

Governance and Multi-stakeholder Processes

by Nancy Vallejo and Pierre Hauselmann



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Important note

The timeframe for the elaboration of this draft has not allowed ETI and MSC to comment on their presentation in the document. While all care has been given to produce accurate and factual description of these initiatives, the data has thus not been verified by the directly interested parties.

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List of Acronyms

| | |
|--------|--|
| 4Cs | Common Codes for the Coffee Community |
| AB | Advisory Board |
| AC | Appeals Committee |
| CC | Certification Committee |
| ED | Executive Director |
| ETI | Ethical Trading Initiative |
| FLO | Fairtrade Labelling Organizations International |
| FSC | Forest Stewardship Council |
| GA | General Assembly |
| GEN | Global Ecolabelling Network |
| GTZ | Deutsche Gesellschaft für Technische Zusammenarbeit (German Co-operation Agency) |
| IISD | International Institute for Sustainable Development |
| ILO | International Labour Organization |
| ISEAL | International Social and Environmental Accreditation and Labelling Alliance |
| MSC | Marine Stewardship Council |
| NGO | Non Governmental Organizations |
| NI | National Initiatives |
| NSMD | Non-State Market Driven |
| OECD | Organization for Economic Co-operation and Development |
| S&PWG | Standard and Policy Working Group |
| SAI | Social Accountability International |
| SAN | Sustainable Agriculture Network |
| SASA | Social Accountability in Sustainable Agriculture |
| seco | Swiss State Secretariat for Economic Affairs |
| SMEs | Small and Medium Size Enterprises |
| SPS | Sanitary and Phytosanitary |
| StC | Stakeholder Council |
| S&PCte | Standard and Policy Committee |
| TAB | Technical Advisory Board |
| TBT | Technical Barriers to Trade |
| U.K. | United Kingdom |
| UN | United Nations |
| UNCED | United Nations Conference on Environment and Development |
| UNCTAD | United Nation Conference on Trade and Development |
| WSSD | World Summit on Sustainable Development |
| WTO | World Trade Organization |

Introduction

With the proliferation of a broad array of NGOs and business initiatives dealing with standard setting, certification and labelling activities, collaborative arrangements for sector specific policy-making, supply chain management interventions, or with specific codes of conduct, a number of questions are raised concerning which stakeholders are key for these initiatives and under what institutional arrangements and mechanisms they should operate. The key issues that have been increasingly debated in the political science literature during the last five years include:

- What do “governance” and “institutions” mean when speaking of these voluntary non-state initiatives?
- Who gives them policy-making authority?
- What is legitimacy and how is it obtained?
- Which organizations and actors are key on granting authority or legitimacy?
- What is the duration of the authority or legitimacy?
- Which is the appropriate institutional structure that ensures longer and stable authority or legitimacy while effective and efficient performance?

This short paper has been commissioned by the Swiss State Secretariat for Economic Affairs (seco) to inform the organizational work of the Sustainable Coffee Initiative, initiated by the IISD and UNCTAD, as a mechanism to promote sustainability within the Coffee sector. The objective of this report is to make a survey of issues regarding multi-stakeholder governance.

Part one discusses key elements on multi-stakeholders governance, such as representation, inclusiveness in decision making, duration, so as to ensure legitimacy and power sharing.

Part two presents current institutional structures and governance mechanisms of specific institutions of interest for the conformation of the Sustainable Coffee Initiative.

Part three presents some conclusions and recommendations to the Sustainable Coffee Partnership.

Part 1. Elements and Issues in Multi-Stakeholder Governance

Part 1 is an overview of the basic elements of multi-stakeholder governance. It emphasizes the role of legitimacy and effectiveness as key elements of a viable and lasting initiative.

Multi-stakeholder processes have gained recognition as valid mechanisms to develop and implement social and environmental responsible management practices towards sustainable development. As a result, the issue of their governance is becoming central for the conformation of new institutional structures to deal with these public interest issues.

From the Rio Declaration (UNCED 1992) through the Millennium Development Goals (UN 2000) to the WSSD Plan of Implementation (UN 2002), multi-stakeholder processes and partnerships between the State, the business sector, social and environmental NGOs and other civil society actors have become a common call in international environmental policy to forge sustainable development. The post-Rio decade has seen a proliferation of competing initiatives that have emerged based on different conceptual frameworks. The diverse frameworks in existence provide an implicit testimony to the broad range of political interests and power issues which permeate the multi-stakeholder discussions at the international level. These issues make the development of partnerships with widespread multi-stakeholder buy-in increasingly important from a long term sustainability perspective. The fact that no clear definition or strategy for building and maintaining such buy-in has been developed or adopted at the international level to date, suggests the rationale for this overview study.

What Does Multi-stakeholder Governance Mean?

The Commission in Global Governance (1995:2 in Burger and Mayer 2003, pg 50) defines governance as “the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and cooperative action may be taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interest.”

This definition suggests two central elements for the legitimacy of a governance system:

- the will or acceptance by the public or private associates of a broad framework into which they manage their business
- a process of negotiation and power balance.

In a public system the authority and regulatory power comes from the State. But this power can be given or shared with others. In discussing environmental governance, Cashore (2002) identifies different types of initiatives, depending on the source of policy-making power. He refers to traditional state-centred given authority and non-state, or private governance systems which power is not given by the state. Looking at who sets the norms and standards, Haufler (2003) has differentiated four forms of governance: the traditional regulation, co-regulation, industry self-regulation and multi-stakeholder regulation.

Defining governance system

Central to the definition of the governance system is the establishment of the *objectives* and desired outputs of the nascent initiative. Technical matters will require a certain degree of expertise that is different from initial policy setting matters. The Rio Declaration (UNCED 1992) recognized that the responsibility to care about environmental and social issues, and sustainable development in general falls upon the different stakeholders. For dealing with these public interest issues their participation is crucial.

It is a basic principle of stakeholder processes that all stakeholders are not equally important (Wye College 1998). It is the nature of the envisaged objectives and products that will help to decide which institutional structure is required and the appropriate combination of stakeholders that should take part in the initiative. There is a need to differentiate the stakeholders that are relevant at the different stages of development of the initiative as well.

Viability

Governance and institutional structures are key on building the basis of viable initiatives. Core to the essence of viable systems are the interlinked notions of **legitimacy** and **efficiency** of the structure and the process. Cashore (2002 pg. 505) affirms that “the viability of any NSMD [Non-State Market Driven] governance system will be largely determined by whether it can achieve “legitimacy” to operate in the domestic and international spheres.” This entails the acceptance by close related and external audiences.

Burger and Mayer (2003, p25) point out further that the typical feature of viable and resilient partnerships are the “respect for the expertise and culture of the other partner(s), transparent and reliable definition of roles, and an ability to engage in dialogue, and openness between the partners.”

Legitimacy

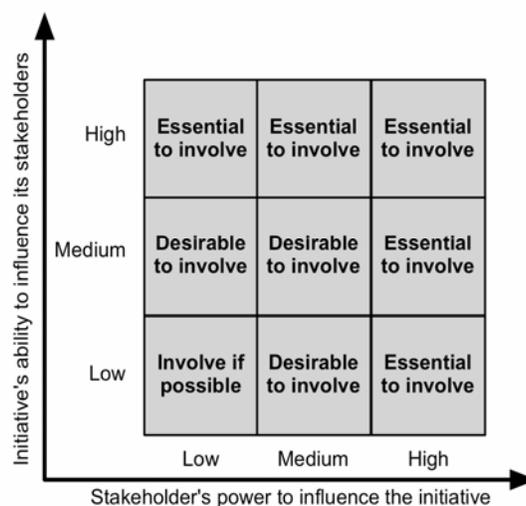
Legitimacy has been defined by Suchmann (1995 in Cashore 2003) as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions.” Legitimacy depends on the level of acceptance by the different direct stakeholders and external audiences. Issues of representation, inclusiveness and transparency will be critical to building the necessary trust for legitimacy. Additionally, legitimacy depends on the ability of the process to engage the stakeholders in a meaningful dialogue in which they feel ownership and the possibility to derive benefits. This requires fully transparency, openness and respect. Nascent multi-stakeholder processes can be seriously jeopardized if the partners do not regularly check the transparency of perceptions and expectations concerning participation (Burger and Mayer 2003).

