approach?” There is some confusion among would-be participating companies and NGOs as to the strengths and weaknesses of the different approaches. Six leading schemes are jointly planning a field trial on the garments industry in Turkey beginning in 2005 to compare and contrast approaches.
- Lack of labels. There is no data on market share of ET participants because such schemes are not product labelling schemes, but “ethically traded products” must be a tiny proportion of total consumption. According to Man-Kwun Chan, head of communications and research at ETI, the ET approach could potentially develop in time into a process label, but it would never be able to guarantee that a company’s products were “ethically compliant”.
- Cost and burden of certification. Some factories report being inspected 40 times in a month, and others complain that inspections are costly. However, there is limited data available on actual costs and frequencies so the validity of these claims is hard to assess.
- Limited focus on second and third tier suppliers. Most ET schemes stop at the factory gate, but may actually encourage first tier suppliers to outsource problematic activities to home workers or SMEs beyond scrutiny. Nevertheless, there is a growing recognition of the need to move further down the supply chain, with all of its inherent practical difficulties.

Other developments

International trade agreements have also not been exempt from taking moral considerations into their development. These date back to the mid-nineteenth century when national laws relating to the prohibition of the international trade in slaves were implemented (slavery as an institution survived for longer). Other measures were those prohibiting the importation of goods impacting negatively on public health and the environment. The first multilateral trade agreement, the 1927 “Convention Relating to the Simplification of Customs Formalities”, included an exceptions clause, giving countries the right to exempt themselves from giving market access and equal treatment to importers where products posed threats to the public and environment. In the 1944 International Labour Organization’s introduction to its constitution, it stipulated “the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve conditions in their own countries.” But it was only until recently that such measures have become linked to trade agreements (Abrami, 2005).

Finally, a number of other developments, while not considered within the sphere of “responsible trade” are also having growing influence, notably:

- Mandatory standards concerning environmental performance and food safety, applied in importing countries which will also cascade down the supply chain alongside voluntary market-based schemes. The European Waste Electrical and Electronic Equipment (WEEE) and Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) and End of Life Vehicle (ELV) directives are the most recent introductions.
- The rise of “Cause Related Marketing”, in which companies seek to harness consumer social concern by linking sales promotions to philanthropic activities (but not linking them to products or work conditions). Cause related marketing took off after the Insurance Company of America and CARE forged an agreement in the 1960s whereby the company pledged to make a donation for each insurance policy sold. More recent examples include Tesco’s “computers for schools” programme in the United Kingdom and General Mills “Box Tops for Education” and “save lids to save lives” campaigns in the United States, as well as those such as Percol’s “Coffee Kids” brand which are beginning to cover the same products as fairtrade.
- Business linkages and market development programmes which encourage large companies to establish links with small enterprises in order to build a reliable supply chain, procure good locally, build a local distribution network and consumer base, transfer business skills and standards or mitigate the destabilizing effects for the local economy of labour migration and the “honeypot effect” of foreign investment. Inspired by the examples of Ireland, Japan, Malaysia and Singapore, where large companies and in many cases foreign-owned manufacturing plants have enabled small suppliers to develop capacity and links to markets, there are emerging examples of good practice and successful business linkage programmes and policies. UNCTAD’s 2001 *World Investment Report* provides an excellent if somewhat optimistic summary of developments; the International Business Leaders Forum has been leading on practical initiatives in this field. (Brew and House, 2002).
- National branding: A number of countries have put their efforts into promoting the “brand identity” of domestic businesses either through “buy-local” campaigns or international promotion aimed at consumers, investors or business partners. Examples include the “Proudly South African” labelling initiative, the “Mexico la Moda” promotion campaign, the United Kingdom “Red Tractor” food assurance scheme and the “Portugal Trade Brands” initiative. In most cases these promotion schemes are also linked to a set of standards, claims and audits which aim to guarantee a level of quality, safety or social and environmental performance as part of the national brand.
- Clusters: the original clusters in Italy and elsewhere were family-run and shared many of the characteristics of the sweatshop. However, Michael Porter and others

have recently stressed that local competitive advantage is perfectly compatible with environmental innovation, while C. K. Prahalad has identified new business opportunities in catering to low-income consumers in developing countries (Porter, 2000; Prahalad, 2004).

- Environmental and social standards in government procurement: NASA and other big spending government agencies in the United States, Europe, and countries like India have for decades had a mission to buy from ethnic-minority-led businesses. More recently, governments are keen to be seen to support environment and social issues in the supply chain. There is a range of government procurement initiatives across Europe; such as the United Kingdom government's commitment to buying sustainably produced timber. The EU has issued guidance on how to incorporate environmental and social criteria into government procurement in a non-prejudicial way.

Lessons learnt

The history of responsible trade is still being written. Even so, from the experiences of the three different strands of responsible trade reviewed here, we can draw some tentative conclusions:

- Responsible trade initiatives often started with high expectations but have taken a long time to get off the ground. Others have been deliberately small-scale in their ambitions, wanting simply to demonstrate feasibility as a lever for regulatory change;
- Ideological—even evangelical—debates and infighting were characteristic of many initiatives and this partly explains their slow progress, for example in moving fair trade products into supermarket retail;
- Responsible trade initiatives have not all been Northern led, though recent developments can give that impression. There is a view that responsible trade is an “Anglo-Saxon obsession”, but its origins are as much German, Dutch or Colombian, and the biggest uptake of one United States-originated ethical trade initiative is among Italian companies.
- Consumer concern has been fickle, linked to emotive issues like child labour and a limited range of products (mainly food and clothing). NGO campaigns and media coverage have reinforced this partial understanding of the dimensions and problem areas in international trade. On the other hand, concerted work can raise consumer awareness quite rapidly, as the growth in French awareness of “commerce équitable” (fair trade) shows.
- Consumer motivations are not homogenous: some consumers are motivated by development concerns, others by environment, personal health or animal welfare.

Others are driven more by protectionist, nationalist or localist sentiments, others by specific political solidarity issues e.g. to buy Palestinian products, or boycott specific companies (e.g. Coca-Cola) or countries (e.g. Burma/Myanmar).

- For companies, reputation protection and risk management are strong motivations, so companies with valuable brands are especially likely to get involved. It is less easy to engage companies without a visible retail profile.
- Large non-governmental institutional buyers can be a big driver. For example, North American universities and colleges rely on both combined purchasing power and painstaking student research to identify labour abuses in university-logo sportswear.
- Responsible trade tends to appeal to middle-class consumers so it has been assumed that its markets are in the North. However, there is a large and growing middle class in middle-income developing countries such as Brazil, Chile, China, India and Mexico and increasing national initiatives are trying to target fair and green trade products to these consumers.

Understanding impacts

There is no central source of data on the number of workers in the South impacted by responsible trade; indeed few individual initiatives to date have maintained systematic records on the numbers of people impacted, let alone the scale of the impacts. The poor quality of data has improved in the recent past (e.g. IFOAM's organic reports) and should improve still more in the next year or two (e.g. FSC will maintain a searchable database).

On the basis of figures for recent years from the leading ethical, fair and green trade initiatives, we estimate the minimum numbers of those directly impacted in developing countries to be roughly three million workers. The global sales value of all three types of trade can be estimated to be in the region of \$80-85 billion. To put that figure in context, EU sales of products with Protected Designation of Origin or Protected Geographic Indication—which do not contain responsible criteria—are in excess of \$100 billion [17].

“A search of the available literature on ethical trade reveals very little evidence but a lot of wishful thinking about the impacts of ethical trade on its intended beneficiaries” (Burns and Blowfield, 2000) This is also true of fair trade—lots of anecdotes but little hard analysis. “The lack of certainty about [making a real difference to producers and their families] is a recurring theme”, according to Traidcraft's directors.

Mapping the size and impact of different routes to responsible trade

	<i>Fair trade</i>	<i>Ethical trade</i>	<i>Green trade</i>
Key players	NGOs, Alternative Trade Organizations (ATOs)	Major retail brands, NGOs, trade unions	Major brands, niche "green" brands, eco-labelling organizations
Motivation	Development objectives	CSR; reputation and brand management	Conservation; consumer health; climate change
Focus	Terms of trade	Labour conditions, human rights	Environmental impact in production and consumption
Market type	Niche (1-3%)	Mainstream	Emerging (3-10%)
Market Value	US\$600 million	US\$50 billion	US\$30-35 billion
Key activity	New markets and price premium for marginalized producers	Code certification for established large suppliers	Organic/environmental labelling
Impact in developing countries	800,000 producers, mainly in SMEs in South	1 million workers covered by codes, mainly in large plants in South	300,000 farms/forest operations in south, majority small. 15,500 firms covered by ISO14001 in developing countries.
Main products	Coffee, tea, sugar, chocolate, bananas, handicrafts	Apparel, footwear, food, tea, toys, minerals	Food, forest products, furniture, energy consuming products, paints, detergents, cotton
Emerging products	Footballs, fruit juices, spices, wine, flowers, apparel	Coffee, cocoa, sugar, electronics, toys	Fish, consumer durables

5. Key trends in responsible trade

As we have seen, different approaches to responsible trade have emerged from different countries, industries and organizations. In many ways these have reflected the very specific set of circumstances in each case, including particular colonial histories linking producer and consumer countries, the motivations of individual entrepreneurs and social activists, and the ability of religious organizations and other NGOs to mobilize groups of consumers. Nevertheless, more broadly a number of key trends can be seen which cut across different national and product-based initiatives and highlight key lessons for the likely future development of responsible trade and implications for SMEs outside of those already involved in international “responsible trade”.

<i>Current trends</i>	<i>Future impacts</i>	<i>SME implications</i>
Growth of responsible trade in key products and consumer markets.	Where are likely future areas of expansion?	Is responsible trade going to be an issue in my industry?
Growth of responsible trade initiatives from the margins to the mainstream	What are the limits and opportunities of responsible trade?	How significant will responsible trade be as an opportunity or risk to my business?
Development of standards	Which standards and approaches are likely to become more widely adopted?	Which standards does my business need to pay attention to?

Products and sectors

Responsible trade initiatives and standards have tended to develop in buyer-driven, labour intensive supply chains for consumer products, mainly destined for Northern European and United States markets. Most notably in primary industries such as agriculture, fisheries, forestry and leather production and in consumer products such as toys, shoes, garments, processed foods, furniture and electronics.

For example, AccountAbility’s Gradient Project ranks major United Kingdom companies in terms of their supply chain management, the sectors it includes for consideration are: beverages, food and drug retailers, food producers and processors, general retailers, telecommunications, and tobacco. They found the greatest attention paid to supply chain labour standards by food and drug retailers, followed by general retailers and telecommunications companies. Food producers and processors tended to have policies and codes of conduct in place but weak monitoring. Tobacco and beverage companies demonstrated

the least attention to supply chain labour and environmental performance—this is perhaps because greater public attention and concern is directed towards the direct health effects of tobacco and alcohol on consumers than on their conditions of production.

A number of product-related characteristics have been identified which tend to be associated with consumer concern and ethically motivated buying decisions (see UNIDO, 2002; Blowfield, 2003):

- Products and issues that are associated with consumer health concerns—for example organic food (particularly baby food) and “natural” home and personal care products are a key growth area. Organic textiles and chemical and pesticide residues in clothing are an emerging issue.
- Products where the producer country or region is already important to the brand or product identity—for example wine, coffee, and to a lesser extent tea, which are already marketed with a premium associated with individual regions therefore lend themselves to marketing on the basis of responsible trade, whereas consumers are more used to seeing products such as cocoa and fruit as anonymous commodities where traceability to the source is less of an established practise.
- Products associated with consumer identity where branding is related to self-image rather than conveying a more technical message about product quality and reliability. This has been most apparent in the high profile of labour conditions in the supply chain for branded clothing and sportswear, compared to less attention paid by consumers and the media to labour conditions in the similarly labour intensive supply chains for electronic goods. However, as technical products are becoming commoditized and consumer electronics (most notably mobile phones) are now competing more on style and image, ethical questions are becoming a more important factor in building brand competitiveness (CAFOD, 2004).

These characteristics are reflected in the spread of responsible trade from a narrow focus on speciality foods and clothing to a wider range of consumer products. Emerging initiatives in flowers, jewellery, palm oil and consumer electronics aim to broaden the impact of responsible trade. However, whilst rubber along with coffee was one of the first commodities to attract criticism nearly 100 years ago, it is associated with anonymous and industrial purchases that have not had the consumer characteristics to develop it into a responsible trade product.

