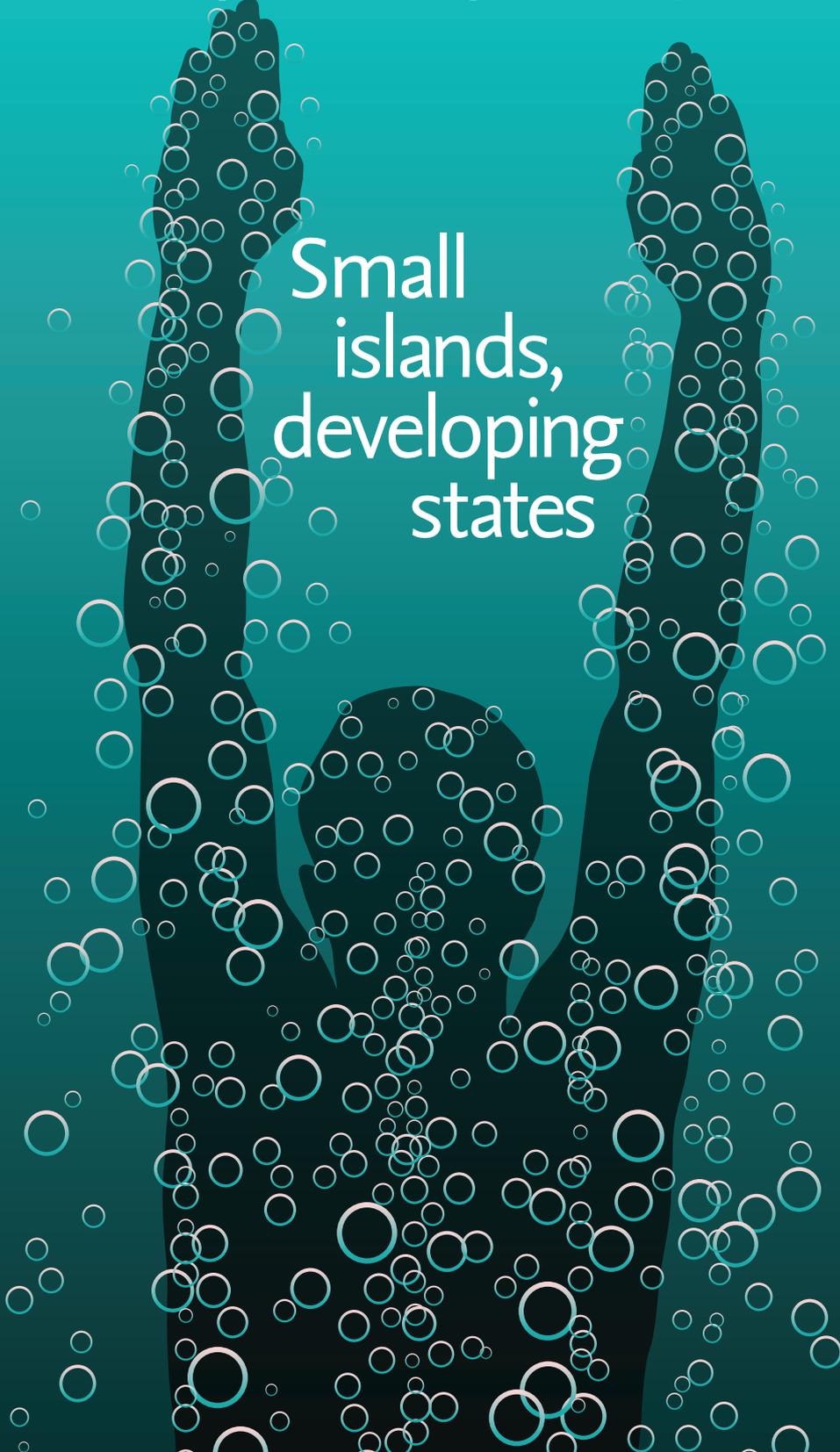


MakingIt

Number 17

Industry for Development

The background features a dark teal gradient. In the center, there are silhouettes of two hands holding a globe. The entire scene is filled with numerous white and light blue circles of varying sizes, resembling bubbles or data points.

Small
islands,
developing
states



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Editorial

The world's 39 small island developing states (SIDS) face a unique set of challenges due to their small size and often remote location. They are also highly vulnerable to climate change and natural disasters.

SIDS tend to have fairly narrow economic bases, limited product and market diversification, low economies of scale and a high dependency on international trade. Yet, while they have many things in common, the standard of living among the islands' populations differs widely, with, for example, the gross domestic product per capita ranging from US\$51,000 in Singapore to US\$830 in the Union of the Comoros.

As a follow-up to the United Nations Third International Conference on Small Island Developing States, held in Samoa in September 2014, this issue of *Making It* takes a look at the SIDS' potential to pursue sustainable economic development through steadily raising economic productivity.

Can the SIDS fully utilize their resources – both physical and cultural – to generate income and employment, while managing their environmental assets and human resources in a sustainable manner? What is the future for their two economic mainstays – fishing and tourism? How can these states address the prospect of the major economic disruptions expected to be associated with the impact of climate change?



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GLOBAL FORUM

The Global Forum section of *Making It* is a space for interaction and discussion, and we welcome reactions and responses from readers about any of the issues raised in the magazine. Letters for publication in *Making It* should be marked 'For publication', and sent either by email to: editor@makingitmagazine.net or by post to: The Editor, *Making It*, Room D2142, UNIDO, PO Box 300, 1400 Vienna, Austria. (Letters/emails may be edited for reasons of space).

LETTERS

Beyond growth-driven development

From peer-to-peer production, to Latin America's Buen Vivir movement, to food sovereignty projects across the global South, initiatives all over the world are transcending linear models of 'development' that prescribe paths of increasing production and consumption for the sake of growing gross domestic product (GDP).

These initiatives show that real development occurs when people have the freedom to build on their existing strengths, unconstrained by pressures to 'grow at all costs'.

The notion that economic growth is purely beneficial to industrialized and industrializing countries is increasingly challenged, even by economists (e.g., Ellie Perkins and Manfred Max-Neef). As Richard Easterlin has shown, GDP growth does not necessarily deliver greater happiness. Beyond a certain point, GDP growth is associated with people working longer hours, spending less time with loved ones and neighbours (resulting in the loss of family and community ties), eating less nutritious diets, exercising less, and suffering the physical and psychological effects of all these lifestyle changes. Well-



Picture: iStock / De Anda Image Design

documented in the global North, these trends need not be replicated to ensure prosperity across the global South.

Moreover, the addiction to economic growth is bumping up against the realities of ecological limits. An economy can never be healthy if it is undermining the integrity of the biosphere on which it depends.

The typical response – that we can decouple economic growth from environmental damage – is fundamentally flawed. While relative decoupling has occurred, decoupling in absolute numbers is unfeasible. Professor Tim Jackson has calculated that, in order to stabilize carbon dioxide emissions by 2050 (at levels considered acceptable by the Intergovernmental Panel on Climate Change), the rate of

technological innovation would have to be 10 times faster than it has been in all of industrial history. In a context of declining non-renewable resources and anticipated increases in the size of our global population, absolute decoupling becomes entirely unrealistic.

The case of London's air quality actually highlights a common misunderstanding about decoupling. London's ability to deal with its smog problem is mostly explained by the international division of labour, rather than technological innovation. Nowadays, most products consumed in the UK are produced overseas, with considerable environmental and social effects where the manufacturing and resource extraction occur, despite strong efforts towards 'clean production'.

A focus on decoupling distracts from the emerging opportunities for prosperity without growth. The United Nations Secretary-General, for example, has endorsed Gross National Happiness as a way of measuring economic success. In this light, we suggest the UN Industrial Development Organization (UNIDO) help pave the way by changing its goal from "achieving inclusive and sustainable industrial development" to "achieving inclusive and sustainable well-being for all".

● **The Post Growth Institute, by email**

Divert fossil fuel subsidies

Assaad Razzouk's "Where's the money?" (*Making It*, issue #16) is a great article. Yet, what do you think of the potential to divert the substantial resources used to subsidize fossil fuels (and that often fail to benefit the lower-income households) to climate financing? As fossil fuel subsidies (in the form of consumer and producer subsidies – obviously not those that are directed to R&D or at making generation equipment more efficient) generally serve to aggravate emissions, their reform would already be desirable from a climate change perspective. As they also make up an enormous amount of government spending, their reform would free up a huge amount of money that could then be spent on climate change mitigation and adaptation.

Although those with vested interests in the fossil fuel industry would definitely lobby against reform efforts, there seems to be an increasing awareness regarding the ineffectiveness and harmful effects of fossil fuel subsidies (see reform efforts in Morocco, Iran, etc). What do you think?

● **Laurie van der Burg, website comment**

I couldn't agree more. As I have written elsewhere, "governments should lighten the load on citizens' wallets by phasing out fossil fuel



For further discussion of the issues raised in *Making It*, please visit the magazine website at www.makingitmagazine.net and the social networking Facebook site. Readers are encouraged to surf on over to these sites to join in the online discussion and debate about industry for development.



subsidies. Tax payers worldwide pay for climate change twice, once by subsidizing dirty fuels to the tune of US\$1.9trn per year (the conservative estimate from the IMF), then again by footing the bill for extreme weather events, floods and droughts fuelled by a changing climate. Releasing some US\$2trn per year of funding is likely to go most of the way, if not all the way, in paying for solutions to climate change and for adaptation strategies.”

● **Assad Razzouk, website comment**

Manufactured change?

I’m rather sceptical about Peter Marsh’s “fifth new

industrial revolution” (*Making It*, issue #15). His elements that power the latest industrial revolution seem to be mainly about niche markets, clusters, networking, and greater participation of emerging economies. Hardly comparable to major shifts in development which saw the creation of factories, transport, electricity and computers!

He argues, “For those developing economies that in recent years have been starting to catch up with the lifestyles and standards of living seen in the well-off, Western nations, the period of change could well accelerate the advances.” This assumes continued growth of the emerging

economies on the scale they have enjoyed over the past period, which has already started to slow down.

The Organization for Economic Co-operation and Development, amongst its predictions for the world economy until 2060 (OECD Economic Policy Papers, “Policy challenges for the next 50 years”), says that growth will slow to two-thirds of its current rate.

It claims, “In the period to 2060, global growth prospects seem mediocre compared with the past, with GDP in the OECD and the emerging G20-countries likely to grow by 2.7% in 2010-2060, compared to 3.4% in 1996-2010.”

It goes on, “While growth will be more sustained in emerging economies than in the OECD, it will still slow due to a gradual exhaustion of the catch up process and less favourable demographics in almost all countries.”

Marsh picks out some companies in a good position to exploit the processes of change he identifies, and says that companies and countries who pay attention to new technologies, develop new ideas and link up with supply chains and networks will do better than others. That does not seem to be a revolutionary change but just good business sense.

● **Duncan John, website comment**

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Who will lead the green revolution?

Mariana Mazzucato on how the state can act as a force for innovation and change.