Who are the stakeholders?

The identification of the relevant or important stakeholders is an important step in the generation of a multi-stakeholder initiative.

Generally speaking, ‘stakeholders’ are those who should participate of the process. According to Shannon (2003 in Meidinger et al. 2003) participation is the cornerstone of democracy. But participation can be limited by how representation is defined, which type of processes are designed, the benefits in relation to the cost, time and effort required. This author considers that the definition of representativeness is one of the easiest ways to limit participation. However, since there is no single standard for measuring representativeness, it is also difficult to assess what the appropriate level is in any given case. Matrix 1, below, provides a framework for carrying out such analysis.

Stakeholder analysis matrix



Matrix 1 - stakeholder analysis matrix (Wye 1998)

It can be useful in trying to fill the matrix to ask specific questions on specific cases, such as:

- which are the different interest groups?
- which ones are usually excluded?
- is the envisaged process restricting participation?
In any case, some fundamental questions need to be asked and be answered positively including:
- are all the interests of the society sufficiently represented?
- is a political voice given equally to all?

At the very broad level, stakeholders of sustainable development are the State, the private sector, NGOs and other members of the civil society (Burger and Mayer 2003). Depending on the specific needs of the initiatives there are other ways to look at interest groups to visualize their right combination, for example:

- by broad interest groups: social, environmental and economic
- by their place in the supply chain: supply side, demand side and other actors (social/environmental group)
- by their size in the supply chain: communities, SMEs, large corporations.

These examples are neither exhaustive nor exclusive. For example the Forest Stewardship Council has three chambers, social, economic and environmental, each divided into North and South. It has furthermore different weightings for decision-making depending on whether a member is an organization or an individual (see Part 2 for more examples on existing governing structures). The specific characterization of any given stakeholder within a larger governance structure depends in part, of course, on the divisions within the structure itself. For example, a government representative who owns or manages natural resources may be considered a public authority or an industry representative depending on the specificities of the stakeholder structure and mandate.

How do stakeholders participate?

Another key element in establishing legitimacy is the ability of an initiative to engage the different stakeholders after having identified them. For example, an initiative may have apparently all the openings for a category of stakeholder – say from developing countries, and still not the active participation of this group. Many elements can enter into the equation to solve this common problem, including:

- how the process is set
- real participation and power in the decision-making process
- how the agreement to the rules of the game is obtained
- mechanisms to support disadvantaged groups (e.g., financial support, information sharing, capacity building).

The way stakeholders can and do participate in an initiative will ultimately determine their level of buy-in and ownership and, as a result, the overall legitimacy of the initiative.

Effectiveness and Efficiency

The viability of a multi-stakeholder process is not only determined by its inclusiveness, but also its capacity to deliver its objectives, that is, its effectiveness. Better, the process should be efficient, i.e., able to deliver the objectives well and fast.

This interdependence between legitimacy and efficiency is schematically shown in Diagram 1, below. The diagram represents trends but no metric is attached to it. Such metrics have not been developed yet. The left axis (in red) represents the speed of the process and the corresponding red curve the diminishing of the speed while stakeholder involvement increases. With little stakeholder involvement, the speed is high, but as long as the quality of the participation has not reached a certain level (e.g., because all stakeholder have a similar point of view) the speed is not considerably hindered. With diversity the speed of the process then drops more rapidly, but never completely stalls.

The right axis (in blue) represents the level of legitimacy. The corresponding blue curve represents legitimacy which is shown as increasing with growing qualitative and quantitative participation. Below a certain thresh-

old, legitimacy is not significantly improved by additional stakeholders. Above this threshold, it increases significantly, until it reaches a ceiling where the addition of further stakeholders do little to improve legitimacy.

The crossing of the two curves (point O) represents an optimum level of efficiency. The green square surrounding the optimum can be considered as the zone of efficiency, while the bigger square the zone where the initiative will still be effective, but not efficient. Outside the squares the initiative can be described as “ineffective.”

Diagrammatic representation of the relation between Legitimacy and Efficiency

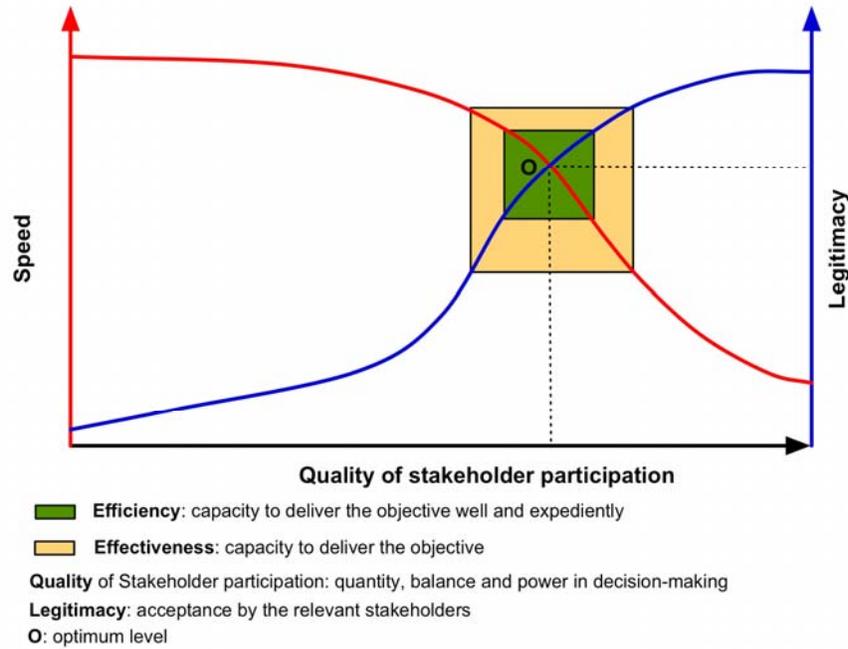


Diagram 1 - speed versus legitimacy

We draw the attention of the reader to the fact that the optimum point, and the areas of efficiency and effectiveness will depend on the objectives of the initiative. Also the well-delimited areas in the diagram should not hide the fact that this represents a continuum.

Part 2. Governance structures of selected organizations

Part 1 reviewed some key elements of multi-stakeholder processes. Part 2 surveys different existing multi-stakeholder initiatives, to show different examples of how interested parties are integrated in existing governance mechanisms. Six different multi-stakeholder initiatives are reviewed and described, two in the domain of natural resources management (the Forest Stewardship Council - FSC - and the Marine Stewardship Council - MSC), two relate to Corporate Social Responsibility (Social Accountability International - SAI - and Ethical Trading Initiative—ETI) and two dealing with agriculture (the Fairtrade Labelling Organizations International - FLO - and the Sustainable Agriculture Network - SAN).

