

**Policy Document**

**Sustainable Economic Development**

**Hivos**  
**Approved by the Supervisory Board**  
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# SUSTAINABLE ECONOMIC DEVELOPMENT

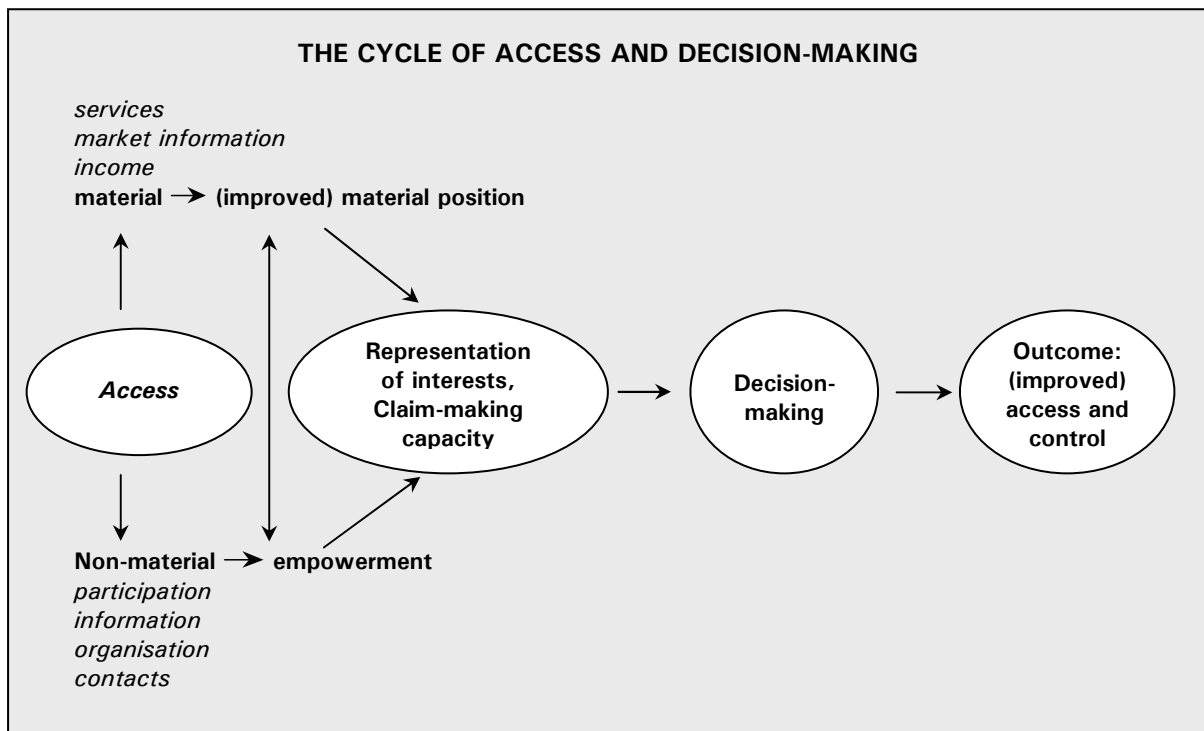
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# 1 Introduction

## 1.1 Hivos policy

At the beginning of the new millennium, Hivos presented a new general policy paper entitled "Civil Voices on a Global Stage". This document presents the broad outline of the Hivos vision on the root causes of poverty, and describes how Hivos intends to position itself and the direction its activities will take in the coming years. Hivos' vision on the causes of poverty and inequality has not fundamentally changed since the publication of its previous general policy paper "Access to Power". The ideas reflected in that document still form the basis for Hivos' thinking: a need for the 'voice' of poor and marginalised people in decision-making processes that determine their lives and opportunities. Hivos' assumption is that more inclusive and transparent decision-making processes, at the national and international level, will lead to more just outcomes of those processes for poor and marginalised people and to a more sustainable development of the world as a whole.

To achieve its overall goal, Hivos- with and through its partners and alliances- is addressing the cycle of access > representation > decision-making > access in all its stages:



- Access: increasing access of poor and marginalised people to material and non-material resources, markets, and related services; and supporting organisations, including self-organisations, to this end;
- Representation: capacity and organisation building in order to improve direct and indirect representation of their interests and claim-making capacity; supporting member-based and intermediary organisations actually representing and lobbying for interests of poor and marginalised people; institutional development, linking and networking in order to reinforce the quality and impact of representation;
- Decision-making: improving the conditions for and quality of decision-making processes; and lobby and advocacy (influencing actors in decision-making) with regard to specific issues of interest to poor or marginalised people.