Green entrepreneurship – what every policymaker today seems to want to encourage – is not (just) about start-ups, venture capital and ‘garage tinkers’. It is about the willingness and ability of economic agents to take on risk and uncertainty: what is genuinely unknown. Most of the radical, revolutionary innovations that have fuelled the dynamics of capitalism – from railroads to the Internet, to modern-day nanotechnology and pharmaceuticals – trace the most courageous, early and capital-intensive ‘entrepreneurial’ investments back to the state. Such radical innovations did not exist before the state envisaged and developed them. Consequently, *markets* for these new products or services had also to be *created and shaped* by the ‘visible hand’ of the state. The state can act as a force for innovation and change, not only de-risking the economic landscape for risk-averse private actors, but also boldly leading the way, with a clear and courageous vision. This is exactly the opposite image of the state that is usually sold: the state is usually cast as inertial – necessary for the basics, but too large and heavy to be the dynamic engine.

However, across the globe the countries that are leading in green transformations are precisely those where the state plays an active role. Historically, it was state funding and the work of particular state agencies

that provided the initial push, early stage, high-risk funding and institutional environment that could establish important green technologies such as wind turbines and solar PV panels. Currently, it is also state funding, particularly through development banks, which is promoting the diffusion of those green energy technologies, and this highlights the fact that states have a role to play throughout the entire innovation chain and not just in public good areas such as research and development (R&D). Therefore, the public sector organizations involved are not just creating the right horizontal conditions for private sector entrepreneurs: they are ‘directing’ their finance towards the most innovative, risky, and uncertain parts of the green economy.

Need for patient capital

Advanced clean technologies, like all radical technologies, have many hurdles to clear. Some hurdles may relate to technical development, others are due to market conditions or competition. Given these

“When organized effectively, the state’s visible hand is firm but not heavy, providing the vision and the dynamic push to make things happen that otherwise would not have.”

challenges, the long-term financial risk of supporting a firm until it can mass produce, capture market share and reach economies of scale, driving down unit costs, is huge. In the innovation game, it is therefore crucial that finance be patient, and be able to accept the fact that innovation is highly uncertain and takes a long time.

The most visible patient capital made available to renewable technology manufacturers and developers has been delivered through national and multilateral development banks. The role and scope of development banks is more diverse than simply financing projects. These institutions differ from private banks because they are able to take more risk associated with political, economic and technological aspects, and can bear the long time needed for risky and uncertain projects to mature. Furthermore, development banks can set conditions for access to their capital in an effort to maximize economic or social value to their home country. Most development banks deliberately seek to invest in areas that have high social value, and are willing to make risky loans that the commercial sector would shy away from.

Development banks are flexible financiers, and can provide significant capital to renewable energy projects, which can represent as great an investment risk as the development of new technologies. Given the amount of financial resources in their possession, their investment decisions play an important role in economic development trajectories. In this sense, it came as good news that in 2013 some development banks (such the World Bank and the European Investment Bank) decided to curtail funding for coal power. And, in recent years, development banks have been a key source of funding for clean energy projects, committing more than US\$100bn in 2012.

Mariana Mazzucato's *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* was named one of the 'Books of the Year 2013' by *The Financial Times*.

Follow the leader

The green energy industry is still in its early stages. Even though some renewable energy technologies, such as wind and solar power, received a big push in the 1970s (due to the energy crisis), they are still characterized by market and technological uncertainty. They will not develop 'naturally' through market forces, in part because of embedded energy infrastructure, but also because of a failure of markets to value sustainability or to punish waste and pollution. In the face of such uncertainty, the business sector will not enter until the riskiest and most capital-intensive investments have been made, or until there are coherent and systematic policy signals in place. In a recent interview, Microsoft founder Bill Gates, one of the principals of the American Energy Innovation Council (AEIC), recognized that "a key element to get an energy breakthrough is more basic research. And that requires the government to take the lead. Only when that research is pointing towards a product then we can expect the private sector to kick in."

As in the early stages of IT, biotech and nanotech industries, there is little indication that the business sector alone will enter the new 'green' sector and drive it forward in the absence of strong and active government policy. Indeed, the Climate Policy Initiative reports that in 2012 institutional investors, including insurance companies, pension funds, foundations and endowments, contributed only US\$0.4bn to climate change mitigation and adaptation projects (a minimal figure considering the US\$70trn in assets that they manage). Meanwhile, venture capital, private equity and infrastructure funds invested only US\$1.1bn. Thus, while 'nudging' might incentivize a few entrepreneurs to act, most business actors will need stronger



Photo: Mariana Mazzucato

signals to justify their engagement in clean technology innovation. Only long-term policy decisions can reduce the uncertainty of transforming core business from legacy into clean technologies. In fact, no other high-tech industry has been created or transformed with a 'nudge'. Most likely, a strong state-led 'push' is needed. Thus, rather than relying on the false dream that markets will run the world optimally for us 'if only we just leave them alone', policymakers must learn how to efficiently use the tools and means to shape and create markets – making things happen that otherwise would not. And making sure those

things are things we need. Increasingly this requires growth to be not only smart but also inclusive and sustainable.

It is of course important not to romanticize the state's capacity. The state can leverage a massive national social network of knowledge and business acumen, but we must make sure its power is controlled and directed through a variety of accountability measures and diverse democratic processes. However, when organized effectively, the state's visible hand is firm but not heavy, providing the vision and the dynamic push to make things happen that otherwise would not have. Such actions are meant to increase the courage of private business. This requires understanding the state as neither a 'meddler' nor a simple 'facilitator' of economic growth. It is a key partner of the private sector – and often a more daring one, willing to take the risks that business won't. The state is thus the iron horse of the green revolution: the speed and direction of change will crucially depend on it.

Mariana Mazzucato holds the RM Phillips chair in the Economics of Innovation at the Science Policy Research Unit at the University of Sussex. Between 2009-2012, she directed a three-year European Commission-funded project on **finance and innovation. Her current project on financing innovation is funded by the Institute for New Economic Thinking. She advises the UK government and the European Commission on innovation-led growth.**

HOT TOPIC

Is fair trade fair?

Fair trade is a trading partnership that aims to help producers in developing countries to achieve better trading conditions. It sets out to ensure that trading practices are fair, both in terms of payment and prices, and to ensure safe working conditions. The basic idea is that everyone in the chain, from producer to consumer, gets a fair deal as part of a product. But not everyone is convinced that fair trade works.

The fair trade scandal: marketing poverty to benefit the rich

Ndongo Samba Sylla argues that the Fairtrade International federation excludes those who need fair trade the most and that its benefits are essentially captured by the wealthiest groups in the supply chain.

The unequal distribution of the gains of Fairtrade (FT) derives in a large part from the characteristics of certification. The certification system presents a two-fold bias against the poorest developing countries. First, there are considerations related to the costs of certification. These being the same everywhere, they are relatively more expensive for the most disadvantaged countries, all other things being equal.

Then, due to its sliding-scale price structure, certification is less costly for large producer organizations than for smaller ones. Finally, the cost of compliance with FT standards (changes in agricultural and administrative practices that often lead to an increase in working hours) is higher for small organizations due to their lower productivity and lower economies of scale.



**Organic coffee
grown in the
Bolaven Plateau
region, Champasak
Province, Laos PDR.**

FT-certified articles tend to be based on products usually exported by Latin American countries. Coffee represents 36% of certification demand. Tea (9.3%), fresh fruit and vegetables (9.1%) and bananas (8%) complete the list of top certified products in 2009. One out of two FT-certified products is either coffee, bananas or cocoa. In terms of export revenue, coffee is also the most sold FT product, at 47%, followed by bananas at 18.8%. Coffee and bananas account for two-thirds of export revenue generated by FT. Yet, Latin America accounts for 263 out of the 317 coffee certifications granted in 2009 (or 83% of certifications) and 70 out of the 71 banana certifications.

Latin America enjoys a double benefit compared with Africa and Asia, namely that certification is less costly in its case and FT markets are dominated by its main exports. The result of this bias is that Latin America accounts for 56% of effective certification demand against 29% for Africa, 14% for Asia and 1% for Oceania. Though Latin American countries are no doubt among the most unequal in the world, they are certainly not among the poorest. Mexico is the first country where FT was tried out. Yet this Organization for Economic Co-operation and Development member state accounts for nearly a quarter of the GDP of Latin America and the Caribbean. Its GDP is actually higher than that of the whole of sub-Saharan Africa. Seen from this angle, it would seem that the FT system was biased right from the start.

FT no doubt helps poor and vulnerable producers, but it certainly is not at the service of the poorest. Effective certification demand is positively correlated to country income. Countries ranked by the World Bank as upper middle-income account for 54% of producer organizations having received FT certification against 21% in ►



Photo: istock/PeptideVoyage

HOT TOPIC

► the case of low-income countries. As for least developed countries (LDCs), they only account for 13.5% of effective certification demand. Whatever definition of poverty and economic vulnerability is used, the conclusion is the same: FT tends to exclude the poorest countries.

Some argue that in rich countries, such as Mexico, there are huge social and economic inequalities as a result of which some populations find themselves in a situation of extreme poverty. This is undeniable, but not convincing. First, this argument does not explain why within these inegalitarian countries, the least poor groups are generally selected by FT.

Then, the criterion used to justify which nations deserve to enter the FT system is contradictory. France, for example, is a very rich country. Yet it has many poor workers and farmers. So why not promote FT in France, as some have argued, or in the US or UK? FT protagonists will argue that these countries can tackle their own problems, as they have the means to do so. But this is also the case of Mexico and of the richest developing countries. Better still, differences in income between France and Mexico are much less pronounced than between Mexico and LDCs. If we choose to favour Mexico over France based on the need criterion, the same logic should mean favouring the poorest countries at the expense of wealthier developing countries.

Some countries are highly dependent upon the export of a limited number of primary products. The slightest price variation can have a significant impact on their economies. Within the FT system, dependent countries are under-represented, whereas those countries with the most diversified exports are overrepresented.

Let us take the case of coffee, a product with a major distributive advantage, as it is mostly produced by small producer organizations. Ethiopia and Burundi are among the countries most dependent on coffee. Coffee accounts for 34% and 26% of their export revenue, respectively. For both these countries, only three FT coffee certifications were issued in 2009. In contrast, Mexico and Peru received 42 and 57 certifications, respectively, which represents nearly 31% of the effective certification demand for coffee. Yet these two economies are relatively diversified and, at any rate, coffee exports account for less than 2% of their export revenue.

In Latin America, Honduras and Nicaragua are two countries relying greatly on coffee. In relative terms, their dependency on coffee is at least 10 times higher than that of Mexico and Peru. But their share of certification demand is lower. FT bananas, cocoa and cotton follow a similar narrative. The countries most dependent on these products are underrepresented in the FT system. Among flagship products, only FT tea seems to be an exception. Yet, one of its specificities (as for bananas, flowers and plants, fruit and vegetables) is that it is produced primarily by male and female wage workers in plantations.

“Fairtrade no doubt helps poor and vulnerable producers, but it certainly is not at the service of the poorest.”



This exclusion of LDCs and other vulnerable developing countries is not the result of a deliberate choice by FT labelling initiatives. Indeed, the movement especially seeks to help those that already are on its “path”, in other words, producer organizations showing a development potential and organizational predispositions.