All these initiatives are private, develop international standards and in most cases also national or regional ones. All, with the exception of ETI, rely on third party independent certification to ensure that companies comply with the requirements. All also have distinctive characteristics, which makes their description interesting in the framework of this study. For example:

- FSC has a formal mechanism to ensure a balance between its Southern and Northern members
- MSC originated from a partnership between one NGO and one company
- SAI is the only CSR system which provides a detailed certification process for compliance with core ILO standards.
- ETI relies on self-control of compliance by its members
- FLO explicitly includes a premium for producers as an element of its standards system
- SAN is mostly a coalition of Southern practitioners attempting to develop a common framework (harmonization) for their standards and conformity assessment procedures

Forest Stewardship Council (FSC 1999, 2002a, 2002b, 2004)

Short Description

The Forest Stewardship Council (FSC) was founded in 1993 as an international not-for-profit organization. It is an association of Members consisting of a diverse group of representatives from environmental and social groups, the timber trade and the forestry profession, indigenous people's organizations, community forestry groups and forest product certification organizations from around the world. Membership is open to all who are involved in forestry or forest products and share its aims and objectives. The FSC International Center is based in Bonn, Germany. As of the end of February 2004, 595 forests in 60 countries and covering an area of more than 40 million hectares have been certified under the FSC accreditation.

Mission

The Forest Stewardship Council A.C. (FSC) shall promote environmentally appropriate, socially beneficial, and economically viable management of the world's forests.

Objectives and Mechanisms

The Forest Stewardship Council's principle activities are the development of forest management and related standards, communication and education, and through a separate program the accreditation and monitoring of certification bodies working to FSC standards.

Based on these standards, FSC has developed an international labelling scheme for forest products. In this way FSC provides an incentive in the market place for good forest stewardship. The forest inspections are carried out by a number of FSC accredited certification bodies, which are evaluated and monitored to ensure their competence and credibility.

FSC also supports the development of national and local standards that implement the international Principles and Criteria of forest stewardship at the local level. These standards are developed by national and regional working groups, which work to achieve consensus amongst the wide range of people and organizations involved in forest management and conservation in each part of the world. FSC has developed Guidelines for developing regional certification standards to guide working groups in this process.

Management Structure

Members and General Assembly

Members and their General Assembly (GA) make the ultimate authority of the organization. Their main roles and responsibility are:

- proposing candidates and elect Board of Director members;
- proposing and voting on amendments of Statutes and By-laws;
- proposing and voting on policy making, e.g., non statutory motions; and
- holding the ultimate decision making power on appeals for dispute resolution (prior to court action), destitution of members and dissolution of the association.

Board of Directors

The Board of Directors has functions and responsibilities typical of an association board, including:

- being accountable to the membership;
- formulating high level policies and strategies;
- approving the annual business plan, budget, work plan and financial statements;
- appointing the Executive Director and key executive staff; and
- approving terms of reference of committees and monitor their performance.

Executive Director and secretariat

The Executive Director (ED) is the chief executive, head of the secretariat and the secretary of the Board of Directors. Its functions include:

- implementing the FSC policies and strategies;
- encouraging collaboration with other organizations (and people) who can contribute to FSC's mission; and
- ensuring that administrative tasks are duly carried out by the secretariat, which role is an elaboration of the ED's responsibilities.

Specific bodies

FSC has a number of specific bodies to carry out specific tasks. These include:

- the Policy and Standards Unit which task is to develop the guiding documents of FSC, including standards upon which the accreditation of certification bodies is carried out;
- the Accreditation Unit, which task is to evaluate the conformity of different elements of the system with FSC standards, including, certification bodies, national initiatives and national standards. It is a separate legal entity;
- working groups and committees, including the Dispute resolution committee. All the committees must have, *inter alia*, a defined composition and defined balance; and
- regional co-ordination offices (depending on the secretariat) in Africa, Asia, the Americas and Europe.

FSC National Initiatives

The work of the FSC at national level is carried out by national initiatives. These can take several forms, from individual contact persons to fully structures national working groups and national offices. They must be endorsed by the FSC Board of Directors, but are independent entities. Their primary functions are:

- creating a national forum for promoting certification and addressing related issues;
- developing and adopt national standards on forest management certification;

Governance structure diagram

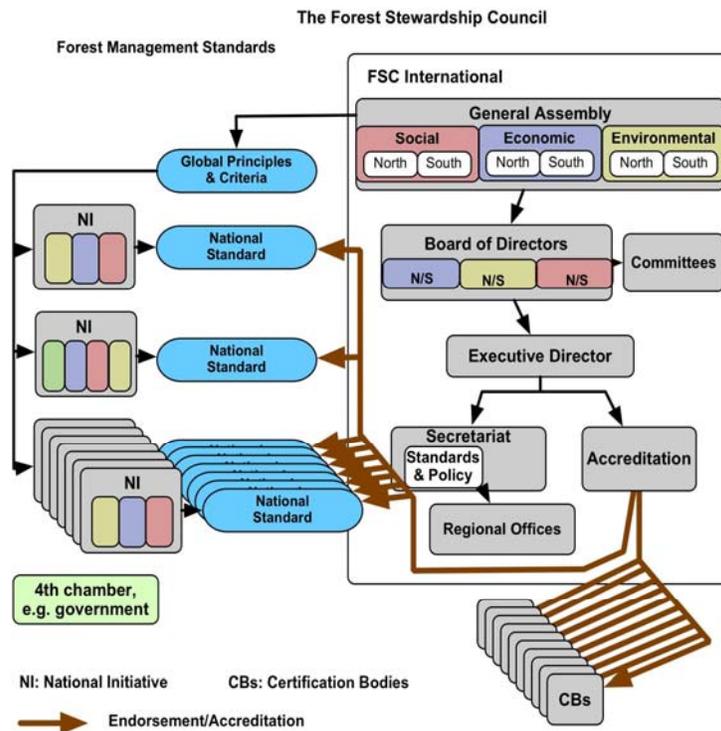


Diagram 2 – FSC

Stakeholder Participation

The fundamental structure for participation in FSC is a multiple chamber mechanism that group stakeholders into broad interest groups and North/South origin.

Members and General Assembly

Prospective members must provide evidence that they support FSC and their application must be supported by at least two FSC members. The Board of Directors decides whether a prospective member is admitted to the membership.

Members can be individuals or organizations. They are divided into three chambers as seen in Diagram 2, which represent social, environmental and economic interests. Each chamber is divided into two sub-chambers.

Each sub-chamber has an equal voting power, i.e., one sixth of the total. This means that the members have each a power equalling one sixth divided by the number of members in their sub-chamber. This mechanism is intended to avoid that one group can dominate, or be dominated in the decision-making process.

Decisions are taken by consensus, which is defined as the absence of sustained opposition, but does not require unanimity. In case of a vote, decisions require both the affirmative vote of a simple majority within each sub-chamber and 66 per cent of the total voting power of all members.

Board of Directors

The Board of Directors is a body of nine people elected from the membership for a three-year term. Three represent each chamber, two of which comes respectively from the northern and the southern sub-chamber. The third one alternated between North and South.

Decisions are normally taken by consensus. If this is not possible, a decision requires six votes in favour to be taken.

Committees and Working Groups

Committees and working groups are established to fulfil specific tasks and their composition depends on the task at hand. In all cases an optimal balance between the different sub-chambers is sought. Committees include membership, finance, accreditation, standards and dispute resolution.

The conflict resolution committee is specifically described in the statutes. It is composed of six people, one of each has to come from each sub-chamber. Additionally, the committee must have at least one member from North America, including Mexico, Central and South America and the Caribbean, Europe, Australia and Oceania, Asia and Africa.