Often lessons learnt in one sector lead to the development of social and environmental standards related to other products. For example, the environmental NGO the World Wildlife Fund (WWF) was a leading player in setting up the Forest Stewardship Council (with major wood retailers), the Marine Stewardship Council (with major fish processors) and now the Sustainable Palm Oil Initiative (with major food companies) and is investigating the viability of sustainability certification in the extractive industry (with major mining companies).

Whilst consumer concern has tended to be linked to particular types of products, multinational companies cannot afford to take such a product specific approach to protecting their brand reputation. Increasingly they will need to look at the environmental and social

risks and impacts across their whole supply base (including both production and non-production sourcing)- which is likely to broaden the range of responsible trade impacts to a wider range of products and sectors.

The bottom line for SMEs: Is responsible trade going to be an issue in my industry?

Social and environmental supplier requirements are already significant as supply chain conditions for consumer retail products, in particular in food and clothing but also expanding into other sectors such as electronics, furniture, flowers and jewellery.

Increasingly what will determine the importance of responsible trade for suppliers is not the particular products they produce, or how close they are to the final consumers but whether they are selling to brand-named companies that consider their reputations are at risk from the social and environmental performance of their suppliers.

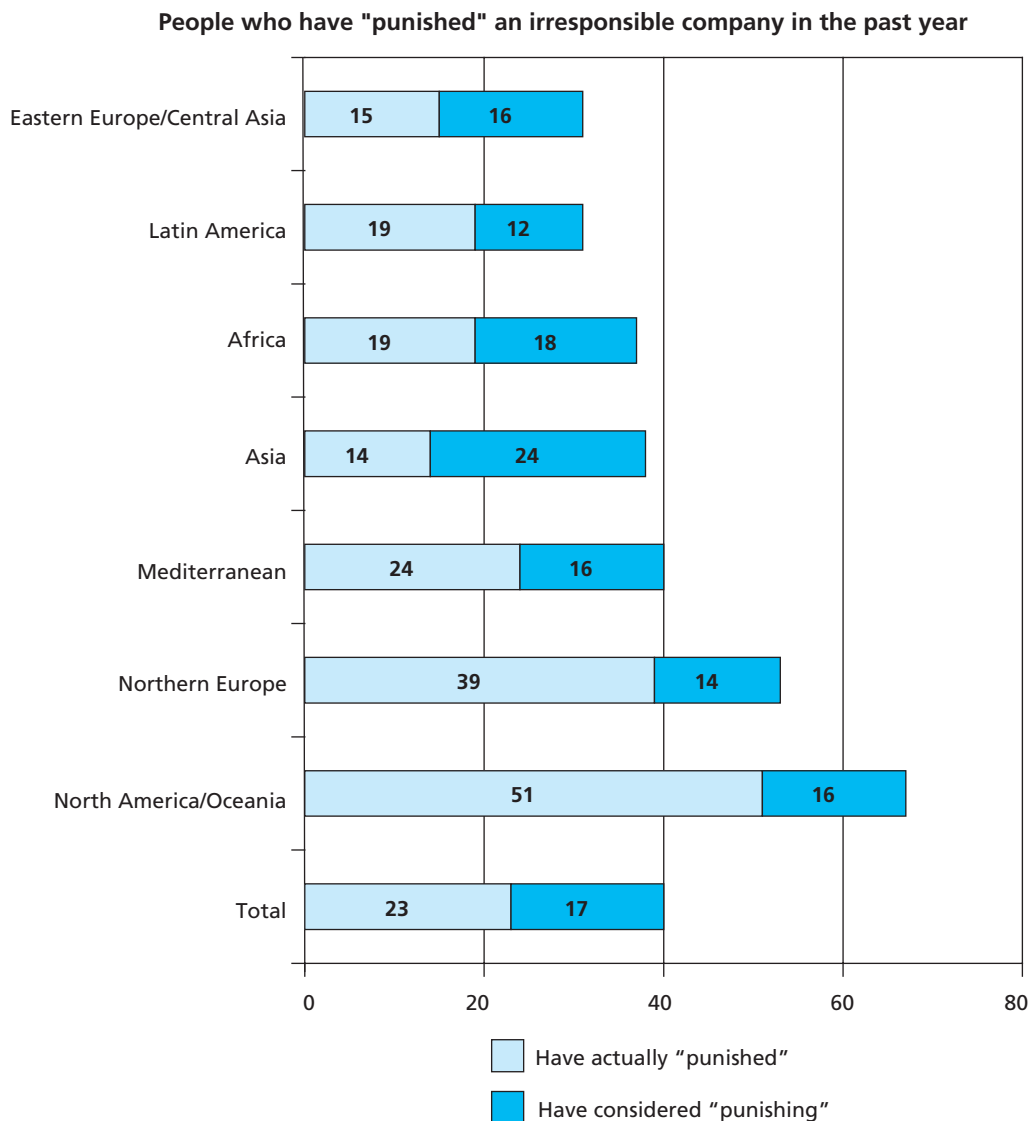
Going mainstream

Green and ethical consumerism has been one of the growth areas of the 1980s and 1990s. Fair trade, organics and eco-friendly products have grown to occupying a significant niche in the market. Datamonitor consumer research estimates that by 2002 there were 142 million European consumers spending nearly 10 billion euros on organic products, and that the market for “ethical” and “natural” personal and home care products was worth 4.2 billion euros. (Datamonitor, 2002).

However, whilst there has been impressive growth from a standing start in products such as fair trade coffee and chocolate, and consumer surveys reveal a significant wellspring of consumer concern, it remains a niche market. Entrepreneurial start-up companies promoting fair trade and environmentally-friendly products have helped create awareness and consumer demand and a challenge to the mainstream, which is now responding with environmental and social standards of their own. Consumers increasingly say that they take environmental and social considerations with them to the checkout; worldwide, 23% of consumers say they have recently “punished” a company for irresponsible behaviour, and another 17% have considered it in North America, and over 50% of consumers claim they have taken action (Environics, 2000).

Major retailers and brands are picking up social and environmental concerns, with many major supermarkets in Europe and North America launching their own fair trade lines as well as stocking fair trade brands and adopting codes of conduct. Nestle, first entered the public debate in 1995 when it derided what fairtrade as “charity coffees” which have little impact and argued that there are many ways of buying coffee none more ethical than another [18]. As recently as 2005 Peter Brabeck-Letmathe—head of Nestle S.A. told an audience of business leaders in Boston that “Companies shouldn’t feel obligated to ‘give back’ to the community, because they haven’t taken anything away” [19]. But at the end of 2005

Regional differences in activism on corporate social responsibility (Percentage)



Source: Environics (2000).

they confounded critics and surprised competitors by launching a certified fairtrade coffee brand. Critics such as John Hilary, policy director at War on Want remain unconvinced that this is anything more than a tokenistic PR stunt; "The fair trade movement was set up to challenge the practices of companies like Nestlé. How can such a company deserve the fair trade mark?"

Other leading product brands and retailers such as Cadbury, Starbucks and Unilever have also got involved in responsible trade. However, mainstream responses to social and environmental challenges have tended to be much more incremental than the niche marketers—aiming to remove the most egregious examples of bad practise from the supply chain rather than fundamentally change the basis of trade. Box 9 highlights some of these mainstream initiatives in the coffee sector.

Box 9. Industry coffee initiatives

Coffee has been one of the key products where fairtrade and other speciality labelled products (such as shade grown “bird friendly” coffee) have gained a significant and growing portion of the market. There are now a number of industry responses which aim to guarantee the environmental and social standards in coffee production outside of these niches. These include:

- The Utz Kapeh label aims to provide consumers with a guarantee that the beans that go into major coffee brands are produced according to minimum requirements for responsible coffee production. The scheme is open to all coffee producers who meet the criteria of the Utz Kapeh Code of Conduct whether large or small, plantation or smallholder cooperative. Utz Kapeh certified beans are traded in the normal way by coffee roasters and brands—there is no guaranteed premium or long-term commitment to buy. Brands that have signed up to sell Utz Kapeh labelled coffee include European coffee brands from Sara Lee and Dowe Egberts, as well as major Japanese roasters Unicafe Inc. and Tagasako Coffee and supermarkets Safeway, Casino and Ahold.
- The “Common Code for the Coffee Community” is a voluntary social and environmental standard for the coffee trade which covers the growing, processing and trading of mainstream coffee. It was initiated by the German ministry of development cooperation and has been negotiated by major coffee brands, development and environment NGOs, trades unions and coffee producer organizations. The code draws on existing United Nations, ILO and OECD guidelines and rules out the worst forms of child labour, permits plantation workers to join trade unions, sets higher wages and prohibits the use of dangerous pesticides. Four of the world’s largest coffee roasters, Nestlé, Kraft, Sara Lee and Tschibo support the code. But the code does not require a commitment from the coffee-roasters that they will ensure or reward compliance within their supply chains. The code is now being tested through pilot projects in various coffee producing areas.
- Own-labelled approaches to responsible trade are now being developed by major coffee brands. Kraft Foods has launched the “Kenco Sustainable Development” range, grown on farms certified by the NGO Rainforest Alliance to its own social, economical and environmental standard. Nestlé launched its own fair trade certified “Partners Blend” coffee brand in October 2005. Whilst Kraft believes the majority of consumers are not willing to pay the premium associated with fair trade and is instead offering a “fairtrade lite” approach giving a small premium on the market price for coffee beans, Nestle has surprised observers by undergoing certification by the Fairtrade

Producers, the fair trade movement and development NGOs have all expressed concerns about these new mainstream brands and approaches. At the consumer end they fear that they will undercut the appeal of fair trade and reduce consumer confidence in such labels. At the producer end of the supply chain they warn that these mainstream approaches put too much responsibility on farmers to meet the criteria without obligations on the part of buyers to monitor, pay for and commit to buying more sustainable produce.

While such mainstream initiatives are criticized for using “watered-down” standards, lacking real moral commitment or revolutionary changes, they do have a great potential impact in terms of numbers of people affected simply by virtue of their size. Mars United Kingdom, for example, processes more cocoa in a day than the fair-trade chocolate manufacturers do in a year (Blowfield, 2002).

The viability of responsible trade as a commercially viable proposition depends to a large extent on consumer demand. Whilst we have seen consumers expressing their concern about the social and environmental impacts of their purchases, particularly in North America and Northern Europe, what consumers say does not always translate into what they will do. The reality is that in practise social and environmental concerns often lose out to price competition.

For example, only three of Britain's 10 leading clothes retailers have chemicals policies relating to dyes and other residues in their clothing, and most do not go beyond compliance with EU requirements. Ian Bowles, Corporate Responsibility manager for Asda highlights the ethical demands of different market niches: "For us, it is about legal compliance—Companies like H&M and Marks & Spencer develop their brand around what I suppose you call 'best practice', but we develop ours around 'everyday low prices'." (ENDS Report, 2005).

The Global Alliance for Workers and Communities, which involved Nike and Gap in collaboration with the World Bank, closed after five years because it failed to attract broader industry participation. Rick Little, Chair of the Initiative's Oversight Board said, "Despite our best efforts, we weren't successful in achieving the scale we imagined and in creating the diverse, big tent that would be attractive to many." In the end Gap and Nike's competitors in the clothing and footwear industries didn't feel the consumer pressure to join this workers' and managers' education initiative.

Difficulties were also experienced by the Canadian Partnership for Ethical Trading (CPET) process, which collapsed when the retail association pulled out in 1999/2000. NGOs believed that the dominant position of China in Canadian garment imports made it difficult for CPET to address right of association. It was also felt that Wal-Mart had a disproportionate influence on the initiative [20].

Other market leaders that see social and environmental responsibility as a source of competitive edge have also had mixed success in making this into a viable customer offering. In 2000, Marks & Spencer introduced an organic clothing and underwear range, but later withdrew it because customers did not feel the additional cost represented value for money. However, both Marks & Spencer and BHS in the United Kingdom are slowly introducing organic cotton to a limited extent in their range. "At the moment, our environmental policies are about risk mitigation. But we do think such issues will become more important in the future and more important to brand differentiation." said Mike Barry, Marks and Spencer's CSR manager.