## 1.2 Two pillars: Civil Society Building and Economy and Sustainable Development

In its attempts to address the cycle of access, representation and decision making, Hivos has become specialised in two main policy domains: Civil Society Building (CSB) and Economy and Sustainable Development (ESD). Civil society building focuses on the reinforcement of and conditions for inclusive and democratic decision-making. This policy domain is based on the idea that inclusive decision-making is a human right, as laid down in international treaties and national legislation. The policy domain of civil society building uses what is called a **rights-based approach**. The present policy paper focuses on the second main policy domain at Hivos: Economy and Sustainable Development. This domain focuses on the economic aspects of development within the perspective of social and ecological sustainability. Activities implemented within this policy have one main target group: poor and marginalised groups in developing countries. Given that this group is integrated in the market to a considerable extent, this policy domain and the present policy paper use a **market-based approach**. Many issues in the policy area “Economy and Sustainable Development” have an important civil society building or empowerment component. This paper discusses issues from a market perspective.

## 1.3 Sustainable development

The purpose of the Hivos Economy and Sustainable Development policy is to improve the economic position of poor or marginalised groups in a sustainable way. This broad purpose is divided into two main goals:

- to increase and improve the access to resources leading to sustainable income opportunities; and
- to improve the quality of production processes.

To Hivos, sustainable development has three important characteristics: it does not compromise the possibilities of future generations, it does not compromise the possibilities of other regions, and it integrates the social, economic and environmental aspects of development.

It is important to stress the dynamic character of the policy presented here. Hivos works towards sustainable development and sustainable production. The specific activities that will take place to reach these goals may be continuously redefined according to new priorities and changes in circumstances. To help increase the relevance of its interventions, Hivos invites all its partners and relations to continue to contribute to the Hivos policy.

## 1.4 Purpose and structure of this document

This paper elaborates on the concepts presented in the general policy paper “Civil Voices on a Global Stage”, and is meant to serve as a guide for Hivos staff to help determine which interventions are eligible for support. The paper will be shared with partners, potential partners and other organisations to provide more information on which types of interventions Hivos is willing to support and why. Finally, this paper is to provide the basis at Hivos for improved planning, monitoring and evaluation in a results-based manner.

The document is divided into 8 chapters. Chapter 1 has already presented the broad policy context within Hivos which surrounds the Sustainable Economic Development sector. The second chapter presents the present situation within the Economy and Environment sectors as they stand at the time of writing. The third chapter describes the sustainable economic development problems in the South and in the North that most affect the poor and marginalised according to Hivos, along with the Hivos perspective on why these problems occur. Chapter 4 describes the solutions that Hivos considers as most likely to contribute to solving the problems described in chapter 3. Chapter 5 elaborates on the goals and objectives of the Sustainable Economic Development sector, followed by strategies to achieve these goals and objectives in chapter 6. Chapter 7 looks at the instruments that Hivos has to implement the strategies outlined in chapter 6, and finally, chapter 8 offers a short conclusion.

Until now, Hivos activities were divided into five sectors: Economy, Art and Culture, Human Rights and Aids, Gender, Women and Development, and Environment and Sustainable Development. The present policy paper presents a policy for two of these five sectors: Economy, and Environment and Sustainable Development, and proposes to merge the Economy sector and a large part of the Environment and Sustainable Development sector into one new sector, coinciding with one of the two Hivos pillars. This is elaborated on in chapter 7.

## 2 The Economy and Environment sectors; present situation

Traditionally, the Economy and Environment and Sustainable Development sectors have accounted for approximately 50% of all Hivos programme expenditures. This is to remain so in the future. The profile of the two sectors is described below.

### 2.1 Economy

Support to partner organisations within the Economy sector in 2002 amounted to 29% of total Hivos support. This support was divided into three categories:

- Training, advice and lobby (56%);
- Financial services (25%); and
- Production and marketing (19%).

Due to the nature of their activities, organisations implementing activities in the first category are eligible for subsidy only. Organisations implementing activities in the second and third categories can rely on the market for a major part of their income, therefore they are eligible for support in the form of credit in the first place.

An important part of the Economy sector is credit. Rather than providing credit directly to producers, Hivos supports micro-financial institutions (MFIs), institutions that provide small loans to people in developing countries who otherwise may not have access to the formal financial system. In many cases, the demand for MFI services exceeds the supply. To help increase the supply of credit to small producers, Hivos and the Triodos Fund Foundation founded the non-profit *Hivos-Triodos Fund* (HTF) in 1994. The fund aims to provide guarantees and loans to, as well as to bear the risk of participating in, projects, enterprises and institutions in the area of development co-operation. Besides supporting MFIs, HTF provides trade finance to organic or fair-trade producer organisations for exporting to the North. At the end of 2002, the total HTF and Hivos portfolio in loans and participations amounted to approximately 13 million Euro. MFIs who receive support from Hivos and HTF are expected to gradually evolve and become eligible for other financial products offered by Triodos Bank, such as loans from the Triodos Fair Share Fund (TFSF).