National Initiatives (working groups and national offices)

National working groups and offices are independent organizations. However to be endorsed by FSC they must fulfil a certain number of criteria, including:

- having a structure that is similar to FSC's, i.e., being composed of at least three chambers (more are possible and government representatives can be members);
- decisions needs to be taken in a manner that demonstrates the support of each chamber, thus reflecting the mechanism of FSC International; and
- seeking and obtaining broader stakeholder support for the standard they develop.

Certification

In addition to the general governance structure, stakeholder input is also required at the level of certification. FSC accredited certification bodies must consult with local stakeholders before carrying out a certification audit.

Government Participation

At the international level, representatives of government owned or controlled companies can become members in the economic chamber. Membership is not currently possible for other government representatives.

National initiatives have the liberty to structure themselves in more than three chambers, including one for government representatives.

Marine Stewardship Council (MSC 2004)

Short Description

The marine Stewardship Council (MSC) was founded in 1997 by a partnership between Unilever & WWF. It is now based in London and is fully independent. MSC is a response to the growing pessimism about the status of fish stocks, the impacts of fishing on the marine environment, and the future of the fishing industry and fishing communities. It is a market-based incentive to improve sustainability and management of fisheries, based on a voluntary third party and independent certification system. Seven fisheries have been certified under the MSC standard.

Mission

To safeguard the world's seafood supply by promoting the best environmental choice

Objectives and Mechanisms

MSC's primary goals are to increase the overall sustainability of the world's seafood supply; increase the percentage of the global seafood market certified to the MSC Standard and increase awareness of the MSC eco-label.

MSC has developed and maintains the MSC standard, which forms the basis upon which certification is carried out by accredited certification bodies. MSC has also developed an accreditation programme to ensure the consistent quality of certificates.

Management Structure

Main Board of Trustees

The MSC Board is the supreme authority of the organization and comprises 15 individuals. Board members, nominated in a personal capacity for a three-year term, are automatically trustees of the charity and represent MSC in public whenever appropriate. Besides usual duties of a board, such as approving plans and strategies, the Board as in the case of FSC, has the duty to endorse the accreditation of certification bodies.

Technical Advisory Board

The Technical Advisory Board (TAB) is appointed by the Board and is made of eleven members whose role is to advise the Board on technical matters. This includes the setting and the review of the MSC standard. Before making recommendations to the Board, the TAB seeks feedback from the Stakeholder Council.

Stakeholder Council

The Stakeholder Council (StC) is a balanced body of up to 50 members, which meets annually. In conjunction with StC meetings, a convention open to all stakeholders is organized to discuss MSC strategies and activities. To ensure a direct connection between the two bodies, StC has two co-chairs who are members of the Board, and thus participate in all Board discussion on behalf of the StC).

Chief Executive and Secretariat

The Chief executive is based in the U.K., in the main MSC office. There are regional offices for the Americas and the Asia Pacific regional offices. The MSC executive supports all the bodies indicated above and reports to the Main Board of Trustees.

Governance Structure Diagram

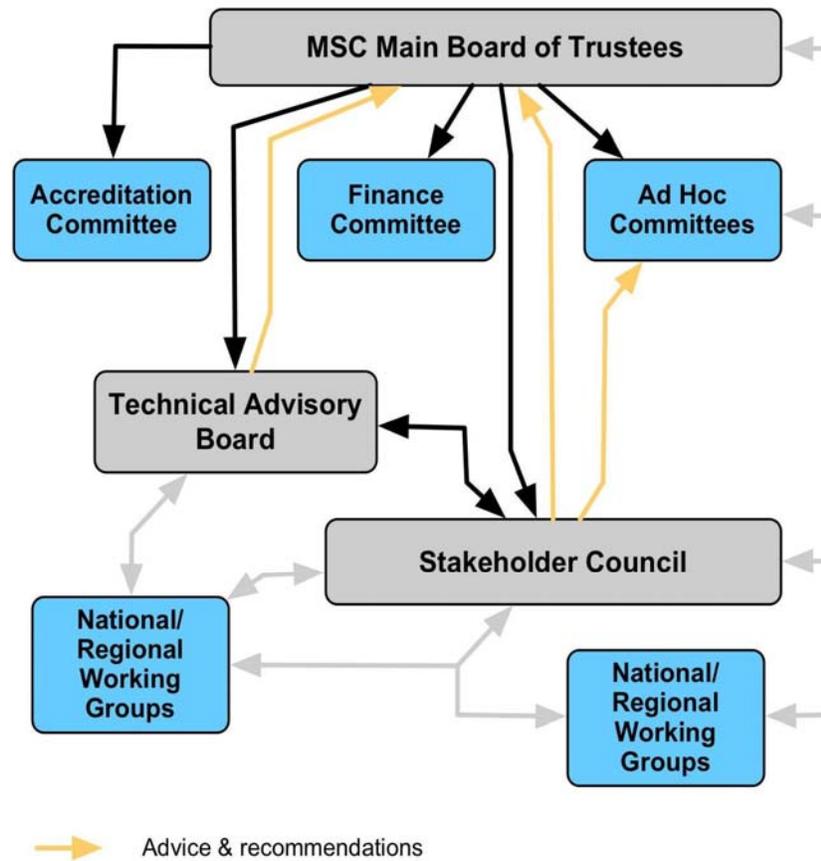


Diagram 3 - MSC

Stakeholder Participation

Stakeholder participation in the MSC governance is mainly ensured through the Stakeholder Council. The Main Board nominates half its members; the members themselves nominate the other half. The StC is divided broadly into public interest, and commercial and socio economic categories, which are themselves divided into sub categories, as follows:

Public interest category:

- Scientific, Academic & Resource Management Interests (5 representatives)
- General Conservation NGOs & Interests (5 representatives)
- Marine Conservation Interests (5 representatives)
- General Interests & Organizations (5 representatives)

Commercial and socio-economic category:

- Catch sector Interests (5 representatives)
- Supply Chain & Processing Interests (5 representatives)
- Retail, Catering & Distribution Interests (5 representatives)
- Developing Nations & Fishing Communities Interests (5 representatives)

Certification

As for FSC, MSC certification requires an input by local stakeholders.

Government Involvement

The current Board of trustees has three members who have a link with governmental institutions, two of which also hold positions in the business world.

Social Accountability International (SAI 2004a, 2004b)

Short Description

Social Accountability International (SAI) was founded as a not-for-profit organization in 1996. SAI is based in New York. It is dedicated to the development, implementation and oversight of voluntary verifiable social accountability standards (SA 8000). There are facilities certified under the SA 8000 standards in 39 countries and across 39 industries.

Mission

Social Accountability International (SAI) is a human rights organization that seeks to improve workplaces and communities around the world by developing and implementing socially responsible standards.

Objectives and Mechanisms

SAI develops the SA 8000 (social accountability) standard based on consensus amongst key sectors. It further accredits qualified bodies to verify compliance with the standard and promotes its understanding and use worldwide.

The SA 8000 standard covers widely accepted labour rights (ILO conventions, UN's Universal Declaration of Human Rights and the Convention on Rights of the Child). Several options for implementation exist:

- Certification by one of the SAI accredited certification bodies
- Corporate Involvement Program, to help companies to evaluate the standard and its implementation in the supply chain, and publicly report on progress towards fulfilment of its requirements.

Several programs are carried out to advance Social Accountability: Research and development related to the standard and its implementation, accreditation, improving auditing effectiveness, training and technical assistance and outreach and alliance building.

Additionally, SAI participates in several programs, such as the ISEAL Alliance and SASA program, designed to promote cooperation among organizations dedicated to improving the lives of workers. SAI is working to promote worker training in 12 countries and worker/manager training in Vietnam and China. The Multi-Stakeholder Organizations Collaborative Project, another example, represents the first successful effort to unite leading code of conduct organizations in a program of collaborative work. SAI is participating in this program, along with five other organizations, to carry out a joint code monitoring project in Turkey.