Companies aiming to differentiate themselves through their social and environmental responsibility, question whether consumer concern is levelling off or on the rise again. Certainly high profile anti-corporate protests such as those seen in Seattle, Davos, Prague and Genoa have died down. The World Social Forum which has emerged from this movement is a much more gentle solutions-oriented platform that does not make the headlines. However, the future of responsible trade as a consumer demand-led phenomenon was always going to depend on the purchasing choices of the concerned, but time and money pressured consumer, than on the most committed of activists.

The current generation of fair trade and “green” products on the market understands the need to connect with the way customers feel about themselves. As Datamonitor highlight: “Sales of fair trade coffee keep growing, and so-called compassionate consumerism is on the march. However, the movement has changed since the media frenzy that surrounded it in the 1980s. Paradoxically, the fair trade phenomenon surfs a wave of egocentrism. What has catapulted fair trade products into the mainstream are not the altruistic principles of those with whom the idea originated, but the more widespread desire amongst consumers to make themselves feel and look good.”

The bottom line for SMEs: How significant will responsible trade be as an opportunity or risk to my business?

For a minority of SMEs able to link into growing niche markets for fair trade, organic and green products, responsible trade represents an opportunity to win new customers, gain a premium price and access to developmental relationships with trading and investment partners. However, the size and scope of these markets, although growing, are limited.

For the majority of SMEs seeking to enter international supply chains, social and environmental conditions are a challenge, which increasingly must be met in order to gain to market access.

Converging standards

Supply chain social and environmental requirements are increasingly moving beyond being contract conditions and codes of conduct developed by individual companies and brands, to becoming formalized as standards. A range of product and issue specific standards have been developed both nationally and internationally. The annex highlights just some of these emerging standards—globally they number in the hundreds. Such standards and the certification systems and labels often associated with them give a number of benefits for consumers, brands and suppliers:

- They communicate information about quality, safety and production impacts to consumers, and intermediate purchasers, aiming to differentiate products in highly competitive markets
- They provide practical guidance on best practise and international norms such as ILO standards in a format useful for businesses.
- They provide a basis for assurance of credibility and comparability.
- They harmonize requirements for suppliers reducing compliance costs and paperwork.
- They also raise barriers to entry for competitors.

The trend towards standardization aims to reduce the confusion and repeated effort of uncoordinated individual company actions and demands. However, the proliferation of competing standards has itself become a source of confusion.

In the area of labour standards we are now seeing a process of convergence, with the core labour standards embodied in the ILO "Declaration on Fundamental Principles and Rights at Work" put forward as the legitimate global benchmark which businesses and standards are urged to comply. The United Nations Global Compact's four principles which relate to labour rights are based on the ILO declaration:

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- Principle 4: Business should uphold the elimination of all forms of forced and compulsory labour.
- Principle 5: Business should uphold the principle of effective abolition of child labour.
- Principle 6: Business should eliminate discrimination in respect of employment and occupation.

The Ethical Trading Initiative, Clean Clothes Campaign, Fair Labor Association, Fair Wear Foundation, Social Accountability International and the Worker Rights Consortium are all working together in a joint programme of work towards a common approach to implementing codes of labour practice. COLEACP the Europe-Africa-Caribbean-Pacific Liaison Committee of horticultural exporters and importers has also developed a Harmonised Framework of minimum standards which to be incorporated into national or industry Codes of Practice in ACP countries. Dell, IBM, Hewlett Packard and other computer manufacturers have moved away from enforcing their own individual supply chain labour and environmental requirements to developing an electronics industry code of conduct.

The International Organization for Standardization (ISO) has begun to develop ISO 26000 on social responsibility. Although the standard is not due to be published until 2008, it has the potential to achieve wide and rapid uptake, given the backing of ISO's international recognition and institutional capacity. The form and approach of the standard remains under discussion, with key issues such as the primary audience for the standard, the degree to which the standard should be normative, whether it should be a management system and whether it should be based on self-declaration or third party certification remain to be decided. However, what has been formally recognized by ISO is the legitimacy of agreements such as the United Nations Universal Declaration of Human Rights, ILO conventions and other relevant United Nations conventions in this area. The organization has signed a Memorandum of Understanding on social responsibility with the ILO so that ISO 26000 is consistent with and complements ILO international labour standards. This gives the ILO the authority to veto any labour-related parts that it considers problematic or inconsistent with its conventions and guidelines.

Environmental standards have tended to be more divergent, reflecting the different geographic and industrial contexts and impacts associated with various products. Nevertheless, there are some efforts towards harmonization, in for example organic certification schemes. Whilst the organic standards themselves are often compatible, national certification bodies tend not to be recognized internationally, posing a serious barrier for developing country access. This has been experienced by Chilean exporters of organic fruits and vegetables to Europe, who saw their sales fall sharply when the EU stopped recognizing Chilean certification bodies (see box 14 on Chilean SMEs and CSR). Ugandan coffee traders were unable to ship organic coffee because some EU Member States did not recognize the certification granted by the Swedish body (OECD, 2004).

The international organic standards body IFOAM together with the FAO and UNCTAD have formed an International Task Force on Harmonization and Equivalence in Organic Agriculture to address obstacles to technical equivalence and conformity assessment between different national organic systems [21]. IFOAM is also a member of the International Social and Environmental Accreditation and Labelling (ISEAL) Alliance (www.isealalliance.org/), alongside leading fair, ethical and green trade initiatives such as FSC, SAI, FLO and Rainforest Alliance. ISEAL is working to improve the effectiveness and compatibility of social and environmental standards and verification systems. Their Code of Good Practice for Setting Social and Environmental Standards (2004) specifies that “constraints on disadvantaged groups to participate effectively in standard development shall be addressed in the standard development process. Standard-setting organizations should consider how the influence of these groups can be increased, even if their participation rates cannot. Particular attention should be paid to the needs of developing countries and small and medium-sized enterprises.”

Convergence is also being driven by consumers, who do not want to choose between an “environmentally friendly” product and an “ethical” one but trust a single product which satisfies both concerns. So, for example the Forest Stewardship Council has reinforced its social goals, organic certification has strengthened its coverage of health and safety issues, and there is a growing market for coffee, chocolate, tea, sugar and bananas which are certified as both organic and fair trade.

Certification systems such as ISO 9000, ISO 14000 and SA 8000 aim to eliminate the duplication of effort and information by providing a “tested once, certified once, accepted everywhere” approach. Use of these is growing, but has not become widespread. They face criticisms that they enable lead firms to shift certification costs to suppliers to avoid addressing responsibility within its own buying practices (such as where ordering processes encourage excessive overtime) and that auditors working under contract to suppliers lack the independence necessary to provide assurance. It remains too early to say whether SA 8000 and ISO 14000 will become a mainstream requirement but there are anecdotal examples which seem to support their effectiveness at attracting customers: The Hua Hui Industrial Company in China, for example, found that addressing buyers’ needs for guarantees of factory labour standards by acquiring Social Accountability 8000 certification increased new orders by 30%. (Sustainability, 2002).

Another approach to standardization being trailed is the SEDEX data exchange initiative (see box 10) which enables suppliers and buyers to share information about labour standards compliance without necessarily subscribing to the same audit or certification systems.

Box 10. Supplier Ethical Data Exchange Initiative (SEDEX)

European supermarkets and major food suppliers including Geest, Marks & Spencer, Northern Foods, RHM, Sainsbury's, Tesco, Uniq and Waitrose are working together through the Supplier Ethical Data Exchange Initiative (SEDEX) which provides an information sharing platform so that member companies can share access to supplier audit reports and reduce the need to duplicate audits.

Sedex is a web-based system for member companies to input data on labour standards at their production sites. It does not set standards but allows users to report against public or "own brand" standards including ILO conventions, SA8000, ETI base code and companies' own codes of conduct. There are three categories of membership (A) for retailers and brands, (B) for production sites and (AB) for major suppliers with multiple production sites. Fees are set proportionate to size and begin at £25 for a single production site. The organization itself is membership-based with every member, regardless of turnover having equal voting rights. The major companies that have supported the development of SEDEX believe that by helping to standardize information it will reduce the burden of administration and multiple audits, making it easier to demonstrate compliance with social standards both for themselves and their smaller suppliers.

Source: www.sedex.org.uk

Whilst standards can be classified according to their scope, geographical reach, issue and product focus (see for example Nadvi and Waltring, 2002), one of the most important distinguishing features is the institutions involved in developing and promoting different standards. These range from industry bodies and coalitions to multi-stakeholder groupings involving business and civil society actors, to proprietary standards developed by technical standards bodies. Representatives from developing countries themselves, whether from business or civil society have been notably absent from many of these deliberations. This is true both of industry and NGO-led standards development processes. The International Organization for Standardisation (ISO), for example draws its members from developing and developed countries but admits that eight countries host 80% of all its committees and working groups (Nadvi and Waltring 2002).

Standards and associated monitoring systems therefore tend to reflect the moral and practical concerns of Northern Consumers and brands at the head of the supply chain, more than the needs of workers and supplier companies. Bedford et al. (2002) highlight the mismatch between the concerns of tea and cocoa smallholders over timely payments, security of land tenure, fair payment and access to healthcare, and those issues covered in supplier standards such as health and safety and child labour. Whilst the ILO core labour standards do provide a globally agreed set of benchmarks, workers' welfare is affected by a range of specific local factors; for example in South Africa women workers complain that the

way wages are paid in cash on Friday evenings puts them at risk of attack. Blowfield, notes that while more involvement of Southern actors in standards development may lead to a widening of scope, this is limited by the nature of standards themselves which focus on issues which are quantifiable, experienced by an individual (not a group), secular and comparable across different sites of production (Blowfield, 2002).

A number of trade associations in exporting countries have set up their own standards and certification systems to meet the demands of their international customer base. Most recently the China National Textile & Apparel Council has developed CSC9000T—the China Social Compliance 9000 standard for Textile & Apparel Industry—a Social Responsibility Management System based on China’s laws and international conventions and standards. The Wine Industry Ethical Trade Association in South Africa (see box 11 below) is one of the first examples of a local multi-stakeholder initiative setting and checking labour standards in an exporting country.

Box 11. Wine Industry Ethical Trade Association

The Wine Industry Ethical Trade Association (WIETA) in South Africa is one of very few supply-side multi-stakeholder groups working to improve labour conditions in a specific sector. It was founded in 2002 following an ETI project on the wine industry which brought together stakeholders of the industry in the Western Cape to discuss and debate issues around ethical trade. Its members include wine producers, retailers, trade unions, non-governmental organizations and government bodies.

WIETA has drawn up a code of conduct covering issues such as health and safety, discrimination, training and housing provision. It works to educate both producers and workers on the provisions of the code and has recruited a local cadre of independent social auditors to provide third party audits for member companies. Members who are found to comply with the code are accredited; those that do not are required to develop an improvement plan. WIETA is considering introducing subsidies for smaller producers to make the audit more affordable.

Whilst the WIETA code is based on the Ethical Trading Initiative (ETI) code drawn up by United Kingdom and international retailers and civil society organizations, WIETA’s operational strategy is responsive to the specific situation in the South African wine industry. It plans to develop local best practice guidelines and also work with local labour brokers who are crucial to ensuring that improvements are made for temporary and seasonal workers.

As a local multi-stakeholder organization it is also able to take a more developmental approach than international standards compliance bodies. In its first workplace audits, compliance with Health and Safety regulations were a frequent problem. WIETA recognized that this stemmed from a lack of understanding on the part of winery owners of the risks of certain winery practices and put in place a training and education programme. They are also developing a research programme based on learning, rather than a routine formal compliance assessment to help members implement meaningful and sustainable change in their organizations, both at a technical level, and also at strategic and process levels, and linking labour standards improvements with productivity gains and market opportunities.

WIETA audits only cover single sites, not the whole supply chain—therefore they have not been able to offer a consumer label. However, WIETA is in negotiation with The Fairtrade Labelling Organization to find a way for WIETA accreditation to be recognized towards compliance with the labour standards part of Fairtrade criteria.

The bottom line for SMEs: Which standards does my business need to pay attention to?

Social and environmental standards within the supply chain are largely determined by global brands that head them, sometimes in consultation with NGOs. SMEs are “standards takers” responding to their customers’ demand to comply with environmental and social standards (and far more often with SPS and quality management standards such as ISO 9000).

Developing countries’ businesses face a choice of responding to these demands individually (by complying or not complying) or working together, and with others, to develop local capacity to improve and demonstrate social and environmental performance. The second option entails investment at a cost, and risk borne locally, but has the potential to strengthen the ability to meet the standards of the global marketplace.