The path taken by FT is much too narrow for poor countries to tread. FT chose to specialize in the trade of agricultural products. It is true that LDCs are generally countries where the labour



Photo: Maxhavel

force is primarily employed in agriculture. The problem is, however, that LDCs are often dependent to a greater extent on the export of non-agricultural primary products. The UN trade body, UNCTAD, only ranks 11 out of a total of 49 countries as exporters of agricultural products (over half of export revenue). To make matters more complex, most LDCs are net importers of food products. With the exception of three countries, all LDCs are part of the FT category defined by the UN's FAO as low-income food-deficit countries.

Therefore, FT tends to mostly benefit Latin American countries because this region is a net exporter of agricultural products. Argentina, for instance, draws half of its export revenue from agricultural products. To put things differently, agriculture in Latin America is mostly focused on exports, whereas for African and Asian LDCs, agriculture serves a subsistence purpose.

In a sense, the "mistake" made by founders of FT and of the movement that they helped to establish was to believe that what applied to the Latin American context

could also work in other developing regions. If FT had been born in the African context, it would probably have had a greater focus on mining or petroleum products. Likewise, if it had been inspired in Asia, it would probably have been more specialized in the trade of textile products and clothing.

It seems in reality that international trade is all about "clubs": all other things being equal, the rich trade more with other rich than with the poor. This is justified by their different levels of development. Evidence of this is that, outside of all plutocratic logic, it is difficult to identify a consistent pattern to the expansion of FT certification in some areas of the globe. In sub-Saharan Africa, the country with the richest economy (in GDP terms), South Africa, tops FT certification demand with 54 out of a total of 260 in 2009. Its two major FT products are fresh fruit and vegetables, and wine grapes, products that are not part of the country's top 10 exports. In Asia, India accounted for 56 of the 124 FT certifications that were granted in 2009. Its two major FT products are cotton and tea.

In a nutshell, although low, the gains of FT for the most part go to Latin American countries. In its global operations, FT does not partake in a logic of international redistribution in favour of the poorest countries, or even of dependent countries. In reality, this movement seems to follow a plutocratic logic, in other words, one that serves the government of the rich.

What is striking is that the protagonists and supporters of FT still have not realized this. The funniest part is that these detractors of free trade are usually unaware that each cup of Max Havelaar coffee that is drunk in the world is a tribute paid to the glory of "Mr Market".

This is an edited extract from *The Fair Trade Scandal: Marketing Poverty to Benefit the Rich* by Ndongo Samba Sylla, published by Pluto Press.

HOT TOPIC

Strengthening farmers' and workers' position in an imperfect trade system

Larry Attipoe, International Development Director of Fairtrade International, responds to *The Fair Trade Scandal*

The recently published book, *The Fair Trade Scandal: Marketing Poverty to Benefit the Rich*, by Ndongo S. Sylla, provides an intellectual critique of the Fair Trade movement, its aims and impact. As the leading global Fair Trade organization and the label most frequently cited by Mr Sylla, Fairtrade International welcomes the opportunity to respond to this critique.

Fairtrade International ('Fairtrade') welcomes constructive criticism, which we use to continually strengthen our system and approach. However, we believe the core of Sylla's critique is based on unrealistic expectations about what Fairtrade can and should aim to accomplish.

Sylla criticizes the ways in which Fairtrade has not broken free of the conventional 'neoliberal' trade system. He argues that Fairtrade is a "new iteration of the free market rationale", rather than an alternative to the market economy. This is in part true; in order to facilitate better deals for farmers and workers, Fairtrade has to function within the existing market structures.

Therefore some elements Sylla critiques are factors outside of Fairtrade's control. For example, he believes producers should

earn a higher percentage of the final consumer price. We would support this, but Fairtrade cannot legally dictate retail prices. Instead, what we check is that producers earn a fairer price for their products at origin, regardless of the final price to consumers.

Sylla criticizes the dominance of Latin America in Fairtrade over Africa or Asia. In fact, the number of African producers in Fairtrade has grown in recent years, and now six in ten of all Fairtrade farmers and workers are based in Africa. Ethiopia may only have five Fairtrade coffee cooperatives, but these are large

"Fairtrade aims to challenge the imbalance in global trade by strengthening the position of farmers and workers."

cooperatives that together represent over 100,000 farmers.

Nevertheless, the Latin American farmers in Fairtrade do have on average larger plots, and produce and sell more on Fairtrade terms than their African counterparts. Overcoming Africa's historic exclusion from world trade markets is a long and slow process, but one in which we are actively engaged – and it is the producer-owned Fairtrade Africa leading much of this work. Meanwhile, Latin American farmers need Fairtrade, too. There are huge disparities of wealth in many Latin American countries, as in African ones, and rural farmers and farmworkers are among the most marginalized.

Other aspects of Sylla's critique are deliberate choices we have made to drive wider change and impact. Sylla challenges Fairtrade's decision to work with large retailers and companies, while at the same time saying that farmers need to increase sales on Fairtrade terms. It is precisely for this reason that we are working with a wide variety of businesses – from small shops to large, mainstream brands. Large-scale commitments and global partnerships mean that we can reach many more farmers, workers and consumers, raise public recognition and ultimately increase demand for Fairtrade certified products. Our approach is to engage with companies to change trade from the inside.

Sylla also criticises Fairtrade's relatively small impact on global poverty. However, Fairtrade does not claim our approach will lift entire countries out of poverty or address poverty everywhere it exists. Our work specifically targets small-scale farmers and workers to support them as they improve their livelihoods and strengthen their communities. In this, a growing body of research points to the very real impact Fairtrade is having for over 1.4 million farmers and workers worldwide.

Yembi Kabre, CEO, and Sabine Sié, General Manager, of the Fairtrade-certified cooperative, CAPEDIG, in Côte d'Ivoire, examine cocoa beans for quality.



Photo: Éric St-Pierre/Fairtrade International

For example, a recent study by the Centre for Evaluation (CEval) associated Fairtrade certification with better livelihoods and increased control over supply chains for small farmers, and better working conditions for plantation workers. This report was based on extensive qualitative and quantitative data analysis through case studies of six different producer organizations.

Ultimately, Fairtrade aims to challenge the imbalance in global trade by strengthening the position of farmers and workers. Our standards are a tool for

community-based development, bringing benefits beyond the Fairtrade minimum price and premium. Supporting producers as they build strong organizations means they are able to reduce costs, provide a structure for crop improvement and joint investment, and negotiate from a position that would otherwise be beyond their reach. Our system embodies this alternate vision with producers as half-owners who hold key roles in our global governance.

Fairtrade is a constantly evolving system doing as much as we can to make

trade fairer. We do not claim to be a perfect solution to the many issues in international trade – but we are a part of the solution. As we have grown, we have strengthened our certification systems, and are confident in the strength of our standards as a tool for producers, traders and companies to create more equitable trade relationships and build the capacity of farmers and workers to manage the rigors of international trade.

We invite everyone interested to learn more about our work at www.fairtrade.net

trends



■ A new report shows that South-South trade in environmental goods and services between developing countries is growing rapidly. *South-South Trade in Renewable Energy – A Trade Flow Analysis of Environmental Goods*, published by the United Nations Environment Programme, shows that the share of developing countries in global

exports of renewable energy goods more than doubled, from 32% in 2004 to 75% in 2011.

While the UNEP report focuses primarily on renewable energy markets, it also points out that there are other growing dynamic markets for environmental goods and services. For instance, water treatment equipment and water supply – valued at US\$ 50bn

globally – present developing economies with a promising growth potential, as well as the opportunity to provide more than 700 million people with access to improved drinking water. Additionally, South-South trade in organic food and beverages – with a global market value of over US\$63bn – is also identified as another growing market, where greater regional

cooperation could help generate additional commercially viable products for export.

■ China is the world's largest greenhouse gas emitter, by far. The country produces more than a quarter of the planet's annual greenhouse gas emissions. China is also the world's manufacturing hub. According to an analysis carried out by *The Carbon Brief*, one reason for the increase in emissions is that China is making more and more of the stuff the rest of the world wants to buy. On the other hand, emissions in places like the

BUSINESS MATTERS

Green economy leaders

The latest *Global Green Economy Index* (GGEI) ranks Germany (perception) and Sweden (performance) as the top countries. Besides performing well on both the economic and environmental areas of the GGEI, these countries have displayed consistent green leadership and received global recognition for it

The GGEI, published by Dual Citizen, a consulting firm based in the United States, measures both the green economic performance of 60 countries and how experts assess that performance. The GGEI performance index uses quantitative and qualitative indicators to measure how well each country performs on four key dimensions: leadership and climate change; efficiency sectors; markets and investment; and the environment and natural capital. The GGEI perception survey collects assessments from expert practitioners on these same four dimensions.

Covered for the first time in the 2014 GGEI, Costa Rica performs extremely well, ranking

third on the performance measure, behind Sweden and Norway, and receiving strong recognition on the perception survey, an impressive result for such a small country.

Many of the fastest growing economies in the world rank poorly on the GGEI performance measure, highlighting an urgent need to reorient their economies to greener growth pathways. These countries are mostly in Africa, the Gulf and South-East Asia.

There are concerning results related to more developed countries as well – notably Australia, Japan, the Netherlands and the United States – where perceptions of their green economic performance dramatically exceed their actual performance on the GGEI.

Despite its leadership in founding the Global Green Growth Institute, South Korea performs poorly, ranked 39th out of 60 on this year's GGEI. Despite better perception results, Japan also performs poorly on the 2014 GGEI, ranked 44th out of 60.



European Union are falling – partly because it is manufacturing less, and importing more.

The simplest way of measuring a country's emissions is to look at how much pollution is released within its borders, which is called territorial emissions. But, according to *The Carbon Brief*, it is also possible to look only at the emissions associated with products that actually stay in a country. These are termed consumption emissions, and this accounting lowers the country's carbon footprint a bit.

In 2012, China emitted about 1.6 billion tonnes of carbon dioxide in the process of making products it exported elsewhere in 2012, about 16% of its total. Arguably, those might be emissions the rest of the world is responsible for.

■ The people most likely to be left behind by development are those facing 'intersecting inequalities', or economic deficits intersecting with discrimination and exclusion on the grounds of identity and locational disadvantage. A new report, *Strengthening social justice*

to address intersecting inequalities post-2015, published by the Overseas Development Institute, considers the experience of seven countries (Brazil, Ecuador, Bolivia, India, Ethiopia, Pakistan and Nepal).

The report shows that key ingredients for addressing intersecting inequalities are: social movements demanding changes in the 'rules of the game'; political trajectories and processes of constitutional change that facilitate and actualize these changes; social guarantees, opportunity enhancements and

developmental affirmative actions as well as specific policies and programmes which show commitment to reduce intersecting inequalities over time.

The post-2015 agenda can help establish global norms which will support and encourage mobilization to tackle intersecting inequalities, including a strong commitment to universal quality basic services, and the development of country-specific frameworks of targets and indicators monitoring intersecting inequalities.



Photo: Interface

Fishing nets into carpets

Global carpet maker, Interface, and biodiversity group, Zoological Society of London (ZSL) have created an inclusive business model that enables impoverished fishing communities in the Philippines to collect damaging, discarded fishing nets from the ocean and shores. The nets are purchased by Italian yarn manufacturer, Aquafil, which recycles them into nylon yarn that is then used by Interface to produce carpet tiles.