Management Structure

Board of Directors

The Board of Directors is the supreme authority of the organization. It is composed of three to seven people, which term is three years. Currently it is composed of SAI legal counsel, SAI President, one SAI advisory Board member, one EU cooperative representative, one NGO representative and two persons with financial expertise.

New directors are nominated by the Board members and elected by a majority vote of the standing Directors.

The Board of Directors has the responsibility to evaluate the performance of SAI.

SA 8000 Advisory Board

The SA 8000 Advisory Board (AB) is made up of up to 25 people chosen for their individual expertise and ability to represent the knowledge of particular sectors. An internal AB nominating committee nominates candidates to ensure equal representation between business and non-business (NGOs, trade Unions, socially responsible investors and government) members. Candidates are elected by a majority vote by the members of the AB.

The AB advises the SAI President, who in turn reports to the Board. Its role is to ensure that policies consider the interests of interested parties and to review:

- the drafting, maintenance, operation, policy and development of the SA 8000 standard;
- the SAI accreditation procedures; and
- any complaints regarding accreditation.

Members of the AB serve on accreditation review panels, on a rotating basis.

President

The President is the head of the secretariat and reports to the Board. She has the responsibility to appoint the Chair of the AB.

Governance Structure Diagram

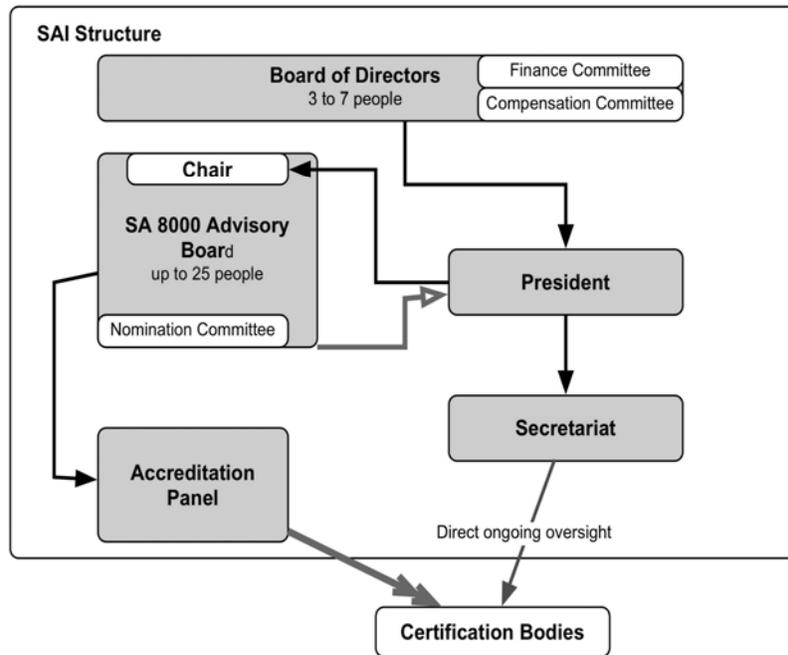


Diagram 4 – SAI

Stakeholder Participation

Stakeholder are encouraged to participate at different levels, depending on their interests by:

- carrying research on SA 8000 content and implementation;
- request information on certified companies;
- become accredited auditors;
- providing training; and
- offering consulting services in relation to SA 8000.

Government participation

SAI has no special provision for government participation in the scheme.

Ethical Trading Initiative (ETI 2004a)

Short Description

The Ethical Trading Initiative (ETI) was set up in 1998 as a not-for-profit organization, to bring the combined knowledge and influence of relevant NGOs, trade unions and companies concerned with corporate social responsibility (CSR). ETI is based in London. “While some people refer to “ethical trade” as an umbrella term for all types of business practices that promote more socially and/or environmentally responsible trade” (ETI 2004b), ETI uses the term in the much narrower sense of responsible labour practices in the supply chain. ETI has developed a “Base Code” and “Principles of Implementation” which both define the philosophy from which ETI identifies and develop good practice, and offer a generic standard for company performances. The Base Code reflects international labour and human rights declarations or conventions. These are: the UN Universal Declaration of Human Rights, the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, the OECD Guidelines for Multinational Enterprises, the UN Convention on the Right of the Child, ILO core conventions and some ILO non-core ones. ETI corporate members have a combined turnover of over hundred million pounds, the trade union members are umbrella organizations, which through their affiliates, represent more than hundred and 57 million workers, and NGO members are small or large development and human rights organization operating in the U.K.

Of all the initiatives reviewed in this report, ETI is the only one that does not rely on independent third party certification. Instead members have to report annually to ETI on progress made.

Mission¹

To foster the observance of internationally recognized labour standards, in particular fundamental human rights throughout global supply chain through a tripartite collaborative approach between companies, trade unions and NGOs.

Objectives and Mechanisms

ETI aims to improve working conditions by promoting and improving the Base Code implementation. The identification and improvement of good practice is mainly carried out through the implementation of experimental research and projects, in collaboration between the different ETI members. The knowledge gained through these activities is shared in seminars and publications, including the “Workbook,” and on the ETI Web site.

ETI tries to increase its company members to bring about the implementation of the Code. Members have committed to implement it and must annually report on progress towards implementation. Furthermore, they commit to require the Code implementation from their suppliers. Members are expected to stipulate to their providers that further business will be pre-conditioned by measured progress toward the implementation. This requirement should take into account special difficulties the suppliers may encounter to fulfil it.

ETI publishes an annual progress report. This does not give indications on single companies, but depicts the overall advance made by ETI members.

Management Structure

Membership and Board

ETI is a not-for-profit membership organization. The membership is divided into three categories: companies, trade unions and NGOs. Each category independently elects its representatives to the Board, which is composed of three members by each category. An additional observer seat on the Board is pro-

¹ Extrapolated from ETI (2004c)

vided for the U.K. government. Currently, there are 31 companies, four trade unions and 17 NGOs in the membership.

The term of Board members is three years, renewable subject to re-election. They meet quarterly and these meeting are the main decision-making fora of the organization.

Members are also grouped in “caucus groups,” i.e., groups of similar interests. There are currently four such caucuses: trade union, NGO, food group and general merchandise group. The caucus groups develop joint policies and priorities on ETI related issues, share experience, information and views and elect and support representatives on ETI projects groups. Each caucus meets usually just before the quarterly Board meetings.

Chair

The Chair is an independent person appointed by the Board (i.e., not elected by the members). Its role is to chair the Board meetings, provide overall leadership, and serve as an ambassador, both internally with members and externally.

Working Groups

Tripartite working groups oversee all key area of activity: projects, annual reporting, impact assessment, workbook development, etc.

Consultative Bodies

The board may establish consultative bodies.