International normative standards such as the United Nations Global Compact provide benchmarks around which emerging performance standards are beginning to converge, however, the conformity assessment systems of different standards and certification schemes are not yet compatible. ISO 14001 has gained widespread recognition and uptake and is seen as a global benchmark for environmental management.

Developing domestic markets for responsible trade

In Bangladesh, Aarong, the trading subsidiary of the development NGO BRAC, and to a lesser degree Kumudini and Heed handicrafts producers have tried hard to develop a local market for their products and clothing to the growing middle class of Bangladeshi consumers. The Aarong shop in Dhaka is “one of the premier retail outlets in the country, and the others all have stores located in the big hotels and main shopping centres”, according to Redfern and Snedker (2002). International Resources for Fairer Trade is doing the same thing in India, and some Philippine fair trade goods were sold in an Oxfam-supported shop in Bangkok in mid 1990s.

There has been a widespread view such local fair trade just doesn’t work, based on disappointing experiences by leading ATOs like CraftAid in Mauritius. Café de Colombia, for example, never established a significant domestic market. However, some of these negative experiences were in small or poor countries (historically the favourite sourcing targets for Northern ATOs) where a domestic market simply did not exist. Too little work has also been done to understand and influence consumers from larger developing countries.

Demographics, rapid economic growth and income inequality have recently created sizeable and wealthy middle classes in countries such as Brazil, China, India and Mexico. Local consumer markets for socially and environmentally responsible products are emerging in

richer developing countries with popular street markets in cities like Porto Alegre for organic produce in southern Brazil and a growing a number of fair trade and organic shops in Santiago de Chile, Rio de Janeiro and São Paulo.

There are now some examples of responsible trade moving out of a charitable niche and becoming a significant force in these countries. For example corporate social responsibility is being recognized as an issue amongst developing country corporates, with a CSR focused business networks and organizations setting up in Brazil, China and India to help companies to meet the imperatives of corporate responsibility in order to succeed in both local and international markets.

6. SMEs and responsible trade

One of many issues

As we have seen, social and environmental standards are increasingly significant for some segments of SMEs seeking to compete within global supply chains, especially in those buyer-driven, labour intensive sectors where consumer concerns and brand sensitivity have driven the development of formalized standards and monitoring mechanisms. However, from the SME perspective responsible trade standards and initiatives must be seen as just one of many issues determining market access, just one of many motivations for improving social and environmental performance and in many cases still on the horizon as supply chain monitoring processes have not reached beyond larger first tier suppliers. A recent briefing from an international partnership, and published by the International Institute for Sustainable Development, sums up the position (IISD, 2004b):

“Supply chain standards and other tools of the current SR agenda are shaped to suit the interests and capacities of large enterprises, with little recognition of the barriers to implementation that SMEs face. Even where these barriers can be overcome, there is often little direct financial incentive for SMEs to comply, as many of the drivers that make up the conventional business case for SR (including pressure for higher standards from regulators, NGOs, trade unions and international buyers) are more likely to apply to larger enterprises.”

This is not in any way to dismiss the significance of responsible trade, but to put it in context. For SMEs and organizations and governments concerned with SME development, understanding the social and environmental demands of international markets takes its place alongside the other demands of those markets, whether in terms of legislative product safety demands, consumer trends or multi-stakeholder agreed responsible trade standards.

Other sourcing considerations which are outside of SME’s control but which affect the total cost, quality and turnaround time of their exports include:

- Business climate and infrastructure
- Political stability and security
- Transparent regulation, low corruption
- Incentives: subsidies, tax credits, FTZs
- Real exchange rates
- Proximity to import markets.
- Competitive local supplies
- Low tariffs on imports of raw materials

- Favourable rules of origin for trade preferences
- Availability of capital
- Availability of workers and wage rates
- Preferential access to import markets

Social and environmental performance is one of the factors, which are under greater control by the management of individual SMEs. But for their supply chain customers other factors are likely to be even more important, these include:

- Reputation for quality and speed
- Level of service provided
- Flexibility and variety of products
- Quick turnaround times.

The example of Sweat X, highlighted in box 12 below makes clear the danger of relying on good social standards alone as a guarantee of business success.

Understanding the demand for social and environmental compliance is just one aspect of the essential business discipline of knowing your market and targeting your products and services to meet its demands. Whilst social and environmental initiatives such as the FSC, FLA and SA8000 standards have gained some consumer and public recognition, within the business world the ISO 9000 quality management standard, and to a lesser extent the ISO 14000 environmental management standard, are gaining more ground as a key to market access.

Box 12. Sweat X

High social standards are no guarantee of business success even for companies with many advantages. In 2001 the Hot Fudge Social Venture Fund led by Ben Cohen and other Directors of Ben & Jerry's Ice Cream, considered the problem of poor labour conditions in the United States garment industry—where apparel factories often flout wage and hours laws and operate with unsafe conditions. Hot Fudge developed a socially conscious business model intended to demonstrate the possibility for industry-wide change. They drew on the model of the Mondragon Cooperatives in the Basque Region of Spain, and set up a worker-owned and unionized garment factory producing “union made” labelled sportswear for the United States college market.

This company which had financial backing, no problems with market access, infrastructure or proximity nevertheless failed to turn socially responsible production into a viable business, and was forced to close after three years. Its failure was put down to poor management and marketing.

One of many drivers

Market pressures from final customers through the supply chain to SMEs are only one source of motivation to make social and environmental improvements. Other drivers may come from investors, government, supply chain customers, or from within business itself.

There is evidence that improved labour standards result in improved productivity through better management, motivation and retention of staff, and higher skill and quality levels thus creating a business case for all companies, of whatever size, to improve. Similarly, environmental improvements can generate significant cost savings through reduction in waste and energy useage (Sustainability, 2000). However, as Ineke Zeldenrust of “The Clean Clothes Campaign” points out, the business case for making improvements in management systems, facilities and training is much stronger than the business case for achieving more equitable industrial relations, and in countries where there is a ready supply of workers and little government support for trades unions there is often no effective business case for managers to address workers’ rights violations.

In some countries the pressure is coming from government sources, whether national or foreign. For example the commitment to black empowerment by the government of South Africa is a more important driver of social responsibility in business than international supply chain pressures. Similarly in Brazil it is a national political dynamic that is driving business investment in poorer communities. Foreign governments can also provide incentives in the form of mandatory environmental product or labelling standards, tariff concessions and procurement contract conditions (such as for certified timber). Investors can also be an important driver for adoption of better environmental or social working practises. The financial markets’ attempts to identify “best in class”, and environmentally innovative companies ranges from sustainability indices and socially responsible investment funds, to the social and environmental investment criteria of international banks such as the IFC and IADB relating to major investments as well as microfinance.

SMEs in different countries, sectors and markets niches experience a mix of these pressures as shown in the following table:

<i>Pressure from:</i>	<i>Likely to affect:</i>
Need to improve human and environmental resource management in order to upgrade productivity. Pressures and incentives from own government.	Higher technology and higher skill enterprises, those seeking to upgrade due to price pressures and commodification. Enterprises in countries or where social and environmental impacts of business gaining political attention (possibly as part of trade agreement conditionality).
Need to comply with mandatory standards imposed by importing governments.	Enterprises that seek to export in key sectors covered by directives (e.g. on food safety and take back policies, e.g. WEEE and ELV).
Demands of trading partners/potential trading partners.	Enterprises that produce for brand name companies that stipulate a code of conduct or certification for suppliers (initially direct suppliers but increasingly effecting first, second, third tier suppliers).
Investors, financial markets.	Enterprises that receive foreign direct investment, enterprises that receive investment from IFC and other international banks (including microfinance initiatives), publicly quoted companies.

This analysis helps to identify those SMEs experiencing the greatest combination of pressures to improve labour and environmental standards and the benefits it could bring them in terms of productivity and quality improvements, access to investment, cost savings, avoidance of regulatory sanctions and market access. However, for those SMEs producing for non-branded or extremely price sensitive consumer segments, the pressures linked to private social and environmental performance are much lower.

It is also well worth noting that improving labour conditions and environmental management is only one possible response to such pressures. For example upgrading is not the only, or even necessarily the most financially viable response to increasing price pressure, nor is compliance the only possible response to tighter regulation. As Gibbons' (2004) study of the Mauritian clothing industry found, "downgrading" by outsourcing production to lower wage Madagascar proved a better business strategy than trying to upgrade into higher value-added activities such as design and marketing in Mauritius. Apparel factories are now moving away from capital cities in Thailand, the Philippines and China to provinces in order to continue competing on the basis of low wages (or as labour advocates contend to find workers who are less aware of their rights and to areas where factory inspectors rarely visit) (CCC/WWW, 2003).

According to Sally Smith at IDS, the most visible parts of the standards are having most impact, notably infrastructure, quality, and health and safety. Legal requirements, for example on food safety, obviously tend to take top priority. To date, the ethical and environmental aspects of multi-code standards have been allowed to slip in some initiatives. But those more optimistic about the effect and spread of standards would say that "you can run but you can't hide"—in other words there is and will continue to be a momentum of standards take-up which will move into such countries as China at a more systematic level, as is evidenced by the recent introduction of the CSC9000T standard for textiles and apparel.

Limited spread to SME tiers

As yet most codes of conduct are not monitored beyond the first tier of large suppliers. The ETI and others are only beginning to look at how standards can eventually be applied in supply chains to smaller subcontractors, including SMEs, smallholders and home workers. The FSC has developed a streamlined certification process for small forestry operations.

In Thailand, "The codes of conduct are only respected at the main manufacturers but fail to be applied in the satellite subsidiary manufacturers, including many sweatshops." (Yimprasert & Candland, 2000).

"Impact beyond the first tier of the supply chain has been limited," according to the ETI. "For various reasons, sourcing companies have tended to focus their activities on first tier suppliers. Where companies have made efforts to implement codes further down the

supply chain, they have often found that achieving impact at that level is much more difficult. As a result, codes have had a limited impact on workers in subcontracted workplaces.” (ETI, 2004).

“How ETI standards are eventually applied in supply chains involving subcontracts to smallholders or home workers is absolutely crucial for a large number of poor people. Indeed it has been interesting for those in ETI who on looking at their complete supply chains in more detail do have smallholders and homeworkers in their supply chain. Cutting them out of supply chains because the standards designed to apply to factory type situations couldn’t be met in the short term would have very significant and negative implications developmentally.” (Redfern & Snedker, 2002).

Not many ethical trade managers with a portfolio of 200+ suppliers have time to understand the supply chain beyond first tier. In fact, it takes academics long periods in a country to map accurately a cluster (see Nadvi’s analysis of Sinos Valley footwear industry in Brazil). In some developing country supply chains it is even harder to trace beyond the first tiers. In Sialkot’s surgical instrument cluster, for example, there are an estimated 1,500 subcontractors, employing on average just six people, as compared to just 300 manufacturers (Nadvi, 2004). In addition, ownership is not always straightforward, with companies operating various plants under different names.

There are concerns that companies will find it easier to monitor fewer, larger facilities than to continue to source from smaller producers. However, it is difficult to disentangle the impacts of social and environmental compliance programmes from the drive towards more strategic sourcing from fewer, larger and more sophisticated suppliers which is taking place in many industries. SMEs may find their export markets restricted, not because they are unwilling to comply with environmental or social requirements but because they are unable to implement the necessary technical and organizational changes, or demonstrate their compliance in a credible way. There are anecdotal examples of for example, audit charges set at \$5000 irrespective of plant size and of factories visited 40 times in a month by auditors from different schemes and buyers, but as yet little evidence of what impact of responsible trade initiatives are really having on SMEs.

Concerns of protectionism

One key concern about social and environmental standards is that they wittingly or unwittingly act as protectionist measures, creating unfair trade barriers to developing country exports.

The principle of non-discrimination is one of the core foundations of the WTO system. It states that countries should not use regulation to discriminate between “like goods” from domestic or foreign sources. In general it does not allow governments to specify how goods should be produced (so called PPMs—production and process methods) if different methods do not have a significant effect on the quality or other characteristics of the final

product. For example, a requirement for products to be certified in regard to cleanliness in manufacturing processes could be justified but one for requiring no child labour or cleaner production methods could be considered trade distorting.