The initiative, called Net-Works, began just over two years ago. So far, it has stopped more than 38,600 kilogrammes of discarded fishing nets from becoming pollutants in the ocean, and helped 4,500 villagers in communities in the Philippines to earn supplemental income equal to

84,000 additional meals, said its creators.

In collaboration with ZSL and marine biologist, Dr. Nick Hill, Interface decided to focus the Net-Works pilot programme within the 7,000 Philippine islands, on the Danajon Bank – in one of only six double reefs in the world.

“In an eco-system as delicate as the Danajon Bank,” Hill says, “discarded nets are incredibly destructive. The nets take centuries to degrade, and with a nylon density greater than that of water, the nets lie on the ocean floor where they do untold damage to marine life.”

As well as helping the villagers clean, sort and sell back the waste nets, Interface and the Net-Works partners have established community banking systems for the residents – supporting and strengthening the local economy and providing new financial opportunities for residents.

In 2015, the Net-Works initiative will be launched in the Lake Ossa area of Cameroon, West Africa.

Filipino villagers collecting old fishing nets to sell for recycling into carpet tiles.

Small Island Developing States (SIDS) can be characterized by relatively small land masses, remoteness, livelihood constraints, lack of food security and susceptibility to natural hazards. Their vulnerability to rising sea levels is also high. While the global average of sea level rise is 3.2mm per year, the island of Kosrae, in the Federated States of Micronesia, is experiencing a sea level that is rising at a rate of 10mm per year. The tropical Western Pacific has experienced sea level rise at a rate of 12mm per year between 1993 and 2009 – about four times the global average. Other growing threats to SIDS posed by climate change include increased flooding, shoreline erosion, ocean acidification, warmer sea and land temperature, lack of fresh water and damage to infrastructure from extreme weather events like hurricanes and tsunamis.

Apart from its direct impacts, climate change will have a ripple effect on several socio-economic factors in the SIDS. For example, in small villages in the Caribbean and Pacific regions, the fishing industry plays a significant role. In the Pacific SIDS, where fish account for up to 90% of animal protein in the diet of coastal communities, rising ocean temperatures and acidification are

changing the productivity and distribution of fish, threatening a vital source of food and income for island dwellers.

Because of the lack of diversification and small market size of their economies, the SIDS are vulnerable to fluctuating market prices and devastating weather events, causing further problems to the economy. Tourism represents more than 30% of SIDS' total exports. If the sea level rises by just 50cm, the Caribbean island nation of Grenada, for example, would lose 60% of its beaches, severely damaging its economy.

The way forward

Unfortunately international community negotiations have been slow-moving in the fight to reduce the consequences of climate change, especially in SIDS. One step they should take is to adopt a legally binding agreement that includes clear, achievable targets to reduce greenhouse gas emissions.

States and multilateral development institutions need to develop appropriate growth indicators that take into account climate change, poverty, natural resource depletion, human health and quality of life of SIDS because typical GDP-based indicators do not reflect many of the distinctive features of SIDS economies, such as small market size. Governments also need to drive diversification of sectors and create low-carbon jobs so that their economies are more resilient to climate change. Pacific SIDSs are especially suffering

economically because of 'Dutch disease'. Also known as the natural resource curse, 'Dutch disease' is the apparent relationship between an increase in revenues from natural resources and the resulting strengthening of a country's currency which makes the country's other exports more expensive and its imports cheaper. As a consequence, the country's manufacturing and agriculture sectors become less competitive. It is another problem that governments must work to overcome.

Despite the challenges these small nations have to confront, there is incredible scope for development, particularly in the area of renewable energy. Currently more than 90% of the energy used by SIDS comes from heavy oil imports, imposing a heavy burden on the limited financial resources that are available and pushing electricity prices up. This explains the large percentage of residents in SIDS that do not have access to electricity. For example, 70% of the population in the Pacific Islands live without electricity.

Potential alternative and domestic energy sources include wind, solar, tidal, hydroelectric and geothermal, but SIDS lack both the political will and the significant

Climate change: challenges and opportunities for SIDS

Kaierouann Imarah Radix believes that young people will bear the brunt of the problems caused by climate change and that it will fall to them to find the solutions.

KAIEROUANN IMARAH RADIX is director of Guyana's S4 Foundation, a network of women committed to helping and supporting other women in Guyana. She is also a One Young World Ambassador. One Young World is a UK-based not-for-profit that gathers together the brightest young people from

around the world, empowering them to make lasting connections to create positive change. It stages an annual summit where the most valuable young talent from global and national companies, NGOs, universities and other forward-thinking organizations are joined by world leaders.

investment needed to sustainably fund and develop such projects. Many SIDS also possess a wealth of unexploited natural resources, such as minerals, renewable energy resources and fish stocks. Papua New Guinea has already embarked on exploratory activities for mining of seabed manganese nodules and rare earth elements. Other SIDS should follow suit.

Caribbean SIDS can learn from and emulate Pacific SIDS by moving away from emphasizing small state vulnerabilities and instead pay attention to new strategic regional environmental initiatives, such as SIDS DOCK, which helps SIDS transform their national energy sectors into a catalyst for sustainable economic development. At a state level, there must be proper planning

and management of projects to sustainably build resilience over time in order to make significant gains in mitigation of and adaptation to climate change.

A major cause for concern is the huge financial cost of adaptation to climate change. The capital cost of sea level rise in the Caribbean Community countries (CARICOM) alone is estimated to be US\$187bn by 2080.

Youth action

Young people, not only from SIDS but from all over the world, can be part of the solution in the battle to prevent damage to the environment. I am a member of the Caribbean Youth Environment Network (CYEN), which raises awareness of climate change related issues across the Caribbean. CYEN Guyana helps by doing everything from coastal clean-ups to holding *Young Eco-Change Makers* environmental camps.

I believe that One Young World Ambassadors, SIDS youth and young people all over the world must continue to raise awareness of these issues and make their voices heard as a central part of the negotiations around the United Nations' post-2015 development agenda on climate change.

Photo: Mohamed Abdulla Saifeg



Bob Marley, Jamaican reggae singer-songwriter, musician, and guitarist, who became one of the world's best-selling artists of all time, with sales of more than 75 million albums and singles.

Photo: Chris Walter/urbanimage.tv

Creative industries: a window of opportunity

Keith Nurse explores how the creative industries can be an engine for economic growth and a mechanism for diversifying economies in the Caribbean and beyond.

The creative industries are one of the fastest growing sectors of the world economy. Global trade in creative goods and services was estimated at US\$624bn in 2011 after rebounding from a slump in the aftermath of the global economic crisis and downturn. This growth is also evident in national economies. For example, in the United Kingdom the creative industries gross value-added has grown by 15.6%, compared with 5.4% for the overall economy during the period 2008 to 2012. The impact of the sector on employment is also significant,

with an annual growth rate in 2012 measured at 8%, compared with 0.7% for the UK economy.

In short, in the midst of the worst global economic depression in living memory this sector has outperformed most other sectors. This performance can be attributed to the shift towards a post-industrial economy where personal, recreational, and audio-visual services have expanded as a share of the expenses of the average household and as a share of the economy. Of note is the process of rapid technological change in products, distribution and marketing (e.g. e-books, iTunes, Amazon.com, NetFlix); the increasing commercialization of intellectual

property, particularly copyright; the strong cross-promotional and branding linkages with sectors like tourism (e.g. cultural, heritage and festival tourism); and the convergence of content, media and telecoms (e.g. the Internet, mobile and ecommerce).

At the crossroads

Small Island Developing States (SIDS) are at the crossroads of human cultural interaction. SIDS are plural and hybrid sites for identity formation, intangible heritage and global inter-connectivity from pre-colonial times to the contemporary phase of globalization. In effect, they are hotspots of cultural diversity on account of the penetration levels of global trade, global diasporas,

“The term cultural or creative industries describes the value chain of economic activities of creative enterprises and cultural entrepreneurs, for profit as well as for not-for-profit, in the production, distribution and consumption of products related to multimedia/ film, advertising and communication services, music, theatre, dance, visual arts and crafts, new product design, festivals, cartoons/animation, textiles and fashion, (slow) food as well as other high value-added products which are agribusiness-based.”
(Creative industries for youth: unleashing potential and growth, UNIDO Working Paper, 2013)

global tourism and global media. It is this diversity that makes SIDS an important contributor to world-wide creativity. It is an area of the global economy where SIDS enjoy some comparative advantage in production, but not in the distribution and marketing elements of the value chain, as exemplified by the Caribbean case.

The Caribbean region has produced for decades many globally recognizable artists like Harry Belafonte, Sydney Poitier, Louise Bennett, V.S. Naipaul, Derek Walcott, Wilfredo Lam, Boscoe Holder, Celia Cruz, Wyclef Jean, Juan Luis Guerra, Shaggy, Eddy Grant, Peter Minshall, Oscar de la Renta, Euzhan Palcy, Raoul Peck, Jean-Michel Basquiat, Heather Headley, Nicky Minaj and Rihanna, to name but a few. The most famous of all is Bob Marley whose music catalogue is worth US\$100m and whose estate was estimated at US\$30m at the time of his death. These artists have generated global reach beyond that which the region's size would suggest.

A key growth sector

The creative industries have emerged as a key growth sector in the Caribbean economy through its contribution to gross domestic product (GDP), exports, employment and intellectual property earnings. Caribbean governments and other key stakeholders have recently begun to recognize this potential and are implementing strategic frameworks to capitalize on this opportunity. The Barbados government published a Cultural Industries ►

Photo: Fanpop

Rihanna, Barbadian singer and global pop star, promoted the natural and cultural heritage of Barbados as part of a three-year deal signed with the Barbados Tourism Authority in 2011.



- Development Bill in 2013 that aims to offer a range of tax and fiscal incentives targeted at facilitating growth in the sector. The Trinidad and Tobago government has recently created the Creative Industries Company, which aims to foster investment and allow for trade facilitation.

Figure 1 shows the growth of creative goods exports for the Caribbean Forum sub-group (CARIFORUM) for the period 2002 to 2011. In spite of the significant fluctuations, it shows an upward growth trajectory peaking in 2011, with just over US\$400m in export earnings. The top earning sectors are arts and crafts, printed matter, newspapers and paintings.

The digital and Internet economy

However, when an analysis of the documented economic flows is done, Caribbean countries have a significant and widening deficit in the trade of cultural goods. What this means is that the region imports more merchandise (e.g. CDs, DVDs, books, magazines and paintings) than it exports. This should be of no surprise to anyone familiar with the sector. The region's competitiveness in the creative goods sector is relatively weak due to the decline of manufacturing in sectors like record and book production. The producers in the region did not make the shift to the digital and Internet economy, and so the region has become even more import dependent in the creative goods sector.

It is well recognized that merchandise trade does not accurately reflect total exports for the sector because much of what the region exports escapes capture in the trade statistics. For example, data from trade in services (e.g. fees from live performances, tours, concerts, etc.) and intellectual property (e.g. royalties from designs, authors and composers rights, and digital trade, etc.) are largely undocumented in spite of the fact that these are the areas where the Caribbean has fairly strong export earnings and increasing potential for growth in the new digital and Internet based economy.