Hivos and HTF support MFIs in different ways: HTF in the form of loans at market-conform rates, and Hivos in the form of grants for specific activities. MFIs who are not yet eligible for financing via HTF may receive support from Hivos in the form of seed capital (*see 7.1.2*). Hivos also provides support to micro-finance organisations in the area of training, lobby and networking activities to help build a strong, locally embedded financial sector that caters to the credit needs of small male and female entrepreneurs.

### 2.2 Environment and Sustainable Development

Support to partner organisations in the Environment and Sustainable Development sector in 2002 amounted to 20% of total Hivos support. This support went to organisations implementing three types of activities:

- Sustainable use of natural resources (57%);
- Lobbying and advocacy (37%); and
- Networking and institutional development (6%).

More than half of the organisations supported within the environmental sector belong to the first category. The second category consists of organisations engaged in lobby and advocacy against the destruction of habitats, against production processes that degrade and deplete the environment, and in raising awareness on environmental issues. Increasingly, organisations in the lobby and advocacy category have been promoting alternative production processes, such as organic and other forms of more sustainable production. Simultaneously, partners traditionally involved in sustainable production have become more and more engaged in lobby and advocacy activities.

At present, the vast majority of Hivos partners in the economy and environment sectors are organisations active in rural areas and focussing on issues related to the rural sector. Some urban, mainly informal sector organisations also receive support.

### **3 Persistent problems in a Hivos perspective**

According to Hivos the main causes of poverty of small producers and workers in developing countries and the main impediments to reach quality production are those outlined under the headings below:

#### **Structural overproduction and low prices in the market**

Commodity markets, and markets for bulk products and raw material in particular, are characterised by overproduction and low prices. A wide variety of factors may cause these low prices, including agricultural subsidies in the developed countries and trade liberalisation. This means that producers receive an insufficient income to maintain or improve the quality of their production process.

#### **Markets and chains dominated by large scale producers**

Unequal access to and control over markets, resources and knowledge is a vicious circle that negatively affects the standard of living and development opportunities of poor people. Increasingly, small producers in developing countries find that they have been shut out of the national and international markets by larger producers with better access to capital and skills. Even when they can market their products, small producers often find that their share of income from the final value of the product is decreasing. As the present economic development patterns tend to accumulate capital in productive centres and high-income groups, there is little opportunity for producers to reverse this vicious circle.

#### **Growth based on non-sustainable production approaches**

The economic growth of the last decades has largely been based on non-sustainable production processes, in industry as well as in the primary sector. Actual consumption patterns in the rich countries can only be maintained at the cost of low incomes in the South. Natural resource bases are being depleted and this leads to the destruction of ecosystems and habitats, to the impairment of natural regenerative and buffer capacity, and to the decline of biodiversity, including genetic diversity. Though technology provides some solutions for replacing resources, progress in eco-efficiency is slow and cannot be expected to prevent depletion of resources or to stop pollution in the short run.

#### **International agreements not implemented**

The International Labour Organisation (ILO) and the International Convention on Economic, Social and Cultural Rights have introduced various binding international agreements and conventions on labour conditions, including specific regulations concerning women. Almost all States have ratified and developed legislation for international treaties on issues such as the position of women (The Convention on the Elimination of All Forms of Discrimination against Women and the Beijing Plan of Action) and the environment (biodiversity, bio safety, climate change, and desertification). In addition, many different voluntary codes of conduct have been developed and signed by members of the corporate sector. Nonetheless, many of these agreements are not properly implemented, and in practice the above-mentioned negative trends often persist. Moreover, in a number of cases new international agreements, such as in the framework of the World Trade Organisation (WTO), introduce regulations that instead of increasing seem to decrease the bargaining power of developing countries, and prevent people from following their own preferred course of development.

#### **Incoherence in the behaviour of consumers and governments**

Producers and consumers are linked via production chains. These production chains often lack transparency; the consumer is not usually aware of the processes behind the products he or she purchases. Certification is the only way to guarantee to consumers that the products they purchase were produced according to international standards, however consumers are rarely willing to pay more for this guarantee. This is incoherent with the claims that people in their role as voters (citizens) make that they are willing to pay more for a guarantee of good quality.