Director and Secretariat

The secretariat co-ordinates the ETI activities and supports the Board and working groups. It is responsible for the organization of events, in agreement with the Board. The Director has more of an administrative role than a representative one, although it is recognized that a certain level of overlap can exist between the Chair and the Director functions

Governance Structure Diagram

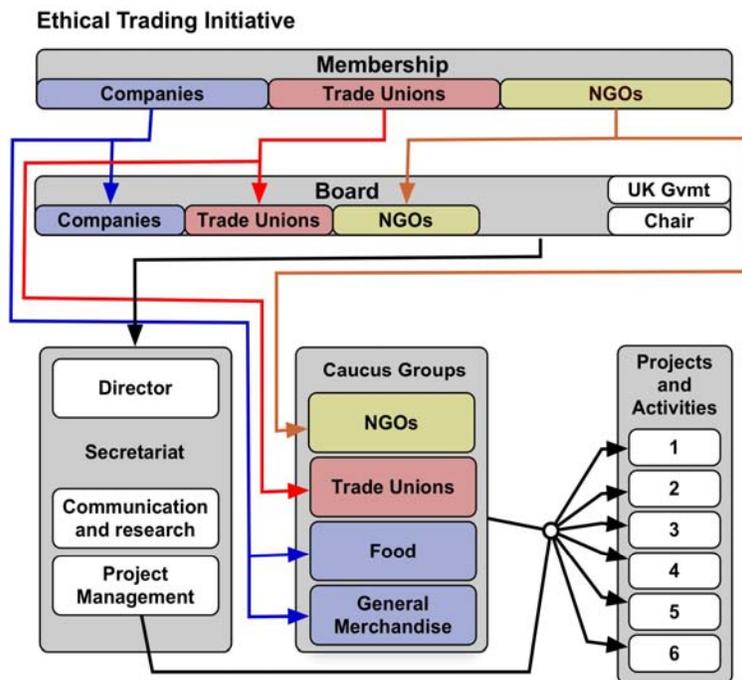


Diagram 5 - ETI

Stakeholder Participation

Stakeholder participation is ensured by the tripartite structure of ETI. Participation by civil society is encouraged by a differential fee structure: company members pay between 1,000 and 25,000 pounds, while NGOs pay between 50 and 5,000 pounds, depending on the turnover.

The influence of different interests is balanced by the fact that the election of Board members is made within each member category. The equal number of representatives of each category in the Board ensures each group has an equal decision-making power.

By drawing on the experience of other organizations, ETI probably incorporates the views of a broader stakeholder base than its membership into its work.

Government Participation

ETI is a private initiative. However, in recognition of its supportive role, the U.K. government has an observer seat in the Board.

Fairtrade Labelling Organizations International (FLO 2004)

Short description

The Fairtrade Labelling Organizations International (FLO) is an umbrella organization of national Fairtrade initiatives currently in 18 consumer countries (including Mexico as the first member in a producer country). It is the worldwide Fairtrade standard setting and certification organization. More than eight hundred thousand producers, workers and their dependants benefit from the Fairtrade label in more than 45 countries.

Mission (FLO 2003)

To enable development and empowerment of disadvantaged producers and workers by:

- setting international Fairtrade standards;
- certifying production and trade according to international Fairtrade standards;
- facilitating and developing Fairtrade markets through national FT labelling organizations;
- facilitating producer support; and
- promoting the Fairtrade approach in debates on trade and development.

Objectives and mechanisms

FLO sets international standards on Fairtrade and creates a framework that enables trade to take place at conditions that respect the interest of the poor and disadvantaged producers in developing countries. A certification system, under the auspices of FLO Cert. Ltd, guarantees the application of the Fairtrade standards. A trade auditing system ensures that products carrying the Fairtrade label do indeed come from certified organizations.

FLO's Product Management Team facilitates trade in labelled products by putting producers and trader in contact.

A fourth core task for FLO International is strengthening the organizational and production capacity of small farmers and workers who participate in the programme.

Management structure

Fairtrade Forum, Meeting of Members and Board of Directors

A dual structure, the FLO Fairtrade Forum, which brings together the producers and the traders, and the FLO Meeting of Members elect the Board of Directors, who holds the supreme power in the organization. Its composition is as follows:

- 6 representatives from the National Initiatives (NI) member of FLO
- 4 representatives from certified producer organizations (2 from Latin America, one from Africa, one from Asia)
- 2 representatives from registered traders

The Meeting of Members elects the NI representatives and the Fairtrade Forum elects the Trader and Producer representatives, all for three-year terms. The board mission is to guide FLO to becoming the worldwide reference for consumer choice in Fairtrade certification. Its tasks, besides the usual ones of a board, include the appointment of the members of:

- The Standard and Policy Committee (S&PCte), setting its priority and approve their work plan and recommendations
- The Certification Committee (CC)
- The Appeals Committee (AC)

The Board normally takes its decisions by consensus. If this cannot be reached, decisions are taken by vote, each Board member having one vote. The President of the Board has the casting power.

Operational Board and Director

The Director is responsible towards the Board for the running of the organization and in particular to the Operational Board for finance and personnel matters.

Standard and Policy Committee (S&PCte)

The FLO Standards & Policy Committee develops the standards. They are divided into two generic sets: one for small farmers and one for workers in factories and plantations. Standards are tailored for each product category, such as coffee, tea, bananas, rice, etc. One specific characteristic of Fairtrade standards is that they include a “Fairtrade price,” which is above the traditional market price.

Membership comprises all stakeholders of FLO (national members, producers and traders) and external experts while making sure all necessary expertise is around the table to take informed decisions.

The Certification Committee and the Appeals Committee

The two committees are made up of stakeholders representing producer organizations, traders, national initiatives and external experts. The CC takes certification decisions and the AC deals with appeals regarding these decisions

Governance Structure Diagram

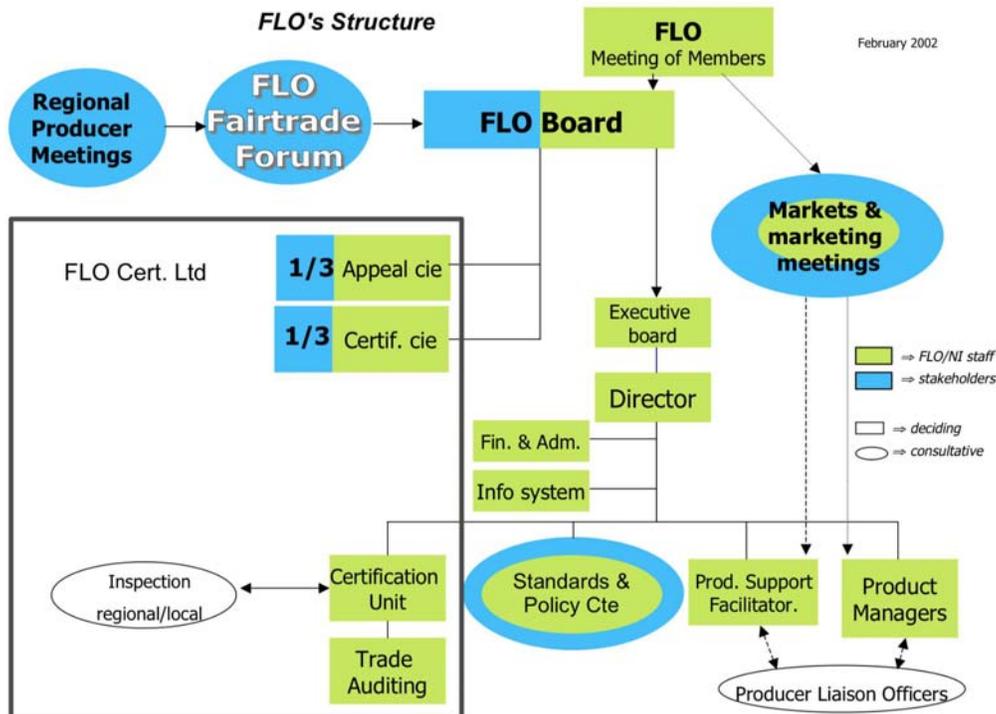


Diagram 6 – FLO (2003)

Stakeholder Participation

As shown in Diagram 6, stakeholder input in the FLO system happens at different levels: the election and composition of the Board, the Standard and Policy Committee, and the Certification and Appeal Committees.