Two international agreements, the agreement on Technical Barriers to Trade (TBT) and the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS), provide some exclusions to this general principle. They allow governments to set technical regulations, standards and labelling requirements in order to protect human, animal or plant health or to prevent environmental hazards, breaches of national security or deceptive practices, but specify that this must be done in the least trade distorting manner possible. The rules aim to provide a framework in which governments can pursue these legitimate public policy goals but not use them to introduce disguised protectionism.

A few notable cases have come to dispute resolution panels and have tested the ability of governments to link trade restrictions with environmental damaging PPMs. Analysis of the limited case law conclude that the WTO has recognized the legitimacy of linking environmental concerns and trade policy but that the particular measures used in the cases that have come forward (concerning tuna-dolphin, shrimp-turtle and gasoline standards) were all found to be inconsistent with the WTO rules of non-discrimination (Read, 2004). No cases of import restrictions relating to social issues such as child labour, prison labour or animal welfare standards have yet been brought to the WTO, although a number of cases of laws banning the sale of goods made by child labour or linking trade benefits to ILO labour standards are already on statutes and would be vulnerable to this kind of challenge.

Nevertheless, the WTO rules and TBT agreement discussed here are primarily concerned with regulations and standards developed by central government bodies (although it also makes non-binding recommendations for local government bodies, quangos and independent standards bodies). Therefore where codes are implemented as part of the relationship between individual companies and their suppliers, they have thus far, not been seen as falling under these international agreements.

If the kinds of issues and requirements covered by private standards were adopted by governments they would be vulnerable to challenge as trade distorting mechanisms (indeed, the reason why many have pursued the tactic of advocating voluntary and market-based social and environmental standards is because of the failure to gain support for a "social clause" at the WTO linking trade and labour standards and concern that environmental and social trade restrictions would be deemed not WTO-compatible). Whilst private standards have not yet been challenged at the WTO, it is likely that as they become more widely accepted, required and linked to litigation and incentives they could be challenged and may well be deemed trade distorting.

Whether or not environmental and social standards are acceptable to the WTO, critics contend that they remain de facto trade barriers. Critics of responsible trade standards and initiatives including neo-liberal economists and developing country leaders, who agree that that environmental and social standards are real barriers to trade for developing countries.

"[Environmental trade conditionality] in fact work against the objective of sustainable development by reducing market access. There is a need for granting developing and least-developed countries a longer time frame to achieve standards of sustainable development. Market access during this period should not be denied to products from developing and least-developed countries since economic growth and employment in such countries are dependent to a great measure on the ease with which they can export." Indian government submission to the WTO the Committee on Trade and Environment, 2002

"Standards developed without involvement of both producing and consuming countries should have a default assumption of being discriminatory to trade."
Veena Jha, UNCTAD

In some cases, such as in the banning of azo dyes by Germany, a major producer of non-azo dyes, it has been argued that environmental requirements are actually motivated by a desire to create new market opportunities for new environmental technologies and products launched by developed country suppliers, not simply to protect the environment or public health. Another example of an environmental measure which has benefited a high-tech capital intensive developed country industry to the detriment of developing country producers has been the replacement of locally produced wooden, jute and woven disposable packaging fruit and vegetables shipments with reusable injection-moulded polypropylene crates (OECD, 2002). Box 13 below outlines the specific concerns of Colombian flower exporters in relation to European flower labelling programmes.

Box 13. Eco-labelled flowers and trade distortion

In the early 1990s, European environmental and human rights groups began campaigning against poor labour and environmental conditions in the flower-export businesses in the developing world. Several labelling programmes were developed to raise environmental and social standards. These include:

- The Flower Label Programme was developed by a group of German NGOs together with the German Flower Wholesale and Import Trade Association (BGI). It is a voluntary labelling scheme based around a set of social and environmental criteria for flower growing. Around 50 flower farms in Ecuador, Kenya, United Republic of Tanzania and Zimbabwe are accredited by the Flower Label Programme (FLP).
- Stichting Milieukeur (Environmental Choice Foundation) in the Netherlands has also developed environmental criteria for labelling agricultural products, including flowers. Growers in Israel, Kenya, United Republic of Tanzania and Zimbabwe have been accredited with the label, along with a number of European growers. Since its inception, the scheme has now added social and energy efficiency criteria to the original environmental standard.

The flower growing industry of Colombia felt that these voluntary labelling initiatives were a trade barrier and that the negative publicity associated with the campaigns was damaging their sales. Exports to Germany in particular declined markedly between 1992 and 1996. In 1998, the Colombian Government submitted a paper to the WTO Committee on Trade and Environment and the Committee on Technical Barriers to Trade highlighting its concerns

Box 13 (*continued*)

with the labelling schemes. They complained that the criteria were not adequately transparent and that negative campaigning was applied in a discriminatory manner. They objected to the high costs of verification and certification and the involvement of foreign monitors in checking compliance with Colombian laws. They also highlighted the difficulty facing exporters of demonstrating compliance with multiples schemes from different countries.

The Flower Campaign responded to this challenge by entering into dialogue with a range of stakeholders in an effort both to improve the transparency of its labelling scheme. A new set of criteria was agreed based on the International Code of Conduct for the Production of Cut Flowers.

Despite protesting the fairness of labelling schemes, Colombian growers have not been able to ignore the real concerns of consumers and activists. A number of flower growers have joined the Flower Labelling Programme individually while Asocolflores itself, backed by the Colombian Government, has developed its environmental management system called Florverde.

Conversely to those critics who say that responsible trade standards are protectionist, some consumer, development and environment NGOs and trade unions contend that the WTO is enforcing a "race to the bottom" in putting trade concerns before environmental or labour standards. They are also concerned that voluntarily agreed standards may gain international status as benchmarks for what constitutes an acceptable and "least restrictive" standard and may be used in WTO dispute resolution cases to force governments to lower their own regulations to this international level (Bendell, 2004).

One indication of the way forward on these debates is the principle established in case law that environmental standards can be legitimately applied to imports when they are based on multilateral environmental agreements. The core labour standards of the ILO concerning the use of child, forced, prison and slave labour and the recognition of trade unions have similarly been agreed multilaterally and are put forward as a fair basis for a basic level playing field in trade and labour standards. These are increasingly reflected in individual company codes of conduct and responsible trade initiatives.

Whilst it appears that ethical trade initiatives have so far been able to stay on the right side of the legal assessment of protectionism, it is clear that they can act as a barrier to international export market, and in particular may impact disproportionately on SMEs. The following chapter looks at some of the approaches and initiatives which aim to ensure that SMEs do not lose out because of responsible trade.

7. Action on responsible trade and SME development

Clearly responsible trade is beginning to have an impact on many SMEs. For some enterprises this has meant help in gaining market access through fair trade initiatives, for others it has meant the need to demonstrate compliance with social and environmental standards. For the vast majority who produce for local markets, it has had little impact and even amongst those within export supply chains, many remain in sectors and supply tiers thus far not touched by many emerging standards and certification requirements.

Nevertheless, for SMEs seeking export markets, and the organizations supporting them including business associations, public bodies, NGOs and intergovernmental agencies, social and environmental demands are a growing (if not going) concern. For those organizations concerned with advancing corporate social responsibility, its impact on SMEs is also a significant issue; whilst they do not believe that the environmental and social performance of smaller enterprises should be exempt from scrutiny, they also recognize the key role that SMEs play in development and poverty reduction.

As this report has shown, there is a range of approaches emerging in response to the need to integrate SMEs into responsible trade.

Understanding responsible trade challenges and opportunities

Evidence from some of the sectors where responsible trade is most developed suggests that it is an increasingly significant factor for companies seeking to export. It does not however, guarantee additional market access, neither is it the primary factor in excluding SMEs from international supply chains; broader trends towards supply chain consolidation are also at play, such as price, quality, reliability and delivery speed.

There are emerging lessons that SMEs can draw on to better understand the impact responsible trade will have. As in any area of business, the main lesson is to know your markets, and responsible trade is no different (Chapters 5 and 6 of this report outlined the key trends which SMEs and their supporters should be aware of).

A number of initiatives focus on providing information about market demands, such as the Dutch government's Market Access website detailing social, environmental and quality standards by sector and the Sustainable Trade Information Centre, which is creating a programme of work, including information provision for suppliers and trade organizations in

a number of targeted countries and sectors. However, there is a risk that such initiatives, driven by environmental and social expertise and objectives, may not align with the needs of SMEs for accurate information about consumer demand, unclouded by wishful thinking about what consumers ought to want.

Whether businesses adopt a wait-and-see attitude of just responding to buyer demands when they put orders at risk or whether they proactively improve their own practises and systems in the hope of attracting and retaining business, is a strategic business choice they have to take. The stronger the business case pressures are, the less the risk of investing in this area. This depends on local market demands, the public policy environment as well as supply chain pressures. But in many cases SMEs are prevented from taking up these opportunities because of capacity and structural gaps (such as access to capital) which fall disproportionately on them.

Building the capacity to respond to responsible trade challenges and opportunities

Measures to assist SMEs to meet the challenge of responsible trade need to be grounded in a clear understanding of the business case for improvement, and the specific capacity gaps relevant in the context of particular industry sectors, producer countries and importing markets. There is no “one size fits all” approach, which can be applied across the board.

In some case the ability to meet social and environmental standards is blocked by structural difficulties such as poor access to information, lack of access to capital, weak institutional capacity and poor infrastructure (such as lack of local and affordable testing labs and audit firms), lack of access to finance and technology. In some cases there are firm level barriers related to the capacities and dynamism of managers and owners. In some cases there is a lack of clear demand or incentives from their customers for SMEs to justify investing in making improvements or achieving certification.

There are a number of initiatives and organizations working with suppliers and multi-stakeholder clusters in producer countries to provide information and develop the capacity to meet and monitor social and environmental standards locally. Examples range from the IADB-funded project promoting Corporate Social Responsibility (CSR) amongst Chilean SMEs, and the Wine Industry Ethical Trade Initiative in South Africa (see box 11 above).

However, whilst these pioneering initiatives help to develop understanding of the challenges and risks of social and environmental standards for exporting SMEs and test ways of addressing capacity gaps, they do not integrate these issues with other obstacles to upgrading and productivity improvement. In the longer term, integration of social and environmental expertise into more mainstream industrial development and SME support programmes rather than the development of separate initiatives is likely to be more

Box 14. Corporate Social Responsibilities amongst SMEs in Chile

The Inter-American Development Bank has provided \$1.45 million to promote the adoption of CSR by SMEs in Chile. The project is being carried out by the Corporate Social Leadership Centre of the Catholic University of Valparaíso. Representatives of Chilean industry and responsible business associations are also involved in directing the project.

The objective is to enhance Chilean SMEs competitiveness through the implementation of CSR initiatives to meet the social responsibility demands of international markets. The project will provide training for entrepreneurs, managers and professional service providers, work with a pilot group of 150 small businesses from key economic sectors and disseminate the best practise and lessons learnt from these experiences more widely. The first pilots will be in the fruit, wine and manufactures sectors and will then expand into other export focused industries.

Within each of the pilot companies CSR advisors will work with managers to mainstream CSR practices into the day-to-day management system. They will also develop performance benchmarks and a methodology for assessing the results in each of the participating firms both in terms of social performance and how this relates to efficiency factors including productivity, sales, and market access.

useful for SMEs facing multiple challenges and pressures, and more effective in upscaling the impact of such programmes. One promising model is that of SME clusters.

Clustering is a business concept which has been taken on both in the field of SME development and by the corporate responsibility movement (Zadek et al, 2003; Nadvi, 2004). The original conception of competitive clustering was provided by Professor Michael Porter, who proposed that companies could gain competitive advantage where their strength in numbers provided them with better staff, suppliers, infrastructure, insights, information and challenges than their competitors (Porter, 1990). These clusters were seen as organic, more or less spontaneous outgrowths that emerged because of the fulfilment of some or all of the following conditions: strong local peers competing; discernible and sophisticated local demands which pre-empt or drive non-local demands; and local capacity supporting the clusters' needs and continual innovation.

More recently it has been argued that corporate responsibility clusters can create competitive advantage through interactions between the business community, labour organizations and wider civil society, and the public sector focused on the enhancement of corporate responsibility. They differ from traditional clusters in that they involve clusters of organizations across different sectors interacting both as challengers and as partners, rather than only business. Most of the evidence for this kind of clustering are taken from developed country examples, however examples from the Vietnamese footwear industry and the football industry in Sialkot, Pakistan provide examples of organic business clusters that have developed into corporate responsibility clusters—addressing social concerns, quality and competitiveness whilst strengthening links into international supply chains.