Governments often exhibit the same kind of contradictory behaviour, particularly between different ministries. The most important example for developing country producers are the subsidies that developed country governments offer to their farmers and which cause artificially low prices on the international commodity markets. This is harmful to farmers in developing countries, and incoherent with investments by these same governments in international development activities in the agricultural sector. In other words, developed country governments induce low prices for producers on the one hand, while claiming to support them on the other hand.

### **Restricted access, poor prospects**

Lack of access can take many forms. The paragraphs below elaborate on how a lack of access to natural resources, genetic resources, technology, and a lack of access to finance and markets can negatively affect the lives of people who are already poor and marginalised.

A lack of access to resources limits the opportunities for marginalised people to improve their position. Privatisation limits poor people's access to resources such as land, water, forests and forest products. In many cases, laws and tradition prevent women from claiming the ownership of the land they till, and women's access to, use of and control over productive resources is mediated by men.

The patenting of genetic resources threatens the access of small farmers to quality seeds. New breeds dominate the market, which means that traditional varieties adapted to local conditions are rapidly disappearing. As industry replaces traditional practices, women are pushed out of their traditional roles in conserving genetic resources.

Research and the development of technology are rarely geared towards the needs of small producers. As a result, small producers are denied access to appropriate techniques that could improve the quality of their production.

Small entrepreneurs are often unable to produce the guarantees necessary for mainstream credit; this forces them to turn to the informal sector for financing. Women's access to credit is even more limited than for men, despite the fact that their repayment rate is generally higher. When women do obtain access to financial resources, this does not automatically guarantee their control over its use.

Most people in developing countries earn a living in the market sector, either by selling their labour or by producing goods. Markets may be monopolised and do not always offer fair prices. Export markets, particularly to the developed countries, are especially difficult to access as producers in Europe and the United States are heavily subsidised and protected. The reduction of import tariffs and other trade barriers is progressing slowly. The general trend is that tariffs are higher in the case of processed products, discouraging processing by developing countries. A more recent trend is that new import barriers for products originating from developed countries are being created with the development of new process quality standards, sanitary, phyto-sanitary and bio-safety conditions, and the requirement for compliance with internationally recognised labour standards. Although improved access may facilitate better performance in the social domain, this is not automatically the case in the environmental domain.

Though Hivos encourages process quality as a strategy to provide a higher price and market access to small producers, it also realises that these same processes can be used as barriers to access. To prevent that process quality is used as a barrier against small producers, Hivos supports organisations that can help small producers develop the skills and access the knowledge needed to increase their process quality and satisfy the standards of the North.

## **4 Access through quality markets**

One strategy to overcome the problems described in chapter 3 is to promote process quality. Examples of process quality programmes include the Forest Stewardship Council (FSC), which has developed a set of criteria that can lead to increased process quality in the forest products sector, and the International Federation of Organic Agriculture Movements (IFOAM), which strives for greater process quality in agriculture. For Hivos the concepts of production chain and process quality serve as the main frame of reference for future interventions in the domains of economy and environment & sustainable development. To increase potential impact, Hivos will focus on a limited number of production chains, and chains will be selected on the basis of potential for improvement.

### **4.1 Trends in quality markets**

Initiatives towards more comprehensive sustainable development have come from various sides: through mandatory regulations issued by national governments, through internationally recognised regulations brokered by international bodies, or through initiatives linking access and quality by the WTO. Although

the initiatives vary in nature, they have one thing in common: none have proven to be very effective, be it for different reasons.

A relatively new trend is the introduction of voluntary quality systems developed and implemented by the corporate sector and civil society organisations, sometimes in “public-private partnerships”. Producers may choose to adhere to these systems, and certification can take place for a fee. In exchange, the certifier provides the producer with a label that can be used to market the product. These types of systems are gaining increasing recognition by governments and corporations.

Within the corporate and financial sector, initiatives have also been undertaken to improve social quality including gender, and environmental quality. Most of this is done on a case-by-case basis or for a specific production chain and often under pressure from local communities, civil society organisations and consumers. These quality standards are usually laid down in codes of conduct or quality systems. Generally these codes are still weak, especially on the gender issues such as maternity leave, childcare facilities, and protection against violence.

Some production chains offer better possibilities for process quality development than others. In particular, brand-sensitive companies and companies producing products for private consumption are sensitive to consumer opinion and more willing to consider quality standards. Nonetheless, the range is rapidly widening to include other sectors.

Improving the social and environmental quality of production processes usually involves additional costs, however this is not always the case. For instance, organic production may well lead to lower costs, as no chemical inputs have to be purchased.