The standard development process additionally includes a broad consultation phase before the Board endorses the standards, following the requirements of the ISEAL Code of Good Practice in standard setting.

The balance between the different stakeholder groups is addressed by the composition of the Board.

Government Participation

There is no special provision for government participation in the system.

Sustainable Agriculture Network (SAN 2004a)

Short Description

“The sustainable Agriculture Network (SAN) is a coalition of not-for-profit conservation groups dedicated to promoting tropical conservation and changing the face of commercial agriculture in the tropics” (Rainforest Alliance 2004).

SAN was established in 1991 and designs standards for socially and environmentally responsible export agriculture for bananas, coffee, cocoa, citrus, and flowers and foliage. Companies that fulfil the requirements of the standards can be certified and be allowed to use the Rainforest Alliance-certified label. The Rainforest Alliance holds the secretariat of the network in Costa Rica.

About 90,000 hectares have been certified under the SAN scheme, benefiting directly more than 40,000 families.

Mission

To integrate productive agriculture, biodiversity conservation and human development.

Objectives and Mechanisms

The SAN primary objectives are to:

- transform farming practices to reduce environmental impacts and increase social benefits;
- transform thinking of all actors in the commercialization chain, from producers to consumers that we are all responsible for their actions;
- connect activists in the developed and the developing world;
- raise awareness on our interdependence on tropical ecosystems and agriculture;
- educate consumers in the North; and
- provide a forum for discussions.

The main tool to achieve this is a certification system based on standards developed through a participatory, transparent and independent process (see Diagram 7, below). Standards are developed through a hierarchical structure including principles, criteria and indicators for each crop. They address the conservation of natural ecosystems, water resources, soil productivity and wildlife habitat, workers rights and conditions, community relations, integrated crop management, and socio-environmental planning and monitoring. SAN plans to rationalize the structure of its standards by adopting a generic set of global principles and criteria and adapting these to crop and local specific conditions by developing corresponding indicators (SAN 2003).

Management Structure

Members and Executive Committee

SAN is a membership organization made of 10 members, eight of which are national practitioners. The members are founding groups and those who have been elected to full membership. Members can certify farms and take part in the decisions of the SAN. The conditions for membership include:

- being not-for-profit apolitical citizen groups;
- being duly registered and accredited with the national government;
- having a proper management system; and
- supporting the objectives of the SAN.

New members can be proposed by any partner in the network. A process of “mutual Compatibility Assessment” is carried out in collaboration with all existing members. After the process, which includes participating in common certification work with the candidate, members vote on the acceptance of the new member by simple majority.

The Executive Directors of the member organizations comprise the Executive Committee. Its role is to vote, *inter alia*:

- on the network structure, strategies and policies;
- to accept new product categories; and
- develop or change national standards.

Secretariat

The secretariat is hosted by the Rainforest Alliance in San Jose, California. Its main functions are to develop and manage the certification implementation and administration systems and tools, manage the revisions of the standard, develop SAN promotional materials and review any use of the seal and promotional materials that are produced by members, clients and companies, carry out quality control of the Network’s operation and serve as the primary external liaison.

One important role of the secretariat is to carry out the harmonization of standards and protocols between the members and with other members of the International Social and Environmental Accreditation and Labelling Alliance (ISEAL).

Representatives

Representatives can be considered as prospective members. They can carry out all activities of SAN full members, with the exception of holding a voting power and taking final certification decisions alone. However, they do participate in the policy discussion.

Watchdog

The watchdog member does not carry out certification, but has access to all documents. It serves as an independent reviewer and critic. The purpose is to enhance the credibility of the SAN as a whole

Governance structure diagram

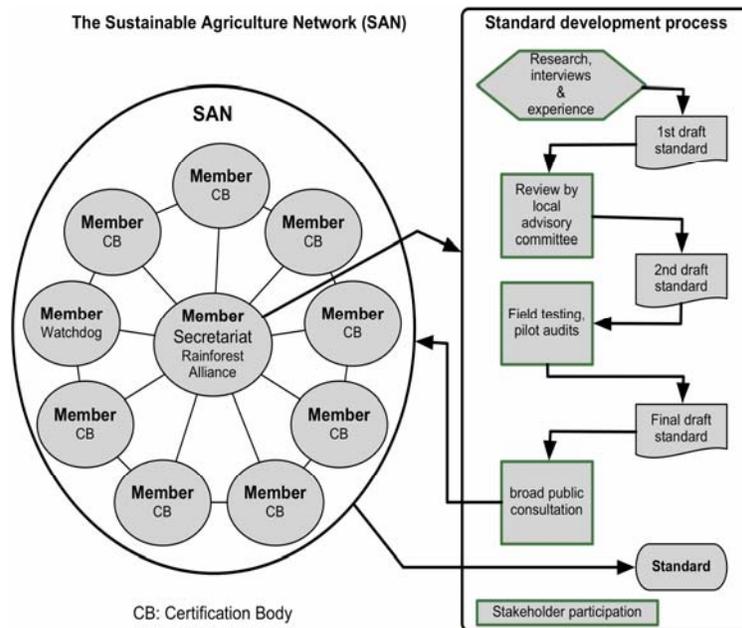


Diagram 7 - SAN

Stakeholder Participation

As seen in Diagram 7, stakeholder participation is included at all the stages of the standard development process.

Government Participation

There is no special mechanism to involve governments in the network.

Summary Table

| | FSC | MSC | SAI | ETI | FLO | SAN |
|---|--|--|--|------------------------|---|------------------------------------|
| Membership Organization | Yes | No | No | Yes | Yes | Yes |
| Direct participation of stakeholders in policy making | Yes | Yes | No | Yes | Yes | Yes |
| Formal North - South Balance | Yes | No | No | No | No | NA |
| Board | Elected | Self-nominated | Self-nominated | Elected | Elected | Determined by the structure of SAN |
| Local/regional presence | Yes | Yes | No | No | Yes | Yes |
| Formal mechanism for government participation | Yes | No | No | No | No | No |
| Premium for producers | Market | Market | NA | NA | In the standard | Market |
| Premium for participating companies | Market | Market | Market | Market | Market | Market |
| Rely on certification | Yes | Yes | Yes | No | Yes | Yes |
| Finances ² | Accreditation fees, membership fees, donors | Accreditation fees, ³ donors | Accreditation fees, ³ donors | Membership fees | Members, Certification fees⁴ logo license, donors | Members,⁵ donors |

² in bold: main source of revenue

³ Specific information on this topic has not been found in the organization's documents, nor has it been confirmed or corrected when the organization in question was consulted in the framework of this report, but seems logical from the activities carried out and has thus been put in the table.

⁴ for FLO Cert Ltd

⁵ normally 20 per cent of certification fees

Part 3. Recommendations

Part 1 of this report identifies some key elements of multi-stakeholder processes, and Part 2 shows how different initiatives have handled the input of different stakeholders in their work. Building on this, Part 3 makes some recommendations to the nascent Sustainable Coffee Partnership.

Defining Objectives

As explained in Part 1, while a comprehensive multi-stakeholder process gives a high legitimacy to an initiative, it also entails significant transaction costs. The more stakeholders at the table, the more difficult and time-consuming the process to come to a common understanding and position.

However, all objectives do not require the same amount of stakeholder input to have a sufficient level of legitimacy for being achieved. For example, a technical capacity programme will likely require less input from a broad variety of interested parties than an international standardization process, even more so if the standards in question may have public policy impacts. Thus, an optimum level of stakeholder participation exist for each objective, and the further away from this ideal point, one way or the other, the less efficient the process.