The creative or cultural industry sector has experienced some expansion in industrial and export capabilities in the last few decades, in particular with the growth of the festivals sector and the expansion of the music and audio-visual industries. In addition, shifts in the structure and operation of the global economy, for example the negotiated market access in the CARIFORUM-European Union Economic Partnership Agreement, present new opportunities for expansion and diversification. The projections are that the sector can grow multi-fold over the next decade once the required strategic investment, business support and trade facilitation mechanisms are put in place.

What needs to be done

All told, it can be argued that the creative sector makes an important contribution to the Caribbean economy and ranks in the top export earning sectors. As such, for many small developing economies, like those in the Caribbean, with a narrow and declining industrial base, the creative industries are an engine for economic growth and a mechanism for diversifying economies, improving competitiveness and promoting youth entrepreneurship. In this regard, funding new start-up companies and facilitating cluster development in the creative sector are key policy priorities with potentially high returns on investment.

Figure 1: CARIFORUM Creative Industry Exports 2002-2011 (US\$)
Source: UNCTAD, UNCTADstat

*approx US\$m



To achieve these results, the region would be required to shift the industrial paradigm from the stand-alone firm operating in isolation to a context where there is a higher level of collaboration and coordination. For example, there is a clear opportunity for the aggregation of content to take advantage of the expanding digital trade in online, streaming and subscription services. As it now stands, the supply of Caribbean content – whether it

be music, films, visual arts, pictures or books – is highly fragmented and there is no identifiable marketplace to access the content. Maximizing on the opportunities of the digital market is the area of greatest potential. To do so would require an innovation governance framework where the key owners of copyright are working in concert to offer their creative content to a global market.

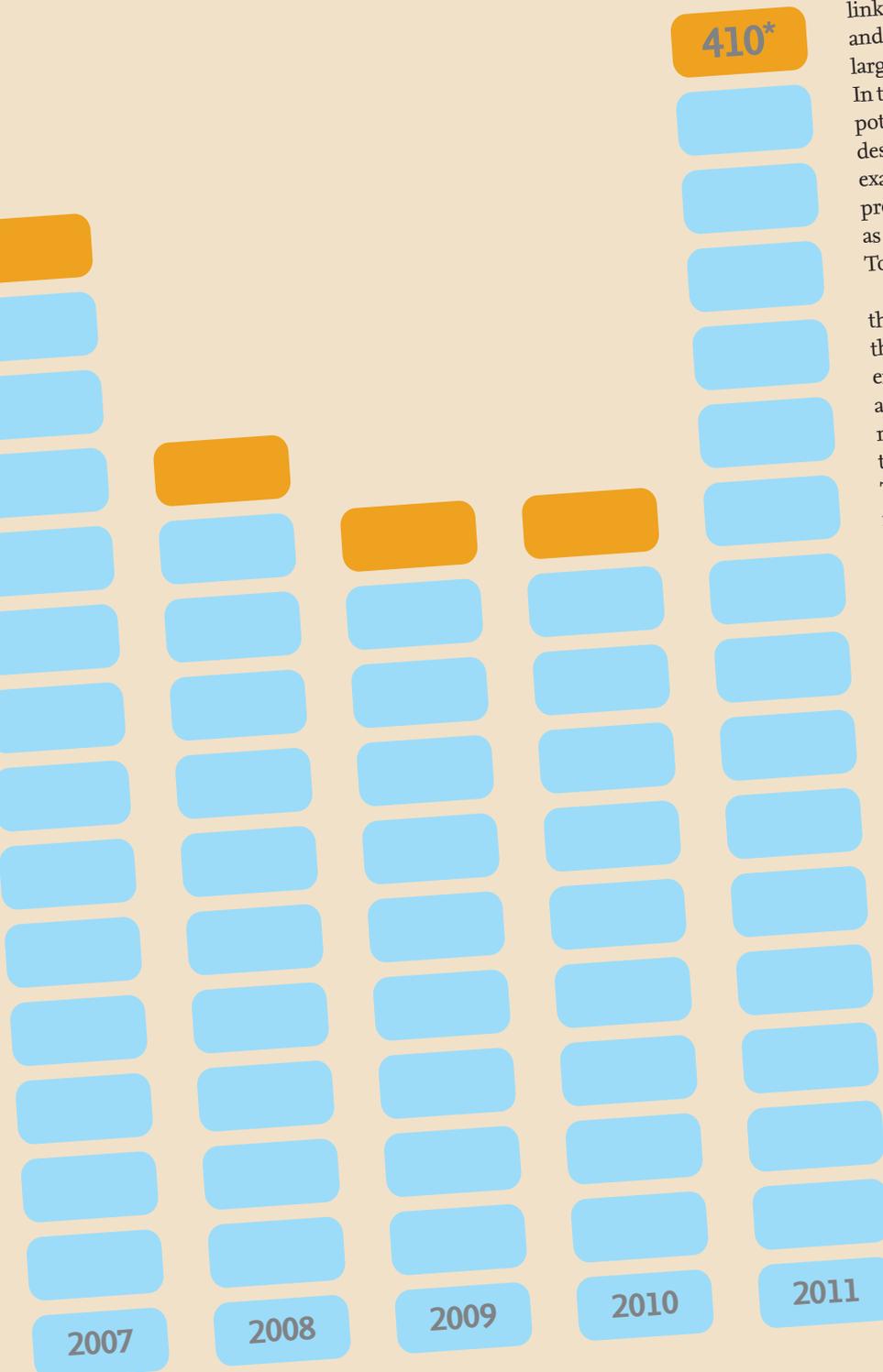
Linkages with tourism

The creative sector has strong cross-promotional linkages with tourism which is the largest global industry and the key driver of the Caribbean economy with the largest share of GDP, export earnings and employment. In this regard one of the key areas where countries have potential for growth is in exploiting the value of destination and intellectual property branding. An example of this is the video campaign where Rihanna promotes the natural and cultural heritage of Barbados as part of a three-year deal signed between the Barbados Tourism Authority and the global pop star in 2011.

Further evidence of the value of the creative sector to the wider economy is exemplified through the ways that the region's major festivals impact on visitor arrivals and expenditure, hotel occupancy rates, car rentals, telecoms and so on. Cultural events also generate significant media impact and destination branding, as illustrated by the market appeal of festivals like the Trinidad and Tobago carnival, the Havana Biennale, Reggae Sunsplash in Jamaica, the St Lucia Jazz festival, the Dominica World Creole Music festival, the Barbados Crop Over festival, the Jonkanoo festival in the Bahamas and the Calabash literary festival in Jamaica.

The case of the Caribbean illustrates that there is a window of opportunity for the SIDS given the rise of the creative economy and the increasing commercialization of the arts. The creative industries offer scope for innovation, economic diversification and global competitiveness since they draw on the creativity and enterprise of local artists and the youth. As such, in the context of rising unemployment among the youth, investing in the creative industries represents a viable option that the SIDS should prioritize. The conclusion is that the cultural industries should be viewed as a critical strategic resource in the move towards creating sustainable development options.

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KEYNOTE

ENHANCING PRODUCTIVE CAPACITIES



While sustainable tourism and fishing are generating revenue in the SIDS, **WU Hongbo** considers new approaches with the potential to increase productive activities. ►

Role-playing during a teacher training workshop in Praia in the Republic of Cabo Verde, part of UNIDO's Entrepreneurship Curriculum Programme. The programme, which is underway in eleven developing countries, supports the development of entrepreneurial attitudes and skills by introducing entrepreneurship as a subject in secondary schools.

Photos: UNIDO

► Productive activities in Small Island Developing States (SIDS) contribute significantly to sustainable development but are limited by the inter-related challenges of the small size of these countries, their remoteness, their vulnerability to external economic shocks, climate change and other environment-related disasters, as well as by social constraints such as unemployment. These constraints have been identified and reiterated in intergovernmental agreements, such as Agenda 21, the Barbados Programme of Action (BPOA), the Mauritius Strategy and, most recently, the SAMOA Pathway, the outcome document of the Third International Conference on SIDS held in Apia, Samoa in September 2014. We need to examine how the SIDS have creatively tackled these constraints.

Enhancing the resilience of SIDS

The 1992 Earth Summit recognized the special vulnerabilities of the SIDS. These vulnerabilities can limit the capacity of SIDS to fully benefit from trade liberalization and globalization, seriously limiting the scope and cost-effectiveness of their productive sectors.

The BPOA of 1994 identified specific actions for the sustainable development of the SIDS, including those to enhance SIDS' resilience in productive activities. However, the subsequent decade saw growing challenges for SIDS, which



WU Hongbo was appointed United Nations Under-Secretary-General for Economic and Social Affairs on 1 August 2012. Prior to this appointment, he served as Ambassador of the People's Republic of China to the Federal Republic of Germany. As head of the UN Department of Economic and Social Affairs, Wu oversees intergovernmental processes, policy analysis and capacity-development work. He also serves as the Convenor of the Executive Committee on Economic and Social Affairs, and advises the UN Secretary-General on all development-related issues, including climate change, internet governance and financing for development. In 2014, Wu served as the Secretary-General of the third International Conference on Small Island Developing States.

were experiencing increased exposure to disasters and to external shocks, while dealing with their unique vulnerabilities.

Productive sectors suffer every time disasters hit SIDS. Measured by the frequency and severity of disasters, SIDS are among the top "hot spots" of the world, with economic losses per disaster often exceeding one percent of gross domestic product (GDP) or more. When disasters hit them, the debt to GDP ratio of SIDS grows by as much as five percentage points.

The Mauritius Strategy for the further implementation of the BPOA, adopted in 2005, set forth actions in 19 priority areas, building on the original 14 thematic areas of BPOA. The new additional thematic areas in the MSI included trade, sustainable production and consumption, and knowledge management, and were intended to support SIDS in enhancing their productive capacities and opportunities to participate in global supply chains. The new SAMOA Pathway calls for support for the efforts of SIDS to build resilience to the impacts of climate change and to improve their adaptive capacity through the design and implementation of climate change adaptation measures appropriate to their respective vulnerabilities and economic, environmental and social situations.

Working with nature

Despite their inherent vulnerabilities and setbacks, SIDS have achieved many successes, in part thanks to their own efforts but also through international cooperation. Take tourism as an example. The number of international tourists visiting SIDS reached over 40 million in 2011, with annual revenue generated by international tourism exceeding US\$38bn. For some of the SIDS, tourism accounts for over 40% of GDP, and 50% to 75% of exports of services. However, given its scale, tourism has the potential to create huge economic and human costs in the long term if not done sustainably. Learning from past mistakes, the governments and the private sector of SIDS have been looking at how to make tourism sustainable as a main revenue-generating productive sector.

This requires ensuring that sustainability is adopted as the primary objective of all sectors of the tourism industry, encouraging responsible practices through voluntary codes of conduct, applying appropriate environmental regulations and management measures, providing appropriate financial incentives such as user fees and tourist taxes, and applying the 'polluter pays' principle. As a result of these measures, more and more SIDS tourism operators are ►

Many Small Island Developing States are developing and implementing policies that promote responsible, responsible and sustainable tourism with positive economic, social and environmental impacts. These include a focus on the development of eco-, agro-, and cultural tourism, and the design and implementation of measures to enhance employment opportunities.