#### **4.2 Access to quality markets**

To remove barriers to developed country markets for products from developing countries, Hivos believes that many overlapping quality systems should converge. This also applies to verification: the various verification systems that currently exist should be harmonised. As quality systems may be costly for small producers, Hivos promotes the involvement of local inspectors, the application of group certification and the promotion of better internal control. To improve and strengthen quality systems and the functioning of related markets, shortening the production chain, better information to the consumer and improved labelling and packaging are also required.

Ideally, quality systems should be developed in a dialogue between producers, women and men, and consumers, respecting ownership feelings and regional variations based on cultural and ecological variations. They should determine which level of quality can and has to be obtained in a specific production chain at a certain point in time. If an agreement can be reached on a minimum quality standard and if the primary producer is able to meet the standard, the other players in the chain should be able to at least maintain and respect such a minimum standard. Hivos aims to support those processes where labour intensity, skills and craftsmanship offer a comparative advantage over large-scale production. The chains which Hivos will focus on may be short (local, regional), however in most cases Hivos chooses to support initiatives within chains that are influenced by the world market or which are significant for a specific area. Hivos may become involved in lobby activities in selected chains if and where Hivos has a comparative advantage, and may work to influence those parts of production chains that are situated in the North, for instance where processing and consumption in the North or in the Netherlands is important.

### **5 Goals and objectives of the Sustainable Economic Development sector**

This main purpose of Hivos’ Sustainable Economic Development policy is helping improve the economic position of poor or marginalised groups in a sustainable way. This main purpose is divided into two goals; goal A focuses on access, and goal B on quality. These two goals have been further elaborated into a number of objectives, and each objective has been attributed a number of indicators to help monitor the progress of Hivos partners. The list below presents the two broad goals, the objectives that have been elaborated for each goal, and an explanation of each objective.

## **5.1 A: Increase and improve the access to resources leading to sustainable income opportunities**

**Improved access to and/or improved quality of financial services:** Though mainstream banks are not usually interested in offering small-scale financial services, these are vital for small producers in the rural and urban sectors to have the chance to sustain and achieve growth in their business. Hivos supports organisations that offer, or that can help improve the quality of small-scale financial services targeted at low income groups.

**Improved access to markets:** Hivos strives to help small producers with high process quality access specialty markets via support to initiatives aimed at reducing the costs of verification and certification.

**Improved capacities for business and vocational skills:** Skill development is essential to allow small producers to participate successfully in the market. Not only the more technical skills required for production, but also the business skills necessary to operate successfully in the market are essential to improve the position of small producers and service providers. To this end, Hivos supports organisations that offer affordable and relevant business development services to small producers.

**Improved access to technology, market information, and market-related Information Communication Technologies (ICTs):** Small producers generally have little access to technology and market information. Access to ICTs can increase producer awareness concerning existing appropriate technologies and can also improve access to market information. Hivos supports initiatives that seek to make appropriate knowledge available and accessible.

**Improved access to productive natural resources:** Access and control over resources by poor and marginalised people, women and men, will be supported where related to production chains.

**Improved access to benefits of biodiversity and/or improved access to genetic resources:** Hivos supports initiatives seeking to improve the access of poor and marginalised people to genetic resources and the benefits from biodiversity.

## **5.2 B: Improve the quality of production processes**

**Increased production and productivity:** Economic growth and increased productivity are essential for producers below break-even. If break-even becomes within reach, progress in the social and environmental domains of sustainable development becomes possible. Increased productivity facilitates investments in (quality) production and offers the potential for a more even distribution among the participants in the production chain, both at the national and international levels. Hivos supports organisations that can help producers increase productivity and product quality.

**Increasing the share of added value<sup>1</sup> going to small producers:** With better access to financial services and to information, producers can strengthen their bargaining position. Hivos supports partners who can help producers improve their bargaining position to gain a higher share of added value.

**Maintenance and improvement of production capacity:** For small producers it is important to maintain or improve the production capacity of the resources they depend on for their income, such as soils, forests, and lakes. Though external factors may also have an impact, small-producers can learn skills to help maintain the production capacity of their natural assets. Hivos supports initiatives that can help producers maintain or increase production capacity.