The identification of objectives, and a mapping of the stakeholders related with the objective(s) is a key primary step in designing a governance structure for a new organization.

As currently proposed (UNCTAD and IISD 2004), the objectives of the Sustainable Coffee Partnership are broadly divided into three categories (Thematic Cooperation Hubs), distributed as follows:⁶

1. Finance
 - a. Generation of resources for implementing sustainability in the coffee sector
 - b. Generation of research and resources for coordination of specific sustainability initiatives
2. Research & learning
 - a. Shared learning
 - b. Identification of shared projects
 - c. Identification of policy instruments
3. Guides, standards and harmonization
 - a. Policy guidance
 - b. Development of a global sustainability strategy
 - c. Improve accountability and coherence building amongst existing initiatives
 - d. Enhance clarity and transparency among sustainability standards.

While we would not claim that financial, and research & learning activities are by essence not linked with policy, it could be argued that both are rather technical operations and as such need less of an intensive multi-stakeholder process than elaborating policy guides, standards and promoting harmonization.

The first sets of question the Partnership should thus answer are:

- Is it efficient to design one structure to carry out all these activities?
- Are all the objectives similarly important and urgent to achieve?
- Where could the Partnership have more immediate and useful impact?
- Should two distinct structures be designed, maybe one as a subset of the other?

Finance and Research & Learning

As was highlighted at the conference “Sustainability in the Coffee Sector: Exploring Opportunities for International Cooperation Towards an Integrated approach” (UNCTAD and IISD 2003) the lack of capital or access to capital is one of the major impediment to implement more sustainable coffee production practices, either for the adopting better technologies or to access certification and the potential premium that goes with it.

⁶ This distribution is made by the authors of this report. The fit may be imperfect, but the intention was to keep the thematic cooperation hubs proposed

The identification of existing and/or new financing mechanisms, carrying research to try to improve them and maximize their reach, sharing this knowledge with as many relevant players as possible and implementing these mechanisms are activities that can have a quick and important impact on sustainable coffee production.

Clearly, a multi-stakeholder structure is needed to ensure that these activities do not end up with a bias, if only in the definition of priorities, but the structure could be rather simple. Similarly, the identification of shared projects and policy instruments, and by extension serving as a platform to bring different actors together are activities which are not controversial.

ETI structure, with a board elected by the membership, but with a limited decision role for the latter could offer a possible way forward. It might be less than optimally efficient to try to achieve the perfectly inclusive, participatory, transparent and democratic process to carry out these activities.

Guides, standards and harmonization

This is a large category of activities and depending on what objectives are envisaged (e.g., elaborate general codes of practice or certification standards) a more or less complicated structure will be needed. However, leaving the harmonization between initiatives aside for the moment, the following general comments can be made about guides and standards.

There is a continuity from guides and standards that are solely intended to direct the implementation of certain processes (e.g., a method for planting) and those which compliance with is used to influence consumers behaviours (e.g., through certification or claims to adhere to a certain code of good practice). In this continuum, the nearer a guide or standard is to allow public claims, the greater the need of stakeholder participation. If clear boundaries existed between the different types of guide and standards, implementation guides could be designed through simple stakeholder process. However these boundaries do not exist.

In the real world, the experience⁷ has shown that one important incentive to apply standards promoting sustainable development is the possibility to claim conformity with the standard and by this an “ethical⁸” behaviour. And to get a reward for this. The reward varies from improved corporate image and lessening the risk of conflicts for large corporations to financial benefits for smaller ones and producers. But the incentive is such that these guide and standards, often designed specifically for certification purposes, permeate the whole range, and even sometimes government regulations. Where they exist, they rapidly become the only standards of reference.

Once developed, standards need to be maintained up to date. Their content can become obsolete because of perception, technological, environmental, social or other external changes. It is generally accepted that the lifespan of a standard should not be more than five years without revision. The burden this entails for an organization’s multi-stakeholder governance structure is no less than the one entailed by the development of standards. This is important to take into account, should one of the intentions of the Sustainable Coffee Partnership be to maintain the standard(s) developed by other initiatives, such as the GTZ Common Codes for the Coffee Community (4Cs).

Thus the development and maintenance of ethical standards requires the establishment of very sophisticated multi-stakeholder mechanisms that take several years to build and make really operational. FSC and FLO are two such examples. For the development of standards and guides, the Partnership should have a structure that combines the attributes of FSC and FLO, i.e., a governance that ensures balance between the different interest groups, not allowing that one dominates or can be dominated in the decision-making process, allowing input by the members and the interested non-members.

⁷ including in the forest and the organic agriculture sectors

⁸ the word “ethical” is used as a generic categorization for socially and/or environmentally responsible

Concerning harmonization between initiatives, a few distinct comments can be made. On the provocative side, one could question the need of harmonization itself, or at least to what extent harmonization is desirable. The certification initiatives are not only using market mechanisms to promote a certain type of products - ethical against non-ethical, but they are also in competition one against the other. This competition forces them to adapt to the need of their clients, producers, buyers and supporters, and is one mechanism that ensures continual improvement of all. This trend has been evident in the forest sector. Harmonization can be achieved broadly by two mechanisms: the establishment of overarching international standards which are then “imposed” on the different practitioners, or by the collaborative efforts of the practitioners themselves.

The international standard approach is the theoretical framework that is promoted by the World Trade Organization Agreement on Technical Barriers to Trade (WTO TBT 1996). To achieve this, a sophisticated multi-stakeholder process needs to be in place and the relevant actors, including the practitioners themselves need to sit at the table. As noted in the third triennial review of the TBT (WTO TBT 2003), there are a certain number of difficulties to implement this approach, including the lack of tangible economic benefits, the low interest of stakeholders and absence of support from key players. We are not aware of any successful implementation of this approach in the “ethical” domain.

The International Social and Environmental Accreditation and Labelling Alliance (ISEAL) and Global Ecolabelling Network are further examples of the tendency of practitioners working towards harmonizing their procedures. The SAN described earlier in this report also illustrates such a mechanism towards harmonization.

Conclusions

Activities such as those envisaged under the Finance, and Research and Learning hubs of the Partnership may be carried out with a “simple” multi-stakeholder structure, but those that are related to standards necessitate sophisticated processes that are long and onerous to establish. The Sustainable Coffee Partnership needs to strategically identify where actions are needed most urgently, where it can have the greatest immediate impact, and bring value added. It needs to build trust and consensus if different initiatives are to be interested in participating and remain partners in a context where competition can be fierce.

One way forward might be to start the partnership with a stepwise approach based on a priority setting exercise, building the necessary buy-in through this process. The research and learning component of the partnership could provide a valuable input in determining where the new institution could have the best positive impacts. Should the partnership decide to follow this recommendation, a structure inspired by the one of ETI could bring the Partnership in the “efficiency” square of Diagram 1. The input by stakeholder could be brought in the initiative in a slightly informal way through the establishment of concentric spheres of stakeholders, where direct members would be at the centre and those with a distant interest be provided the opportunity to access general information documents and comment on them.

If the Partnership chooses to embark on standardization and harmonization related activities, then a more sophisticated structure should be developed. On the one hand it would have to follow the indications provided by the WTO, particularly the TBT agreement, but also the Agreement on Sanitary and Phytosanitary measures (SPS). In this light, the role and impact of the involvement of the International Coffee Organization, an intergovernmental organization should be carefully evaluated. On the other hand, the structure needed to achieve an optimum efficiency would probably require a combination of the structure of FSC and FLO, bringing together:

- The FLO mechanism to include non members in the decision making process
- The FSC chamber structure to ensure no single stakeholder group can dominate or be dominated in the process and to ensure a North/South balance.

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