Photo: Jupiterimages/Getty



Photo: ILO in Asia and the Pacific

► promoting sustainable tourism, including eco-tourism or cultural tourism.

Another success story is fisheries. As custodians of marine resources, SIDS communities have taken care of sustainable fisheries, promoting small-scale fisheries and using their fishery resources to develop related industries. To ensure long-term productivity of their fishery industries, SIDS have taken on a disproportionate amount of the burden of conserving fishery resources. To help address this situation, the international community has been pressing forward with partnerships, often led or managed by SIDS. For example, in the Pacific region, the United Nations Industrial Development Organization has been working with the governments of Pacific SIDS, the Secretariat of the Pacific Community, the Pacific Islands Forum Fisheries Agency and other partners, on sustainable management of tuna resources. The partnership aims to promote the adoption of appropriate technology and techniques that allow value addition in tuna resources and enhance the role of small-scale businesses in the value chains.

Promoting new approaches in the productive sector

While these success stories demonstrate the potential of productive activities in various SIDS, how then do we ensure their replication and scaling up across the productive sector in SIDS? The answer, in part, lies in entrepreneurship and innovation, including in the green economy. To ensure “sustained and sustainable inclusive and equitable economic growth with decent work for all,” the SAMOA Pathway seeks to foster entrepreneurship and innovation, including beyond the traditional sectors of fisheries and tourism, and to create local decent jobs through private and public projects. New sectors for entrepreneurship include climate change adaptation and mitigation, disaster risk reduction and renewable energy.

Promoting knowledge, skills, technology, and business support in SIDS will help to foster industry and productive activities. Partnerships play an important role in this. The SAMOA Pathway and the overall theme of the 2014 SIDS Conference stressed partnerships in promoting productive activities in SIDS, within the

Artisan market in Solomon Islands. Fostering entrepreneurship, building capacity and increasing competitiveness can generate decent jobs, partnerships and innovation.



Photo: Ian Lyons/SPREP

Fishermen off the coast of the Pacific island of Nauru. Small-scale reef fishing provides a good part of the nutritional protein that is the bedrock of Nauru's continuing food security.

confines of their inherent vulnerabilities.

In SIDS, land size and population size can make large-scale industries problematic and unsustainable. It may be more appropriate to generate decent work, partnerships, and innovation by fostering entrepreneurship, building capacity and increasing the competitiveness and social entrepreneurship of micro, small and medium-sized enterprises and state-owned enterprises. In this respect, it would also be important to encourage inclusive and sustainable industrial development with the participation of all people, including the poor, women, youth and persons with disabilities. Artisanal and small-scale productive activities of note include eco-tourism operations, artisanal fisheries, community-based off-grid renewable energy projects, and small-scale mining projects.

The fact that SIDS are small and remote also has its benefits, including the existence of strong social ties and close-knit communities, and the preservation of traditional culture. The strong social capital in SIDS should be considered an important asset in any discussion about

increasing productive activities in SIDS. Such discussion must also address the overall social development of SIDS, including enhancing the quality of education, improving public health and reducing the high prevalence of communicable and non-communicable diseases.

Conclusion

Productive activities in SIDS can best contribute to sustainable development by recognizing and strengthening the role that all stakeholders can play in these activities through partnerships. SIDS have strong social capital, which should be harnessed to strengthen productive activities and economic development.

Industries and enterprises in SIDS must take into account the structural dynamics of the SIDS, such as small size and small population, and focus on activities that are best suited for the islands. New investors and partners also should be aware of the diversity of the SIDS, particularly in different regions. Once these factors are adequately addressed, productive activities will truly accelerate the sustainable development of SIDS.

Pacific unity is paying off – in fisheries at least

Island nations in the Pacific have long complained of too many fishing boats in the region catching far fewer fish. Now, writes **Giff Johnson**, unity is shifting control of fisheries to the Pacific islands.

As Pacific islands ratchet up control of fishing in their waters, we've seen a predictable response from distant water fishing nations.

When the Western and Central Pacific Fisheries Commission (also known as the "Tuna Commission") was established by treaty 10 years ago, the Japanese government, despite its active participation in negotiations leading up to the treaty, refused to sign on at the first opportunity. Despite being part of the negotiations, it said it wouldn't back the newly established regional fisheries management organization for the Pacific. Was it unsurprising that a year later, Japan signed on?

The Parties to the Nauru Agreement (PNA), which has set itself up as a fisheries cartel, established a vessel day scheme for selling fishing days, with the goal of limiting the then-uncontrolled level of purse seine fishing to conserve tuna and increase its value. PNA has certainly been successful in the latter (tuna revenue flowing to the eight member nations has risen from US\$60m annually in 2010 to over US\$250m last year), if not as successful at the former.

But when PNA started enforcing the vessel day scheme, most distant water fishing nations balked at accepting it. They had been used to sending fisheries teams to island capitals once a year to negotiate license fees, which historically paid just pennies compared to the profits reaped by the fishing countries. These countries were not about to change a style of operation that had fed their fishing

industries for two generations. Now, with the exception of the European Union, all distant water fishing nations with purse seiners operating in the region are fishing under the vessel day scheme. Shall we take bets on the EU's ultimate acquiescence to the vessel day scheme?

Then there are the Americans, who have enjoyed preferential access to PNA waters since the late 1980s, when a US State Department-backed fishing treaty came into play with all Forum Fisheries Agency islands. The treaty ended years of US-flagged boats fishing without paying, ignoring rules, and generally giving the US a bad name in the region. When the treaty's financial package came up for renegotiation several years ago, the US was paying US\$21m annually. The PNA demanded triple this amount. 'It's too much,' said US negotiators. 'We can't pay it.' Over the ensuing years of negotiation the US side finally agreed to pay US\$63m a year – a deal that went through in 2013. Now PNA has upped the access ante because it is increasing the fishing day fee from US\$6,000 to US\$8,000 come 1 January, 2015. And the US has tentatively agreed to US\$87m a year to secure fishing access for it

vessels. 'Can't afford it?' The better question is, 'do you want to keep fishing?' And the US government and industry clearly know the answer to this question.

With it now having become clear that bigeye tuna are being over-fished, the move for greater control of the longline fishing industry is gaining momentum. Since the 3,000 longliners plying the Pacific generally fish on the high seas, they are more difficult to manage than the purse seiners that fish 'in-zone'. Still, PNA has announced plans to extend a vessel day scheme to longliners to bring it under the control and management of Pacific islands.

As pointed out at a recent fisheries meeting by Phil Roberts, the managing



Photo: © WWF South Pacific

- The Parties to the Nauru Agreement (PNA) brings together eight Pacific Island countries to sustainably manage tuna and increase economic benefits for their peoples. PNA members Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Solomon Islands, and Tuvalu. These countries own waters which supply 25% of the world's tuna, an estimated US\$2bn worth of fish every year.
- Fisheries scientists have recently released new assessments of tuna populations in the western and central Pacific Ocean. The numbers of tuna stock are at a dangerous level and worsening.
- Two of the main commercial tuna fishing techniques are longline fishing and the purse-seine technique.

Longline fishing uses a mainline which can be more than 100 km in length and from which as many as 3,000 branch lines, each with a baited hook, are dangled in the water column. The mainline is kept afloat by a series of buoys attached at intervals. The gear is passive, in that it captures whatever fish happen to take the bait.

Purse-seine nets are set vertically in the water, with floats attached to the upper edge, while along the lower edge is a chain, for weight, and a series of rings, through which the pursing cable passes. The nets can be as long as 1.5km and more than 150m deep. On sighting a school of tuna, a large skiff with the end of the net attached is released from the stern of the fishing vessel. The vessel encircles the school with the net. The cable is hauled aboard the vessel, causing the bottom of the net to close, and the fish are trapped inside the pursed net. Most of the net is then pulled aboard the vessel, confining the fish in a "sack," from which they are transferred to the deck of the vessel.

director of global tuna supply company, Tri-Marine International, "When PNA banned high seas transshipment for purse seiners, there were some gripes. But then everyone started doing in-port transshipment." In-port transshipment meets dual conservation and economic development goals for Pacific islands: it increased the opportunity for monitoring vessel catches, while offering numerous spinoff economic benefits to Pacific ports. One of the key proposals on the table is to halt longliners transshipping on the high seas, which is where virtually all of the distant water

fishing fleet currently off-loads its catches of tuna – a system that is problematic for effective fisheries management and producing accurate stock assessments.

The longline industry of Japan, South Korea, Taiwan and China is not helping matters, either. The fact that these four nations have, since the start of Tuna Commission a decade ago, failed to provide operational catch data that is a requirement of membership appears finally to be coming to a head. The 17-member Forum Fisheries Agency (FFA) issued a strongly worded statement in August 2014 calling for action by these four nations to provide data to reduce gaps in stock assessments. An increasing number of Pacific fisheries officials want the Tuna Commission to sanction these countries

for failure to provide the required data.

History tells us that if island countries stay unified, they can gain control over an industry long dominated by distant water fishing nations. Enforcing 'best practice' management rules is the only way to ensure the future viability of tuna stocks not only for Pacific islanders, who depend on this for food security, government services and jobs, but for the rest of the world that is increasingly dependent on tuna fish as a food source. The fact that distant water fishing nations have had to be forced, sometimes kicking and screaming, by the PNA, FFA and the Tuna Commission to comply with changes to sustain and stabilize the industry, while sharing the benefit with island nations, simply underlines the point that unity works.

The PNA and FFA have proved over the years that there is power in numbers. It's an example of success for the region that could easily be applied to other economic areas, including deep-sea mining.

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Realizing their potential

IPS's **Catherine Wilson** on why youth employment is critical to sustainable development in the Pacific Islands

The size of the youth population in the Pacific Islands is double the global average with 54% aged below 24 years, creating enormous challenges for slow-growing small island economies unable to create jobs fast enough.

Generating employment opportunities for tens of thousands of school leavers is now an urgent issue on the Pacific's post-2015 development agenda. Otherwise a poor landscape of opportunity could jeopardise the potential of a generation whose public and economic participation is vital to progressing sustainable development in the region.

Youth unemployment is estimated at 23% in the Pacific Islands region, rising to 46% in the Solomon Islands and 62% in the Marshall Islands, compared to the global average of 12.6%.

Photo: ILO in Asia and the Pacific



“Youth unemployment in this country is critical and one of our highest priorities,” Jennifer Fruean, chair of the National Youth Council in Samoa, a South Pacific Island developing state located northeast of Fiji, told IPS.

Approximately one quarter of Samoa’s population of 190,372 is employed and economically active and youth account for about half of the remaining unemployed, according to government statistics.

“In the villages, I think that is where most of the youth are static, but there is also a very noticeable shift with urbanization that is causing a number of youth to come to Apia and they are becoming idle,” she continued.

Lack of sufficient job creation is affecting both young people who lack adequate education, as well as those who possess qualifications and experience. The only route for many of the latter is emigration to larger economies, such as New Zealand, Australia and the United States.

With 76% of those with a tertiary education leaving, the country is experiencing a ‘brain drain’ and 44.7% of private sector employers are experiencing skills shortages, reports the International Labour Organization (ILO).