**Increased development and implementation of quality standards:** To achieve economic growth that is also sustainable in the long run, production and processing processes should respect environmental and social standards. Hivos supports initiatives that aim to support the maintenance and improvement of biodiversity, and that work towards a reduction of pollution. The implementation and enforcement of existing national and international environmental treaties and legislation for more sustainable production is essential in this respect. In cases where no binding agreements have been reached at the international level, existing frameworks for further environmental regulation and enforcement should be supported and implemented. In Hivos' view, respect for the social dimension is essential to ensure that development is sustainable. For example, to guarantee minimum remuneration and labour conditions, and to ban the exploitation of children, the corporate sector should adhere to internationally accepted and binding agreements. Special attention should be paid to gender equality, as in particular female workers are often

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<sup>1</sup> Added value is used here as the difference between costs of production and sales prices of a product actually sold.

employed in poor conditions. The gender dimension of the above-mentioned shifts in production processes and distributive arrangements should be assessed and included in decision-making.

**Increased control over resources:** Producer control over productive resources is an important aspect of quality. Registration, stakeholder participation, access to a bank account and other financial services, and equal legal treatment for men and women can all help increase the level of control for small producers. Hivos supports organisations that help producers gain increased control over the resources that are necessary for their enterprise.

**Increased control of women (in comparison to control of men) over resources and over the benefits of their productive activities:** This is an essential goal of all Hivos activities and a particular concern of the Sustainable Economic Development sector.

## **6 Strategies for sustainable development**

To reach the goals and objectives outlined in chapter 5, Hivos has developed a set of strategies described below.

### **6.1 Direct support for growth of production and productivity in the production chains**

Hivos supports organisations that can help improve or that can present alternatives to unsustainable production practices. This may occur through the provision of finance, or through training and information provision.

In principle, entrepreneurs are expected to pay for business development services that can help them to better function in the market. If these services are qualitatively poor or if access is inadequate, Hivos can provide support to alternative service providers, making maximum use of local expertise. To that effect locally available knowledge and experience, and supply and demand of (financial) services will be mapped in country studies, if these are not already available. Where necessary, local actors will be stimulated to fill the gaps. Hivos will also encourage its partners to lobby for the provision of mainstream financial services to small-scale entrepreneurs. Special attention will be given to the development of insurance products. Through research, experiments and evaluations, Hivos seeks to help improve the quality of the services that micro-finance partners offer. Hivos will support technology transfer and development in production chain related activities. Where markets for quality produce are absent or poorly developed, marketing activities are eligible for support, provided that costs are internalised and the products remain competitive in the market.

### **6.2 Increased decision-making power and added value through quality systems**

A more equitable distribution of the added value and decision-making power calls for more influence of all stakeholders, including women, on the organisation of the production chains, guided by internationally recognised regulations and standards. To reach this goal, Hivos supports partners that promote voluntary process quality systems, and partners that lobby to help secure social, gender equality and environmental norms at the national and international levels in legislation and international agreements.

### **6.3 Improving quality systems with stakeholder participation**

The upgrading of standards is an ongoing process. To guarantee quality in all its dimensions, production processes need to be monitored throughout the chain from primary producer up to consumer. Hivos supports initiatives that put pressure on companies to ensure adherence to internationally agreed labour and environmental quality norms.

Many standards put a heavy burden on the (small) producer. Hivos supports initiatives that work to prevent this by promoting tailor-made and product-specific quality systems. These initiatives are stimulated by Hivos to facilitate stakeholder participation and to include gender equality issues, which are currently underrepresented in most quality standards.

#### **6.4 Stimulating sustainable consumption**

While people vote in their role as citizens for more quality, this is incoherent with their consumer role. Hivos supports initiatives that help make production chains transparent and help consumers/citizens gain access to information. Hivos believes that national governments should be stimulated to create a facilitating framework for chain-related problems and for corporations to report on their social, gender equality and environmental performance. Hivos also supports consumer organisations in the South who seek to protect the right to information, safety and choice. With the help of its partners, Hivos plans to assume a new role in creating awareness among consumers in the North.

#### **6.5 Corporate social and environmental responsibility**

In Hivos' opinion, the corporate sector's domination of production chains implies a responsibility to promote the well being of all people (stakeholders) affected by the activities of individual corporations and a responsibility to protect the environment. Hivos and its partners will interact with the corporate sector by lobbying corporations to include economic, environmental, gender equality and social considerations into their decision-making. Where feasible, Hivos will seek co-operation with corporate sector entities and encourage them to implement policies that contribute to sustainable development. Hivos supports and encourages partners to engage in a critical dialogue with corporations who engage in non-sustainable activities.

#### **6.6 Influencing governments**

The public sector can play an important role in regulating and stimulating corporate social and environmental responsibility. Corporate responsibility can be influenced via macro-economic policies, trade regimes, the participation of stakeholders and legislation, to name a few. Partners engaging in these processes may be supported via other Hivos sectors as well.