Box 15. Industry clusters and “whole country” certification

One approach to streamlined costs and improved uptake is “whole country” certification. The idea—to have the entire production of a country certified on the basis of regulatory framework, enforcement record and inspected practice—was pioneered by Malawi’s fair trade sugar sector. Mauritius plans to follow suit for its speciality sugars, and is in the midst of negotiations with FLO.

Strong geographical clustering like Sialkot’s football industry in Pakistan, China’s 6,000 toy factories clustered in the Pearl river delta, Zhejiang and Jiangsu provinces, or Viet Nam’s footwear sector in villages like Trung An north west of Ho Chi Minh City make country certification much more practicable, though the free rider problem remains.

National pride is a strong motivator, for example: “The greatest advantage of the FSC certification process is knowing that we are doing things the right way”, says Cristobal Roda, President, Roda Industrial Group, Bolivia. “We are so convinced that this is the way to go, that we will continue until we achieve a ‘certified country’.”

Influencing standards development

In some cases, it may be that the key barrier for SMEs is not in actually meeting the social or environmental conditions but in demonstrating compliance according to the standards and audit processes which have generally been developed with larger plants in mind. This can impose disproportionately expensive, perhaps unaffordable, costs for small enterprises. For example, some parts of the verification costs are pro-rata, such as the time costs of interviewing a fixed sample (say 10%) of employees. But there are many fixed costs (travel, inspection, paper audit, etc). Even for straightforward agricultural producers in South Africa, verification will tend to cost a minimum of \$1,000-2,000 irrespective of whether the verifier is locally based or international. The example of the Marine Stewardship Council in box 16 below highlights some of the obstacles to sustainable fisheries certification for small and “artisanal” fisheries and the approaches being taken to assist these fisheries to gain certification.

Box 16. The Marine Stewardship Council: certification for small fisheries

The Marine Stewardship Council (MSC) was set up by the international environmental NGO World Wildlife Fund (WWF) and Unilever, one of the world’s largest buyers of frozen fish to provide a framework for voluntary, third party certification of sustainable fishing practices. Developing country governments, industry associations and fish workers’ organizations all expressed concerns that the MSC label would be a barrier to trade. They were sceptical that a standard could be applied in a non-discriminatory manner to fisheries around the world, and in particular they feared that small-scale, “artisanal”, fisheries would suffer either because they would not meet the criteria for certification or would not be able to afford the certification process.

The MSC has endeavoured to address these concerns, in particular concerning how to include “data poor” developing country fisheries within the certification scheme. They have responded by developing a community-based certification methodology for small fisheries in developing countries. The methodology enables local knowledge to be used in the certification process, to assess the state of a fishery in the absence of formal data. To overcome the expense of certification they have set a Small Grants Fund for Community Fishers.

Although several fisheries begun to test this methodology, they have often run into difficulty where the fish stocks they depend on are threatened by illegal fishing outside of the small fishery’s control or where they have been frustrated by lack of necessary data. In order to assist developing country fisheries to overcome these hurdles to certification, the MSC is working to identify suitably rigorous but less expensive ways to measure indicators, developing further guidelines for integrating traditional knowledge and management systems into the certification process and to strengthening the capacity (and hoping to lower the cost) of auditing and certification services in developing countries. It has also set up a Sustainable Fisheries Fund to assist fisheries in addressing problems to meet the MSC criteria.

The market for certified fish remains a small niche, but if it expands it will become ever more important that the MSC label (and any competing fish labelling schemes) do not exclude small fisheries or become a discriminatory barrier to trade. In addressing the concerns of small and developing country fisheries the MSC has given a boost to research and awareness into what sustainable fishing means for this section of the fishing industry.

While individual SMEs are standards-takers, business associations, government bodies, NGOs and intergovernmental agencies can influence the development of ethical trade and the way it impacts on SMEs by working at the demand end to shape consumer awareness and incentives and the codes and monitoring systems developed in response. Different approaches to this include:

- Fair trade companies and campaigners raising awareness and creating and demonstrating consumer demand for new products and ethical niches.
- Local NGOs, industry bodies, standards institutes or multisector initiatives developing their own standards and monitoring processes or local variants of international standards. For example, six FSC national standards have been developed in Latin American countries to date: two each in Bolivia and Peru, one in Brazil and one in Colombia. Standards are currently being developed in Argentina, Chile, Colombia, Ecuador, Guatemala, Guyana, Honduras, Mexico and Nicaragua. The examples of the Thai Industry Standards Institute in box 17 and Escondida in box 18 show how standards institutes and major companies are working to make management, quality and environmental standards more accessible to SMEs. Some small countries also want to reduce certification costs and paperwork by having their entire production of a commodity certified. Examples include Malawi and Mauritius for speciality sugar.
- Ethical trade initiatives and certification bodies working to understand how monitoring can include SMEs and developing appropriate tools for applying standards to SMEs. For example the Marine Stewardship Council, the Ethical Trading Initiative and ISEAL are all working to understand how their respective standards and audit

procedures could be made more accessible to SMEs. Monitoring can have significant cost implications for SMEs.

- Brand name buyers understanding how their purchasing practises can affect workplace conditions and supplier viability. For example are prices, product and timing demands incompatible with codes of conduct, forcing SMEs out of the supply chain or leading to hidden non-compliance? Are smaller producers dropped more quickly for failure to comply where larger, more strategic suppliers are given more constructive leeway to improve?

Box 17. Thai Industrial Standards Institute

The Thai Industrial Standards Institute has launched a programme to offer a certification on basic management and product standard for small and medium-sized enterprises (SMEs), hoping it will help boost exports of products made by SMEs. Industry Minister Somsak Thepsuthin said the programme was a first step for the development of SMEs management and products to meet international standard.

He projected around 500 SMEs would apply for the certification by the end of this year. The certification would help reduce obstacles to exports by SMEs to a certain extent and boost their competitiveness. The certification application would be part of the process for SMEs to obtain other standard certifications such as ISO 9000 or ISO 14000 in the future.

Source: www.tisi.go.th

Box 18. Escondida: assisting suppliers to gain ISO 14001 certification

Few of Chile's ninety-nine ISO 14001 certified companies are SMEs. After achieving ISO 14001 certification for its own facilities in 1999, the mining company Escondida developed a contractor certification programme, to help its suppliers improve their management of health, safety environment and community relations. Some 25 supplier companies (including some SMEs) were able to achieve ISO 14001 and OHSAS 18001 certification implementation. With support from the government agency CORFO, Escondida supported the SME's preparatory work and eventual certification process. They provided participating suppliers with training to develop internal audit procedures and risk evaluation methodologies, instruction manuals and processes for coordinating with government agencies. As expressed by a manager: "We challenged the governing paradigm in the Chilean public sector of ISO 14001 being only appropriate for large companies." The supplier development programme has now been broadened to include further suppliers as well as wider health, safety, environment and community issue.

The public policy connection

Whilst the focus of ethical trade has been on voluntary business action, critical factors such as escalating tariffs abroad and lack of infrastructure and security at home are key barriers to success in competing internationally, and responding to these social and environmental concerns.

Brand-named multinationals have been targeted for attention because of their size and apparent power, but as demands get passed down the supply chain, it becomes clear that suppliers stuck between, on the one hand, their customers' demands for high quality from one country, faster turn-around time from another, at low prices from a third, and on the other lack of capital, infrastructure and supportive public policy, are often not in a position to deliver labour conditions which meet international standards. For example, companies operating in countries and free-trade-zones where free trade unions are outlawed or suppressed cannot on their own recognise free trade unions.

Voluntary and private standards are becoming closer to mandatory requirements as compliance with standards becomes increasingly necessary in order to secure:

- Access to supply chain customers;
- Product liability insurance;
- Evidence of due diligence in potential litigation cases;
- Regulatory relief from prescriptive regulation towards lighter touch approaches which set end-goals, but allow companies to adopt voluntary management system standards in order to meet these goals (for example the Netherlands pollution regulations);
- Tariff concessions, for example, the EU's GSP grants tariff cuts to timber products exported from countries that integrate "internationally recognized standards and guidelines for sustainable forest management"; and
- Government procurement contracts.

The link between an enabling public policy environment and international competitiveness are increasingly recognized: "Among the other important elements of the enabling environment (for FDI) are the host country's labour market standards. By taking steps against discrimination and abuse, the authorities bolster employees' opportunities to upgrade their human capital, and strengthen their incentives for doing so. Also, a labour market where participants have access to a certain degree of security and social acceptance lends itself more readily to the flexibility that is key to the success of economic strategies based on human capital (OECD, 2002b)."

Corporate responsibility and responsible trade were not intended to develop a complete parallel privatized system of regulation and enforcement but to use corporate influence to overcome weaknesses in existing systems. As ethical trade is rolled further down the tiers of the supply chain, the "business case" for supporting more effective government action rather than developing a Byzantine system of private monitoring is likely to emerge more strongly.

Integrating responsible trade and enterprise development

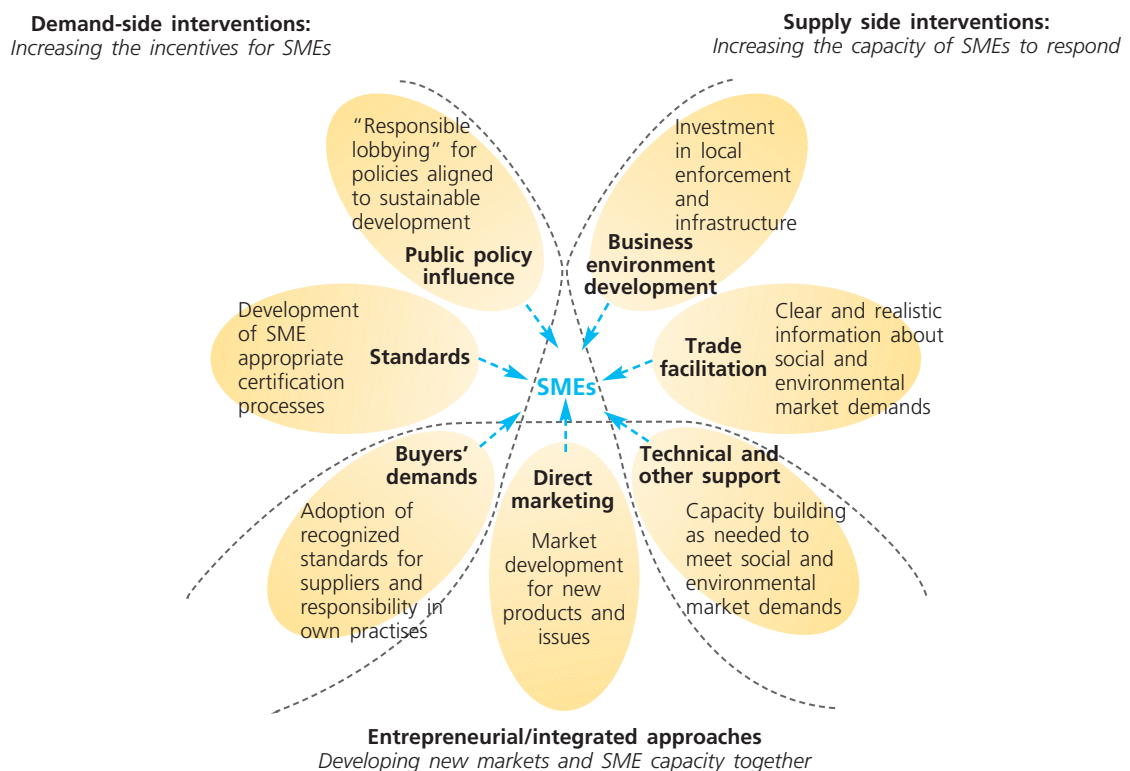
The figure below highlights how, in each of the key areas where organizations are already working to enable SME market access, activities can be aligned to strengthen SME social and environmental performance and competitiveness.

Interventions have tended to be divided between supply-side initiatives to promote understanding by SMEs about market demand and strengthen their capacity to respond and demand-side initiatives aimed at increasing the pressure for socially and environmentally responsible trade or modifying the monitoring and certification processes to ensure they are open to SMEs.