Samoa’s economy, dependent on agriculture, fisheries, tourism and remittances, has been severely impacted in the last 20 years by natural disasters. In 2012, Cyclone Evan devastated infrastructure and crops resulting in economic losses equal to 30% of GDP.

The global financial crisis also led to widespread formal sector job cuts in Samoa with waged employment declining from 28,179 in 2006 to 23,365 in 2011 and private sector jobs falling from 16,921 in 2007 to 12,711 in 2010.

Only one-quarter to one-third of Pacific Islanders finishing school are likely to secure formal sector employment, according to the United Nations Development Programme (UNDP). This leaves a high proportion of an estimated more than 5,000 school leavers each year vulnerable to exclusion in Samoa, where formal sector employment is around 30%.

The social impacts of high teenage pregnancies and a low secondary school completion rate, with an estimated 35% of

this age group in Samoa not in education, are also aggravating factors.

Fruean believes the main reason is the inability of families to pay school fees and suggests the government’s introduction last year of fee-free secondary education will help improve the final year retention rate of 48%.

But there are also questions about the quality and relevance of education for employment demand.

Institutions “are still bringing out lawyers when there is a desperate need here for electricians and plumbers, and at the university they are producing hundreds of students with commerce degrees, but that is a market adequately filled,” Fruean explained.

Somaya Moll, business, investment and technology expert with the United Nations Industrial Development Organisation (UNIDO), advocates private sector development, which “basically enables people to take charge of their own lives [by giving] them the tools to do so.”

“Self-sufficiency, ownership and accountability are important and it is proven to work,” she told IPS during the United Nations Third International Conference on Small Island Developing States recently held in Samoa’s capital, Apia.

The small size of Pacific islands and their populations is a drawback for ‘economies of scale’, keeping costs of production high. But Moll said introducing entrepreneurship awareness into school curriculums and encouraging financial institutions to consider the creditworthiness of young people could improve the business environment.

The informal economy, which accounts for up to 70% of economic activity in the Pacific Islands and Caribbean regions, is a potential growth area, say regional experts.

“It has always been an important source of sustainability [in the Caribbean],” Dessima Williams from Grenada and Senior Policy Advisor for UNIDO said during an interview at the UN SIDS conference.

“And what has happened recently is that, as the formal sector has crashed, more and

more other people are entering the informal sector”, as are “young people coming out of college who are finding no jobs in the formal sector,” Williams added.

Fruean sees the same potential in Samoa where two-thirds of young people are making a living through informal activities.

“There is so much potential in the informal and agricultural sectors and we encourage the unemployed youth to become economically active in these sectors”, for example, through organic farming or creative production. The cultural and creative industries in the Pacific are reportedly growing at about 7% per year.

Also “the solution of co-operatives is coming back because the cost of production is so high. A lot of young people [in the Caribbean] are producing music all together, or somebody is writing it and somebody is mixing it, so it is sustainable,” Williams said.

But if the informal sector is to play a role in sustainable and decent job creation, training, skills, working conditions, value addition and production standards need to be improved, she continued. Low-productivity subsistence activities also need to be up-scaled and developed, with greater market orientation and potential for export being explored, where feasible. In the agricultural sector alone, which accounts for two-thirds of the workforce, only one quarter of production is for the market, with the remainder for domestic consumption.

Many young people in the informal sector don’t have experience of budgeting and managing their money, and this is an important area of awareness that needs to be addressed, too, according to the Samoan National Youth Council.

Efforts to galvanize the potential of Pacific Islander youth must be expanded to prevent increased poverty and inequality in the next generation and the social fallout of disaffection when aspirations for productive lives are not fulfilled.

● Inter Press Service – IPS is an international communication institution with a global news agency at its core, raising the voices of the South and civil society on issues of development, globalization, human rights and the environment

Opposite page:
Students at the University of the South Pacific, Suva, Fiji.



Tourist-rich small island

Aruba is a small Caribbean island of just 193 sq. km located 30 km north of Venezuela. A former Dutch colony, in January 1986 Aruba gained *status aparte*, removing itself from the Federation of the Netherlands Antilles. It gained autonomy over its internal affairs, but remained part of the Kingdom of the Netherlands. Commercial and economic matters are handled by the national government, while the Netherlands retains political control over Aruba's diplomatic relations and defence.

Aruba has a small and open economy. The island possesses few natural resources and is heavily dependent on imports, including food and manufactures. Its main industries are tourism, offshore financial services, and transport (mainly shipping). Until recently, the economy also relied heavily on a major oil refinery but it closed in 2012. Tourism grew rapidly from the early 1990s and, as a consequence, tourism-related industries – particularly construction – boomed, contributing to

strong economic growth and to a low unemployment rate. Over 80% of the economy depends directly or indirectly on tourism, making Aruba the second highest tourism-dependent country in the world.

The global financial crisis in 2009 and the shutdowns of Aruba's oil refinery temporarily in 2010 and more permanently in 2012 led to an economic contraction but the economy grew again in 2013. The recovery was backed by a strong growth in the tourism sector, and in 2014 the economy



At a glance

Head of state: King Willem-Alexander of the Netherlands, represented by a governor.

National government: Arubaanse Volkspartij (AVP) – 13 seats. **Opposition parties:** Movimiento Electoral di Pueblo (MEP) – seven seats; Partido Democracia Real (PDR) – one seat.

Population: 110,000.

Number of cruise ship passengers visiting in 2013: 688,588

Number of stopover tourist arrivals in 2013: 979,256

Percentage of stopover tourist arrivals from the United States in 2013: 57

The solar park at the Reina Beatrix International Airport in Oranjestad is the largest solar energy source in the Caribbean.





with big energy strategy

has continued to be supported by a steady upswing in tourism and tourism-related investment. Economic output could be boosted sharply again if efforts to partially restart the oil refinery are successful.

The incumbent prime minister, Michiel Eman of the Arubaanse Volkspartij, is serving a second consecutive four-year term that will run until September 2017. The government holds 13 of the 21 seats in the legislature. Its greatest challenges remain improving the island's volatile economic performance and stimulating employment growth.

Economic policy is simultaneously focused on stimulating tourism growth, with projects to boost investment in this sector, and on economic diversification to achieve sustainable growth and to reduce the risks caused by Aruba's great dependence on tourism. The authorities are pursuing a new growth pillar anchored around the renewable energy sector and the promotion of knowledge- and technology-intensive industries. Taking advantage of Aruba's location and abundant solar and wind resources, the government has a strategy aiming to make Aruba more dependent on renewable energy; to turn it into a gateway between South America, the United States and Europe for commerce and investment, and to establish research laboratories.

The Prime Minister has pledged that the government will seek a transition to 100% renewable energy sources by 2020. In recent years Aruba invested US\$300m to build a 20-turbine wind farm rated at 30 mw that meets 20% of the island's power needs. It replaced its old electric turbines with more efficient models, and is building a solar panel park. Between 2006 and 2013 Aruba reduced its imports of heavy fuel oil from 3,000 barrels per day to 1,700 barrels, saving some US\$50m a year. The

“Economic policy is simultaneously focused on stimulating tourism growth, with projects to boost investment in this sector, and on economic diversification to achieve sustainable growth and to reduce the risks caused by Aruba's great dependence on tourism.”

construction of a second wind park due for completion in 2016 will mean renewables will provide half of the island's energy needs.

In April 2014, the government signed a partnership agreement with the international lighting company, Royal Philips, to revamp the island's entire public lighting system by completing an in-depth assessment and providing solutions for public buildings and outdoor lighting systems. As part of the agreement, public buildings will be retrofitted with LED lighting to realize the benefits of energy efficiency. Philips will design a tailored solution for outdoor living that allows Aruba to maximize energy efficiency and improve current lighting levels to international standards. Philips estimates sustainable lighting could result in initial energy savings of 50-80% and lower annual CO2 emissions by 3,000 – 4,000 tons.

To demonstrate its commitment to the development of sustainable tourism, the authorities have entered into an agreement with the KLM airline to demonstrate the viability of aviation biofuel. For six months from May 2014, 20 KLM flights between Amsterdam and Aruba and the neighbouring island of Bonaire will be powered by biofuel. The airline declared that the flights represent an important step towards proving that more sustainable aviation is possible.



Interview with Prime Minister MICHEL EMAN

A 'green gateway' between Latin America and Europe

How is Aruba transforming its economy from one that for most of the last 100 years has been heavily dependent on oil refining and, more recently, tourism, to one that is more diversified and more sustainable?

The economy of Aruba is 70% dependent on the tourism industry. Diversifying the economy and reducing Aruba's reliance on a single sector is integral to the government's long term strategic goals. Aruba is developing a new pillar of the economy – a knowledge economy – to bring greater diversification, economic stability, growth and sustainability. This important new pillar is based on Aruba's initiative to develop the island as a "Green Gateway" between Latin America and the European Union in the areas of green technology, business support services and creative industries.

Aruba is making use of its proximity to Latin America and its knowledge of not only the language (Arubans speak Spanish, in addition to Dutch, English and Papiamentu) but of business practices and customs in the region. As a member of the Kingdom of the Netherlands, Aruba also is relying on its

MICHEL (MIKE) EMAN is the fifth Prime Minister of Aruba and the current leader of the Aruban People's Party (Arubaanse Volkspartij, AVP). He is serving a second consecutive four-year term as prime minister that will run until September 2017. In 1992, he graduated with a degree in Netherlands

Antilles Law at the University of the Netherlands Antilles. From 1992 to 2001, Eman worked as a deputy civil law notary and was co-founder of several companies and foundations for political studies. He entered politics as a candidate for the AVP in 2001 and was elected as leader of the party in 2003.

privileged legal and constitutional status as a member of this major trading country within the European Union. And we are refocusing on our historically close ties to the United States as well. Exceptional US companies, such as Hyatt and Marriott, have invested in Aruba, and we want to attract equally stellar US companies in other sectors to invest in Aruba and to use Aruba as regional hub for green energy services and products.

In addition, Aruba has established a collaborative public-private-academic entity as a centre of excellence for tourism in Aruba with the support of internationally renowned tourism education institutes in Europe and the Americas, as well as local Aruban institutions. Finally, Aruba will be developing highly skilled jobs as it transitions to renewable energy **How successful has the Green Gateway economic vision and policy for a knowledge-driven, entrepreneurial economy been, so far?**

Aruba is off to a very strong start. In a few short years, we have become recognized as a leader in the region for our efforts to promote sustainable prosperity and a knowledge-based economy.

Two Dutch organizations have already established branch offices in Aruba and are contributing to our knowledge-based economy. TNO is a leading scientific research organization, and is not only working in Aruba, but is also using our island as a regional hub to expand its research and services in the area of renewable energy. The Gerrit Rietveld Academie, one of the top Dutch universities

of applied sciences for fine arts and design, has also established a presence in Aruba.

Schiphol International B.V. is managing the Aruba Airport Authority N.V. KLM is using Aruba as a hub for the region, and it has already made its first flight using biofuel to Aruba. Royal Philips is partnering with the government of Aruba to revamp the entire public lighting system in Aruba and retrofit all public building lights to LED. Several other international companies are actively considering Aruba as a site for regional expansion.

What is the Smart Island Strategy, and how does Aruba plan to transform from the current energy mix to one that is 100% reliant on renewable energy by 2020?