### **7 Sustainable Economic Development interventions and instruments**

Hivos has a series of instruments at its disposal to help implement the strategies described in chapter 6. In an effort to improve the co-ordination of this implementation, the Economy the major part of the Environment sector will be integrated together into a new sector entitled Sustainable Economic Development. The present chapter elaborates on this integration and describes the instruments at the disposal of this new sector.

In the past it has sometimes been difficult to co-ordinate the choice of activities supported within the environment and economy sectors. For example, finance should be provided to producer organisations together with training on how to use resources in a more sustainable manner.

To improve co-ordination and coherency, Hivos has developed a new overall framework for both policy sectors together. Partners with an exclusive environmental focus conserve a visible position in Hivos activities and reporting as they fall under a separate category under the types of organisations supported. The large majority of the environmental partners and all of the economy partners will fall under the new Hivos policy domain of Sustainable Economic Development. This new sector has two major goals; increasing access to resources, and improving the quality of products and production processes.

Considerable efforts will be necessary in order to increase the level of integration of current organisational entities and specialised personnel. To further implement the choices outlined in this policy paper, the partner portfolio will be revisited and reconsidered in light of the new criteria presented. The integration of the three dimensions of sustainable development will be a determining factor when determining which organisations are eligible for contracts within this sector.

The new Sustainable Economic Development sector supports five types of organisations:

**Table 1: Types of organisations supported**

Category	Abbr.	Definition
1. Financial Institutions	FI	
1a. HTF	FI-HTF	The financial institution has a loan, guarantee or participation with HTF
1b. Grant	FI-G	The financial institution receives a specific subsidy from Hivos
1c. Seed capital	FI-SC	The financial institution receives a seed capital subsidy (payments made in series of conditional instalments with intensive controls and assistance)
2. Producing/ processing/ marketing organisations	PPM	Organisations for which the producing, processing or marketing of products is the core business.
3. Service providers market dependent	SMD	Organisations who produce a service which is sold (example of certifying organisation who sells "Fair Trade" label). These organisations count on fee income for at least part of their revenues.
4. Service providers not market dependent	SNMD	Organisations who produce a service which is not sold. These organisations are fully dependent on subsidies to survive. Most of the Hivos partners who provide training fall under this category, as they do not require fee payment from the clients.
5a. Lobby and Networking organisations - other	L&N - O	Organisations with lobby or networking as core business.
5b. Lobby and Networking organisations - environmental movement	L&N - EM	Organisations focussing on the environment, with lobby or networking as core business.

## 7.1 Financial instruments

Different types of organisations require different types of support. In particular, market-based organisations are likely to benefit more from market conform support, whereas organisations that are not market based cannot be expected to receive an income from the market. For this reason, Hivos has developed different instruments for different types of organisations.

### 7.1.1 Market conform funding for market related organisations

The first three types of organisations in table one are market related and should be able to operate in the market. Dependency on donors such as Hivos should be temporary and kept to a minimum.

#### Financial institutions: HTF

The first type of organisation is the financial institution. This type of organisation is eligible for three types of support: a loan or participation from HTF, a grant from Hivos, or a seed capital grant from Hivos. Institutions who have attained a certain level of sustainability, yet are considered too risky by mainstream lenders are eligible for support from HTF. As mentioned in 2.1, Hivos does not provide credit directly to producers. Credit provision occurs via support to MFIs.

#### Financial institutions: Grants

Where needed, Hivos can offer a grant to a financial institution in order to help improve the quality of financial services offered. Subsidies are granted for specific activities, sometimes together with a loan from HTF.

### **Financial institutions: Seed Capital**

Financial institutions that have not yet reached a sufficient level of sustainability to make them eligible for a HTF loan can receive support from Hivos in the form of seed capital. Seed capital consists of a grant delivered in a series of instalments based on conditional targets. The 'seed capital package' can be used for funding (or expanding) the loan portfolio, potentially to be converted in a HTF equity participation, for covering (part of) the investment costs involved in developing a management information system, for marketing studies, towards initial certification or other investments with a low depreciation rate, for compensating (part of) the initial losses as projected in the business plan, or for capacity building, training, and technical assistance.

### **Producing/ processing/ marketing organisations**

Primary producer and processing organisations are usually referred by Hivos to the nearest MFI, however in some cases Hivos may be willing to provide a grant to support changes in the production process to increase sustainability, particularly if this change is expected to lead to a drop in income in the short run. Lack of longer-term credit facilities may also play a role in the assessment.

### **Service providers market dependent**

Other market-based service providers such as certifiers or technical consultants offering business development services are eligible for loans, in most cases via MFIs that HTF supports. In most cases, Hivos asks of service providers that they charge a fee for their services, albeit a small one. This is to ensure that the clients who use their services really have a need for the services. In many cases, the fees charged are insufficient to support the organisation, however the services offered are considered important enough for Hivos that they should also be supported by a grant.