However, as this chapter has illustrated, these different approaches are interlinked and share the objective of influencing the behaviour and performance of SMEs. When these approaches are pulling in different directions they can undermine each other. For example where companies are pursuing policies of cut-throat price competition but at the same time enforcing codes of conduct, this can pass the costs on to their suppliers or lead to faking compliance in order to retain orders. Another example is the concern over the European WEEE (Waste Electrical and Electronic Equipment) and RoHS (restriction of use of certain hazardous substances) directives and the planned REACH European chemicals directive, which will all have implications for exporters to Europe. There are fears that although the directives will give a strong incentive for suppliers to make environmental improvements there is not enough information available in advance to enable them to meet the compliance requirements, putting their exports at risks.

It is important therefore that organizations working to enable SME market access and those working to promote more responsible trade understand how each of these different approaches fit together and how their own activities can be better aligned, both internally and with others.

Integrating responsible trade into interventions influencing SME market access



There are examples of organizations integrating responsible trade, enterprise development and public policy influence together. For example, leading companies that started to address working conditions in their supply chains through codes of conduct are now realizing the need for industry standards, changes in their own buying practises and more alignment of their public policy influence towards sustainable development (see box 19). Companies ranging from sportswear giant Nike to Chilean mining company Escondida are realizing that their dominant position in relation to their suppliers, demands that they do more than issue demands that push responsibility down to their suppliers.

Box 19. Nike: looking beyond supply chain monitoring

International shoe and sportswear giant Nike has long been one of the chief targets of consumer and activist protests about labour conditions in global supply chains. They responded by setting up one of the industry's most developed systems of supply chain monitoring. They first adopted a code of conduct for labour practices in 1992 and both the code and their monitoring approach has been the subject of several cycles of evolution. Initially they contracted high profile individuals and firms to conduct one-off factory audits. However, these reports proved to be inaccurate, and further damaged Nike's credibility. In 1996 they set up an internal department to monitor supply chain compliance with labour standards which grew to over 80 staff, as well as using external auditors from Ernst and Young. But this more stringent monitoring process only served to highlight more instances where factories producing Nike goods do not meet their labour compliance standards and have attracted not deflected the negative attentions of campaigners and the media.

Recently Nike has recognized that it must go beyond factory level audits if it is to understand the root causes of poor labour conditions amongst its suppliers. An internal investigation into the continued failure to meet its own labour standards led Nike to conclude that the problem was not in the quality of their compliance programme but in Nike's (and the whole industry's) way of doing business.

Performance incentives for buyers are based on price, quality and delivery times, which has the effect of encouraging them to circumvent the code of conduct when necessary to hit targets and secure financial bonuses. Similarly the company's "just in time" inventory management system often led to urgent orders and excessive overtime.

Nike has now invited research teams from the Sloan School of Management at Massachusetts Institute of Technology to examine ways that buyer-supplier relationships, pricing, timelines and quality requirements impact on factories' ability to meet Nike's code of conduct. They hope to be able to work with their own procurement teams and with supplier factories to better manage production workflows and hours of work. However, they recognize that whilst they have significant leverage as major or even sole clients of some contract factories (particularly for footwear) they are only one of many buyers in many sporting goods and clothing factories. Therefore they are also directing their attention to multi-stakeholder initiatives to raise productivity and labour standards across the industry.

Source: Simon Zadek (2004) The Path to Corporate Responsibility in the *Harvard Business Review*, December 2004.

Fair trade organizations, both in the North and the South, were amongst the first to understand the need for this kind of joined-up working and thinking, both working to create new markets and working to develop the capacity of producers to compete, whilst at the same time campaigning for wider changes in public policy and industry practise. Their entrepreneurial approach has enabled them to keep pushing forward in terms of products and sales but also in influence. They have struggled to balance the inherent tensions in this mode of work between on the one hand working to stimulate demand (where the aim is to raise awareness as high as possible) and on the other to help SMEs to meet these demands (where the aim is to advise SMEs in making realistic levels of investment). But they have demonstrated, albeit within a small market niche, that this approach can be economically viable, and thus laid down the gauntlet for mainstream businesses to take up the challenge.

The role of UNIDO

As a multilateral organization, the United Nations Industrial Development Organization (UNIDO) promotes sustainable industrial development in low- and middle-income economies. It is therefore contributing to the progress of the United Nations Millennium Development Goals (MDG) through programmes that actively reconcile productivity enhancement and economic growth with the environmental and social challenges of rapid economic globalization.

With various initiatives and programmes related to responsible trade, the Organization is specifically focusing on the targets regarding poverty reduction, gender equality, environmental sustainability, and the creation of a global partnership for development. It focuses on small and medium enterprises (SMEs) due to their pivotal role in socio-economic development in the developing world.

As demonstrated, SMEs not only differ in size and industry sector but also in their access to national and international supply and value chains as well as in their motivation for more responsible business practice. Accordingly, interventions geared towards the development of increasingly responsible SMEs cannot be undertaken through a “one size fits all” approach. To meet these diverse needs and to ensure a sustainable impact of its interventions, UNIDO offers a set of initiatives within its technical cooperation programmes to support SMEs in meeting social and environmental market demands:

- Promoting improvements in the general business environment;
- Supporting institutions, private and public, that regulate and promote the private sector;
- Facilitating access to resources and support services that private sector firms require to become more competitive.

As international and regional business linkages, as well as value chain integration of SMEs, form the guiding principles for the Organization’s capacity-building activities regarding

responsible trade, the core technical assistance services in this area are the Corporate Social Responsibility, Business Partnership and Business Linkage Programmes, as well as the SME Export Consortia and Trade Capacity-Building initiatives. These programmes are described below.

SME-directed capacity-building to meet social and environmental market demands

As managerial capacity and information management is crucial for SMEs to take advantage of opportunities in responsible trade, UNIDO offers a series of programmes that focus on upgrading SMEs towards this aim.

UNIDO Business Partnership Programme

UNIDO's industry sector-specific Business Partnership Programme offers a systematic approach to supporting SME growth by fostering cooperation between the stakeholders along the value chain of an industry sector. It works to integrate SMEs into global value chains, transfer know-how, skills and expertise and stimulate SME growth and development. Integral to this must be an understanding of the demands for better environmental and social performance.

Adherence to international standards in these areas is a challenge for many SMEs. Many of the problems and potential solutions lie beyond the range of individual actors. Through the Business Partnership Programme, UNIDO is therefore striving for the cooperation of all partners of a value chain in order to leverage the benefits from their complementary resources; e.g. technical expertise, funds, management know-how.

This programme is therefore based on improving the productivity of SMEs and supports industries in linking large international buyers, small suppliers and their support institution along their supply chains through a specific partnership building methodology. The most prominent examples of UNIDO's Business Partnership Programme are the interventions for small suppliers in the Indian and South-African automotive component industries.

REAP—The Responsible Entrepreneurs Achievement Programme

Although Corporate Social Responsibility (CSR) is becoming an increasingly important prerequisite for internationally operating or trading businesses, there is still little information and technical support available to assist SMEs in applying more responsible business practices. With the introduction of REAP, based on the partnership building methodology of the Business Partnership Programme and incorporating UNIDO's Triple-Bottom-Line approach, UNIDO aims to facilitate the frequently required application of environmental and social standards and principles in SMEs through both,

- Training in practical and affordable methods and tools, specifically developed for the integration of environmental and social standards, and
- Easily understandable SME-related examples, showcasing the practicability and benefits of implementing the principles of corporate social responsibility, e.g. the United Nations Global Compact's 10 principles.

Regarding environmental impacts, REAP activities draw on UNIDO's National Cleaner Production Programme, which aims at building national cleaner production capacities in SMEs. UNIDO's approach to cleaner production is predicated on the notion of efficiency improvements in SMEs' use of raw materials, energy, water, as well as management methods on general waste reduction and waste handling. Therefore, the programme is simultaneously enhancing the environmental performance, productivity and competitiveness of SMEs.

As for social issues concerning SMEs, UNIDO is working closely with its sister organization the ILO (International Labour Organization) in primarily concentrating on issues related to occupational safety and health, as well as decent workplace conditions in manufacturing industries. Some practical programmes of the ILO in this field include the Factory Improvement Programmes (FIP), which complement UNIDO's technical expertise in CSR and integrate easily into the broader CSR Programme approach.

Hence, in a wider context REAP is a comprehensive partnership programme that seeks to enhance the social and environmental performance as well as the productivity of SMEs in order to improve their overall competitiveness. This ultimately leads to an easier and more sustainable integration of their products and services into larger global value chains as well as into responsible trade initiatives.

Development of export-oriented networks of SMEs: Export Consortia

As it is already difficult for SMEs to adhere to environmentally and socially sound business practices, the tasks appear even more complex for very small and micro enterprises.

Within the framework of the Programme on Development of Clusters and Networks of SMEs, UNIDO helps small firms in becoming more competitive and in seizing opportunities arising in global markets. This is achieved through interventions, fostering linkages amongst, often unorganized businesses and strengthening collaborative relations with local support institutions. Such cooperation allows SMEs to combine their strengths to take more advantage of market opportunities, including responsible trade demands, as well as to solve common problems more efficiently through joint efforts.

In particular, the development and support of Export Consortia are important measures to promote goods and services of SMEs abroad and to facilitate the export of their products through joint actions (e.g. through joint activities in administration, promotion of products, and information management towards external markets). Export Consortia are successful in developing necessary capacities in SMEs in order for them to meet the requirements of responsible trade initiatives.

This array of activities underscores the complementarities between UNIDO's Export Consortia and the CSR Programme. Whereas the various Export Consortia support groups of SMEs in their efforts to access markets through information sharing, joint promotion and market penetration, The CSR Programme focuses on the technical preparation of companies and their products in order to meet the demands of buyers in respective markets.

Trade Capacity-Building Programme

Despite many trade related activities, such as duty-free/quota-free initiatives facilitating market access, effective market entry is not always easily achieved. Standards and technical regulations with respect to consumer safety, health and the environment remain in place and often become more stringent over time. For their potential export products, developing countries need to be able to achieve and prove compliance with the requirements set by markets and/or clients.

UNIDO's Trade Capacity-Building Programme helps developing countries to meet such market requirements through technical assistance, geared towards the development of competitive productive capacities. Better integration in global value chains and responsible trade initiatives also requires the development of an internationally recognized capacity to assess conformity of products with such market or client requirements.

This is why UNIDO has developed a holistic approach to trade capacity building, integrating contributions from other trade related technical assistance providers where required, and focusing on the following three types of intervention, "Competitiveness, Conformity and Connectivity":

- *Competitiveness*: Selected productive sectors with high export potential are assisted by UNIDO in order to become more competitive, upgrade product and production quality, safety and cost-effectiveness, and enable them to comply with applicable standards and regulations so that they can export their products successfully.
- *Conformity*: Developing countries are enabled by UNIDO to establish the necessary physical and institutional infrastructure to prove that products conform with the technical requirements laid out by markets and/or clients within the rules set by the Multilateral Trading System (MTS), in particular the agreements on Technical Barriers to Trade (TBT) and on Sanitary and Phytosanitary (SPS) measures. Particular attention needs to be given to the development of standards and conformity assessment infrastructures.
- *Connectivity*: Developing countries and especially LDCs need to better connect with the international trade environment through a more effective participation in international trade negotiations. They also need to receive assistance to enable the streamlining of customs procedures and mechanisms to ensure more efficient trade flows (trade facilitation). Agencies such as WTO, UNCTAD and ITC, and other development partners provide related technical assistance.

Business Linkage Programmes: Industrial Subcontracting Programme (SPX) and the Gateway Initiative

Finally, as linking small suppliers with buyers is one of the most important elements of the process of supporting SMEs in their efforts to engage with responsible trade initiatives, UNIDO offers two further services:

- Subcontracting and Partnership Exchanges (SPX);
- The Gateway Initiative.

Subcontracting and Partnership Exchanges (SPX) are technical information, promotion and matchmaking centres for industrial subcontracting and partnerships between main contractors, suppliers and subcontractors, aiming to optimize the utilization of the manufacturing capacities of the affiliated industries. In effect, the Exchanges are not only meeting points and instruments of regulation between the supply and the demand of industrial subcontracting orders, but also instruments of assistance to both partners, in particular the small and medium supplier or subcontracting enterprises. In this context, the requirements and opportunities, which responsible trade initiatives may offer, form, in combination with the UNIDO Business Partnership Programme, part of the training and advisory services the SPXs provide to SMEs in developing countries. Eventually, the SPXs act as centres for technical information, matchmaking and promotion as well as clearing-houses for industrial subcontracting and partnership enquiries and opportunities in the context of responsible trade initiatives.

The recent Gateway Initiative has set as its objective support to producers through diversifying marketing and distribution approaches and thus increasing their chances of entering responsible trade distribution channels, global supply chains and markets. UNIDO's facilitating role in matching offers with demand is carried out in numerous ways:

- *Partner mapping* on the local and international level, aiming to stimulate cooperation with institutions, schools, NGOs and intermediaries, who are already active in the downstream development of the value-chain.
- *Information platform*, accessible to cluster beneficiaries and market representatives, thus providing a showcase for products available from producers of each cluster project.
- *Tailored assistance* to clusters, addressing collective needs in product development and design, marketing approaches and export preparation.
- *Exposure framework*, which offers access to buyers, through participation in international trade-show and study tours.

The Gateway Initiative aims to bring buyers to clusters. Through the stimulation of seller-buyer relationships, the initiative places emphasis on introducing international buyers to clusters, thus strengthening the position of their products on variety of markets.

Advocacy, awareness-building and research

In addition, UNIDO raises awareness amongst relevant stakeholders as well as a wider public audience in target countries.

Corporate Social Responsibility (CSR): Implications for small and medium enterprises (SMEs) in developing countries

UNIDO has been undertaking a number of research projects in the area of CSR. The overall objective of these projects has been to establish not only the conceptual baseline for the promotion of responsible business practice but also to compile examples of best

practices in CSR in order to enhance the competitiveness of SMEs by improving their environmental and social performance.

In 2002, UNIDO published a study on SMEs and CSR in developing countries, shedding light on the implications of the newly emerging CSR requirements in international trade. As one of the first studies of its kind it presented concrete evidence of the business case for CSR for SMEs. While building reputation is less of an issue for SMEs than for global companies, key aspects of this business case for SMEs were considered to include:

- *Better alignment with current and emerging consumer concerns and access to new markets:* CSR can help companies gain specific contracts or trading relationships with TNCs or companies in Northern markets and communicate directly with consumers through environmental and social labels. However, export-oriented CSR can only succeed if it is matched by product quality and service, which meet international market standards.
- *Partnership opportunities:* SMEs can establish closer links with TNCs and Northern companies with which they share values but also through business associations and the closer involvement of multilateral organizations.
- *Operational cost savings:* These derive from environmental efficiency measures such as waste reduction and energy efficiency, reductions in absenteeism and staff turnover.
- *Improvements in productivity and quality:* Greater efficiency and better management encouraged by CSR can help companies to improve the quality and productivity of their output.
- *Enhanced relationships:* Even where companies do not have nationally or internationally recognized brands, their reputation and relationships with the local pool of staff, suppliers and customers and with local government can be enhanced by better social and environmental performance.
- *Learning and innovation:* CSR can help companies find new ways to work, develop skills, manage risks, seize opportunities and solve problems.

Following this first study, UNIDO published a technical working paper on CSR in 2004, delivering an academic approach to the cost-benefit relations of responsible business practice (Luetkenhorst, 2004). Finally in 2005, UNIDO published an official position paper on CSR, presenting the organization's understanding of the issue, its importance in our current world situation, as well as UNIDO's related technical cooperation approaches.

SME Cluster Development and CSR

The second major research activity currently undertaken by UNIDO relates to a study on SME Cluster Development and Responsible Competitiveness (UNIDO/AccountAbility, 2006). Adherence to CSR principles can often be an expensive and very time-consuming process. Furthermore, the beneficial results in terms of business performance may take time to emerge. As a result, it implies fixed costs that may simply be too high for individual

small-scale enterprises or may require financial support that is simply unavailable for such firms, especially in developing countries. Groups of SMEs may, on the other hand, be able to share such costs, provided they are cooperating with each other and have a common agenda. In principle, therefore, CSR adherence should be easier and more sustainable within a cluster of SMEs to provide a suitable environment for cooperation in this respect. Building on its decade-long expertise in the field of SME cluster development, UNIDO is implementing an action-oriented research project funded by the Swiss Agency for Development and Cooperation to ascertain if it is at all easier and more sustainable to bring about CSR compliance within SME clusters and to develop the needed tools and methodologies to achieve such an objective. This initial piece of research indicates that it is.

United Nations Global Compact

Through the power of collective action, the Global Compact is bringing companies together with United Nations agencies, labour and civil society organizations to support universal environmental and social principles. It seeks to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalization. In this way, the private sector—in partnership with other social actors—can help realize the United Nations vision of a more sustainable and inclusive global economy. The Global Compact is a purely voluntary initiative with two objectives:

- Mainstream the ten principles in business activities around the world
- Catalyse actions in support of United Nations goals

To achieve these objectives, the Global Compact offers facilitation and engagement through several mechanisms: Policy Dialogues, Learning, Country/Regional Networks, and Projects.

UNIDO, based on its long-standing record of successfully working with private business towards supporting industrial development, contributes to the development and advancement of the Global Compact by focusing on supporting SMEs in their endeavour to implement the Compact's principles. In this context, UNIDO recently launched the Responsible Entrepreneurs Achievement Programme (REAP) a CSR-based management and reporting tool, built upon the ten Global Compact Principles. This service allows for a (self-) diagnosis for SMEs regarding their CSR performance and helps companies to identify responsible supply chain management practices.

ISO Working Group on Social Responsibility

In March 2005, the International Organization for Standardization (ISO) launched a negotiation process for the development of a standard on social responsibility (ISO 26000). It is expected that this standard, which is to be launched in 2009, will have a great impact on numerous companies and organizations and will certainly be perceived as a quasi-mandatory standard, converging isolated initiatives into a truly international guidance.

With ISO 26000 in place in the future, responsible trade and related supply chain management initiatives will certainly become more mainstream-oriented.

It is fair to assume that ISO 26000 will subsequently have great a impact on the development of responsible trade as a whole as well as on small and medium suppliers, in particular in the developing world. Based on this assumption, UNIDO has become part of the ISO working group, which is currently developing the standard. UNIDO will thereby have the possibility to specifically contribute to the standard's development so as to be a voice for small suppliers in developing countries in this process, addressing the concerns that this standard will foreclose rather than support SMEs in international and, thereby, in responsible trade.

8. Conclusion

Opinions on SMEs and responsible trade are divided; there are those seeking to develop a more equitable trading system through fair and ethical trade initiatives, whilst there are also critics who believe that these efforts are at best misplaced and at worst motivated by protectionism, and will only serve as a further barrier to SMEs integration into global trade.

Pragmatically, the reality is that basic social and environmental standards are already part of the competitive landscape for SMEs in some sectors and are likely to remain so. However, meeting these standards will be a necessary but not a sufficient condition for market access.

Responsible trade pressures are likely to expand further into other sectors and broader market niches as:

- Entrepreneurial fair trade and green marketers develop new products, marketing approaches and target new consumers (such as middle class consumers in developing countries).
- Mainstream companies take on responsible trade approaches as a way to protect reputation.
- Legislation in importing countries drives further uptake of environmental and social standards in the supply chain (for example European WEEE and RoHS directives, the Kyoto protocol)

However, the business case for individual SMEs to make changes will depend on the distinct mix of supply chain pressures and local business environment within their region and industry. For SMEs responding to supply chain social and environmental demands, this is just one part of “knowing your markets”.

As social and environmental standards and compliance processes, developed with large enterprises in mind, are rolled down the supply chain, encompassing tiers including SMEs as well as smallholders and home workers, the limitations and difficulties of this approach to “civil regulation” are emerging as more urgent concerns. These include both practical difficulties, such as the cost of auditing multiple small companies, the literacy and administration demands of monitoring systems, as well as mismatches between consumer and workers’ concerns.

One key response has been the long overdue move to involve Southern industry bodies and civil society organizations in standard setting and monitoring. Another has been to recognize the limitations of private standards and the need for public policy based

solutions to labour and environmental standards enforcement, as is happening in Cambodia.

There is a strong argument that initiatives to support SME capacity development to meet these challenges should be integrated within existing services and relationships, rather than promoted as stand-alone resources. This would mean:

- Integration of social and environmental standards/markets expertise into information provision, trade facilitation and technical assistance programmes aimed at improving market access.
- Wider consideration by brand named buyers (and their industry associations) of their role in supplier development and capacity building, and the “business case” for supporting stronger government regulation and enforcement.
- Embedding social and environmental expertise and an understanding of how improved performance in these areas can contribute to competitiveness, within programmes to upgrade and improve productivity in SME clusters and networks.

Ultimately, there are many opportunities on offer to SMEs through responsible trade. Some of these will be buyer-driven, mainly through ethical trade, but also to a lesser extent fair trade. But there are also opportunities in supply-driven responsible trade, particularly through clustering. At the same time, the spread of corporate responsibility into global supply chains from Northern companies and governments, whether as part of a business contract or international trade agreement, does raise concerns for SMEs in trying to meet the demands put upon them to remain, let alone compete, in the marketplace.

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Annex. Responsible Trade Standards

Some Product standards and certification schemes

<i>Scheme</i>	<i>Product</i>	<i>Market</i>	<i>Scope</i>	<i>Issuer</i>	<i>More information</i>
Utz Kapeh	Coffee	Europe, North America, Japan	Economic, social and environmental: incl. pesticides control, protection of labour rights and access to education and health care.	Multistakeholder group	www.utzkapeh.org
Common Code for the Coffee Community	Coffee	International	Economic, social and environmental.	Multi-stakeholder group	www.sustainable-coffee.net
ISO 26000 (to be published 2008)	General	International	Social (exact scope still to be decide)	Standards body	www.iso.org/sr
SA8000	Mainly clothing, toys	International	Labour conditions	NGO	www.cepaa.org
Business Social Compliance Initiative	Textiles, garments, shoes, toys and electronic goods	Europe (member companies include C&A, Otto, Etam)		Industry body	www.bsci-eu.org
International Code for Flowers	Flowers	International	Environmental	NGO/Union	www.flower-label-programm.org
Milieu Project Sierteelt	Flowers	Netherlands/Europe	Environment (optional social chapter)		http://www.st-mps.nl
Max Havalaar label for flowers	Flowers	Switzerland/Europe	Environmental/ social	NGO	http://www.maxhavelaar.ch/en/
The Standard on Good Agricultural Practice of the Euro Retailer Produce Working Group	Flowers, fruit and vegetables, green coffee		Environmental/H&S, some labour	Industry (producers and retailers)	www.eurep.org

ISO 14000	General	International	Environmental	Standards body	www.iso.org
Forest Stewardship Council standard	Timber, forest products	International	Environment, some social	Multi-stakeholder	www.fsc.org
Oko-Tex	Textiles	Europe	Environment (pesticide residues)	Proprietary	www.oeko-tex.com/en/main.html
OHSAS18000	General	International	Occupational Health and Safety Management System	Standards body	www.bsi-global.com/Global/OHSAS18001.xalter
Europe-Africa-Caribbean-Pacific Liaison Committee Harmonised Framework (and national level codes)	Flowers, fruits, vegetables	Europe	Environment, consumer health and safety, social and labour conditions	Industry body (exporting and importing countries)	www.coleacp.org
Ethical Trading Initiative	General: Food, garments	United Kingdom	Labour standards	Multi-stakeholder	www.ethicaltrade.org
CERFLOR	Forestry	Brazil	Environment	Government	www.inmetro.gov.br/qualidade/cerflor.asp
AVE	Garments	Germany, Netherlands	Labour standards (SA8000)	Industry body	www.ave-koeln.de
ECO-Tex	Textiles				
Rugmark	Carpets	North America, Europe	Labour standards (child labour)	NGO	www.rugmark.org
FLA	Garments	North America	Labour standards	Multi-stakeholder	www.fairlabor.org
Marine Stewardship Council	Fish	International,	Environmental	Multi-stakeholder	www.msc.org
CSC9000T (China Social Compliance 9000 for Textile and Apparel Industry)	Apparel and textiles	International	Labour	Industry body (exporting country)	www.ctei.gov.cn/english/e_show.asp?xx=3145
Electronics Industry Code of Conduct	Computers, electronics	International	Labour, environment, management system, ethics	Industry collaboration	www.hp.com/hpinfo/globalcitizenship/environment/pdf/supcode.pdf

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