#### **7.1.2 Subsidies for non market-related organisations**

Not all organisations focussing on sustainable development generate marketable products. Organisations with no marketable products include lobby organisations and training organisations that provide their services free of charge, as well as organisations active in research, policy development, advocacy and information provision.

### **Service providers not market dependent**

Service providers, such as certifiers or training organisations, are not market dependent if they do not sell their services. In many cases this is because the target clients are too poor to pay for the services offered by the organisation. Hivos supports their activities through subsidies.

### **Lobby and Networking organisations/ other**

Lobby organisations play a crucial role in supporting or representing beneficiaries and clients, women and men, in their efforts to improve their living conditions or in their conflicts with and claims towards other actors in society. They often work from a broad perspective, linking policy and practice and joining other organisations in information exchange and lobby processes. Hivos supports their activities through subsidies.

Networking and exchange of knowledge, technology and experience is of vital importance for organisations to innovate and learn from each other, and for peer organisations to support and strengthen each other. Hivos will support linking and networking related to quality systems, corporate social and environmental responsibility, financial services, trade, biodiversity, genetically modified organisms (GMOs) and bio-safety, genetic resources, and pollution. Such networks should promote participation, be democratic and diverse, and have clearly defined and shared goals. These networks should also provide leadership, and be responsive to their members. Hivos supports these types of activities through subsidies.

### **Lobby and Networking organisations/ environmental movement**

This is a specific type of lobby and networking organisation. Organisations under this category are environmental movement organisations with lobby or networking as their core business.

## **7.2 Non-financial instruments**

In addition to financial assistance, Hivos strives to support partners through the sharing of knowledge and active participation in policy discussions. In some cases, Hivos may also conduct its own lobby, usually in co-operation with partners.

### **Knowledge sharing at Hivos and with partners**

Hivos has always stimulated and supported partners to share knowledge with each other through workshops and other forms of exchange. In September 2003 a plan was presented at Hivos to stimulate knowledge sharing internally as well as with partners in an increasingly structured manner. Within this plan, the new Sustainable Economic Development sector was selected for a pilot project in knowledge sharing, in which Hivos will develop an information system on access and sustainable development, linked to partners and other relevant knowledge centres. Information will be linked to Hivos' experiences, and links will be made with comparable information systems. Hivos also hopes to link and to colour the information it will make available with the successes, failures and priorities of Hivos and like-minded organisations. This can contribute to turning information into knowledge that can be applied in practice. On a limited scale and directly related to the experience of Hivos and its partners, these will be shared and made available to the public.

### **Lobby and campaigning**

Within the sector Sustainable Economic Development, Hivos will encourage its partners to lobby for policies and agreements on issues that protect small producers from the negative consequences of trade liberalisation, privatisation and protectionism in the North and all other relevant issues linked to activities along production chains. Where lobby and campaigning is of a more general nature, it should be a concern of Hivos' "Civil society building" sectors.

Hivos limits its own engagement in lobby activities to international production chains and generally operates in partnership with like-minded organisations in the North and the South. In co-operation with partners, Hivos is involved in several lobby platforms, such as the Coffee Coalition, the Dutch Corporate Social Responsibility Platform (MVO Platform), the Dutch Micro-Finance Platform and the Gentech Platform.

## **8 Conclusion**

The realities Hivos and its partners deal with are complex and diverse. A certain degree of specialisation has proven to be a condition to become structurally engaged in debates and make an impact at the desired level. Hivos will continue to support a wide variety of organisations active in different fields and along different production chains, but all in the perspective of the objectives and strategies outlined in this document.

## Annex: Sustainable Economic Development Purpose, Goals and Objectives

Purpose	Goals	Objectives
To improve the economic position of poor and marginalised groups in a sustainable way	A. To increase and improve the access to resources leading to sustainable income opportunities	1. Improved access to and/or improved quality of financial services
		2. Improved access to markets
		3. Improves capacities for business and vocational skills
		4. Improved access to technology, market information, and market-related Information and Communication Technologies (ICT's)
		5. Improved access to productive natural resources,
		6. Improved access to benefits of biodiversity and/or improved access to genetic resources
	B. Improve the quality of production processes	7. Increased production and productivity
		8. Increasing the share of added value going to small producers
		9. Maintenance and improvement of production capacity
		10. Increased development and implementation of quality standards
		11. Increased control over resources
		12. Increased control of women (in comparison to control of men) over resources and over the benefits of their productive activities