Aruba views prosperity as not only material success but also as the quality of our lives and the health and happiness of our families. We have five-star hotels in Aruba, but we also want five-star schools, hospitals, elderly people's homes, neighbourhoods and a five-star quality of life. To create the type of prosperity that also is sustainable means focusing on 'doing more with less', so that creating prosperity today need not sacrifice the quality of life of future generations.

A key component of our strategy – what we call a 'Smart Island Strategy' – for achieving this is to transition our island to 100% renewable energy. Aruba's early success in renewable energy projects has attracted the interest of some powerful strategic partners, such as TNO and the Carbon War Room, the global initiative founded by Sir Richard Branson and other entrepreneurs. In cooperation with these



groups, we are developing an integrated strategy to become one of the leading countries in the world in the use of renewable energy. This will not be easy. Wind and solar energy can only take us so far because of intermittency issues, but we will be looking closely at newer technologies for both energy production and storage, as these become more reliable and cost effective.

In Aruba, we are looking forward to achieving our first 'green hour' of electricity completely generated by renewable energy, and then our first 'green week', 'green month' and so on, until we have achieved our ultimate goal.

What can other small islands learn from Aruba's experience?

We in Aruba are trying to do what is right and what makes sense for Aruba. If some of those lessons can be of benefit to other

countries as they embark on a similar journey, then we would of course be very proud. But each country is different and must find its own way. Sir Richard Branson and the Carbon War Room accepted the challenge of the United Nations to take the lessons they learn from working in Aruba and to apply these in ten other island

“We are developing an integrated strategy to become one of the leading countries in the world in the use of renewable energy”

nations. That is an exciting challenge, and we would be honoured to play a role in that endeavour.

I would not presume to advise other governments because each country is unique. One approach that has served Aruba well, however, is the process of social dialogue – involving the community and stakeholders in any major initiative and sitting together to reach a consensus on the way forward. A challenge for many small island states is convincing the electric utility that it can happily co-exist with efforts to introduce renewable energy. I get many questions from leaders of other island nations about the cooperative and proactive attitude of our electric utility company, W.E.B., and how that came about. We would welcome the opportunity to share the lessons we have learned in Aruba, if other countries feel this could be helpful.



D&E Green Enterprises CEO, Duquesne Fednard, (right) receiving the 2013 Ashden Award for Small Island Developing States in the Latin America and Caribbean region in recognition of its excellence. The award was presented by S. Vijay Iyer, (left) Director of the World Bank's Sustainable Energy Department.



In the latest of a series about remarkable companies, *Making It* speaks to the director of a Haitian company manufacturing cookstoves that require half the amount of charcoal needed by traditional stoves.

D&E Green Enterprises

Over the past 60 years, Haiti has received more than US\$20bn in aid for reconstruction and development from the international community, but these large sums have not helped the nation move out of poverty. Around three-quarters of the population lives on less than two dollars per day, and more than half live on less than one dollar a day.

The failure of foreign aid in Haiti convinced 37-year-old entrepreneur Duquesne Fednard that he had to look for a solution. Talking to *Making It* magazine, he said, "Haiti has always been portrayed as a poor country that relies heavily on foreign aid, but we've seen little positive

impact on the ground. As a Haitian, I want to change this image. I want to prove that we can solve our own issues with our own hands."

Fednard firmly believes that "the first step to get people out of poverty is to provide jobs". So, after studying and working for almost 14 years in the United States of America, he went back to his homeland, aiming to create a social business that would provide jobs for Haitians.

An idea had come to him during a business trip to Ghana in early 2008 when he had been very impressed by the efficient charcoal stoves made by a local company, Toyola Energy. He thought that these stoves

A woman left homeless by the January 2010 earthquake receiving an EcoRecho cookstove.



could make a real difference for Haiti, where most people use charcoal stoves to cook their food, spending around a quarter of their annual income on the fuel. In 2009, he founded D&E Green Enterprises, which produces fuel-efficient cookstoves.

Setback and breakthrough

In January 2010, shortly after the establishment of the business, a devastating earthquake struck southern Haiti, claiming more than 220,000 lives and leaving more than 1.5 million people homeless. The newly-built factory in the capital, Port-au-Prince, collapsed and nearly all the equipment inside was destroyed. Fednard was on the verge of giving up, but his employees refused to let him walk away. In an interview with the BBC, he recalled the moment when he truly felt the responsibility of a social entrepreneur, “One guy said to me, “This is the only thing right now that we were holding on to. The earthquake took away our families and houses and everything we own. You're taking the last thing that we were counting on.””

Realizing that it was no longer his business alone, Fednard decided to carry on. Without a factory, the production line was moved into two tents, where workers continued to make the stoves by hand. Despite the setback, the company managed to produce and sell over 40,000 manually-made stoves by 2013.

This year, D&E is making a breakthrough. With money from social investment and from his own savings, and a low-interest loan, Fednard, together with his employees, successfully built a new factory. On 1 June, 2014, D&E Green Enterprises officially moved into the new production site.

With most of the machines in place, D&E is moving to mechanized production. Between June to the middle of August, 1,500 EcoRecho charcoal cookstoves were produced by newly trained workers. As Fednard told *Making It*, “The number may appear small, but it is a transition period for us to phase out the manual production process. Now each batch, we only make a few hundred stoves, but this makes it easier for us to analyse how to produce stoves faster and better. After this testing process, we aim to have the capacity to make 3,000 to 4,000 stoves per month by the end of this year. That is, around 40,000 stoves per year.”

D&E Green Enterprises currently employs 30 people for the EcoRecho project. Asked whether machine manufacturing will decrease employment opportunities for Haitians, Fednard says he is not worried, “Machines will enable more efficient production and more consistent quality. This will lead us to bigger markets, so eventually we'll be able to provide more jobs.”

In Fednard's plan, the fuel-efficient stoves produced by D&E will not only cover the whole Haitian market, but ➤



D&E Green Enterprises

► also allow the start of exports to neighbouring countries with similar conditions. The company is also expanding into other sustainable energy technologies. For instance, in order to address the electricity needs of rural Haiti, later this year it plans to launch, along with two partners, the first pilot plant using small-scale gasification to generate electricity from agricultural waste.

Recognition and awards

Today, D&E is a member of the Clinton Global Initiative, the UN Sustainable Energy for All initiative, and the Global Alliance for Clean Cookstoves. In 2013, D&E won the Ashden Award for Small Island Developing States in the Latin American region in recognition of its excellence in the field of green energy. Since the award, Ashden has continued to support D&E, and international programme manager, Chhavi Sharma, says the company is making remarkable progress. "D&E Enterprises is doing incredibly important work to reduce fuel poverty and tackle deforestation in Haiti. We have been impressed by Duquesne's sheer resilience and determination to succeed against all odds, despite the 2010 earthquake and the hurricanes that followed, as well as the countless obstacles associated with doing business in Haiti."

Economically and environmentally viable

The EcoRecho charcoal cookstove is the most popular of D&E's range of products that cater to customers with different income levels and family sizes. The name 'EcoRecho' states clearly the advantages of fuel-efficient, charcoal cookstoves: 'eco' stands for both 'economic' and 'ecological', and 'recho' is the word for a stove in the Creole language. The EcoRecho design is based on that created by Ghana's Toyola company but has been adapted to Haitian users' tastes and cooking habits. The biggest size stove serves a family with five members and sells for US\$12. The price is double that of traditional charcoal cookstoves, but the EcoRecho stoves actually save customers money.

Firstly, compared to traditional stoves that last between two to six months, EcoRecho stoves are expected to have a lifespan of two years. Meanwhile, D&E promises a one-year quality warranty, a six-month replacement guarantee against faulty manufacture, as well as a 'money-back' warranty, which, says Fednard, "means if the stove doesn't save you money, bring it back". Therefore, instead of buying two to six traditional

stoves each year, customers can now just buy one EcoRecho stove every two years.

More significantly, use of an EcoRecho stove can drastically cut charcoal consumption, in many cases by as much as 50%. This translates to a daily saving of more than 50 cents, meaning that the outlay to buy an EcoRecho stove can be recouped in just a few weeks. A recent United States Agency for International Development (USAID) study done on the EcoRecho stoves shows that the 100 households that participated saved on average US\$102 in energy costs over a year when using EcoRecho stoves to cook one meal per day. This saving can make a real difference for the average Haitian household. "With that saved one hundred dollars, people can start a small business, or parents can send kids to school. That can really help them to escape poverty." Fednard said.

Burning less than half of the charcoal required by traditional stoves, EcoRecho stoves also have a far-

“A recent USAID study done on the EcoRecho stoves shows that the one hundred households which participated on average saved US\$102 in energy costs over a year when using EcoRecho stoves to cook one meal per day. This saving has a significant meaning for most of Haitian households, whose annual income is around US\$700.”

reaching environmental impact. Haiti has a population of around ten million, living as around two million households, most of which use charcoal stoves. The production of charcoal has contributed significantly to the deforestation of Haiti, where 98% of forest cover has been lost during the last half century.

According to Fednard, each year every Haitian household uses one and half tonnes of charcoal, produced from around five tonnes of wood and creating three tonnes of carbon emissions. "By cutting

When the D&E Green Enterprises premises were destroyed by the 2010 earthquake, the production line was moved into tents, where workers continued to make the cookstoves by hand.



charcoal use in half, EcoRecho stoves can make a real impact on the environment in terms of saving forests and greatly reducing CO2 emissions.”

Meanwhile, by cutting charcoal consumption, the EcoRecho stove reduces indoor air pollution, thus creating a safer and healthier cooking environment for the users. According to the WHO, indoor air pollution caused by burning solid fuels is associated with a wide range of health problems. In particular, there is strong evidence that it increases pneumonia and other acute lower respiratory infections among children under five years of age, and chronic pulmonary disease and lung cancer among adults over 30.

Spearheading social entrepreneurship

The workers who manufacture EcoRecho cookstoves all go through three months of training before working on the stoves. D&E not only trains them to operate the new machines, but also educates them on environmental, health and safety, and other human development issues.

In Fednard’s words, D&E is implementing “a group of holistic concepts”, which is relatively new for Haitian businesses. In addition to paying a decent salary, the company also plans to offer one meal a day, health insurance and stipends for education. “What I am really trying to show is how a social business can help someone move out of poverty. We give them a job.

That is the first step because you restore that sense of dignity and hope in that person; but we also need to educate them, to help them stay healthy and to provide them with a platform to grow. So we are aiming to provide a dignified path out of poverty by taking a holistic approach,” Fednard said.

Since the D&E business model looks at the entire chain, it allows other people to make money. The company only manufactures stoves and sells them to distributors, who then make a profit by selling the stoves to end users. The distributors are also trained by the company on stove use, business management and marketing. According to Fednard, the 20 distributors trained by D&E earn around US\$1,000 a year each from stove sales, which is a remarkable income increase for them. Additionally, the stoves are manufactured locally using local raw materials, thus creating jobs and other business opportunities for Haitians.

Fednard is convinced that the future of Haiti depends on Haitians, and social entrepreneurs like himself, taking charge. “We can’t rely on direct foreign aid or non-governmental organizations; rather, we need to make social business part of aid, because only social-oriented business allows people to escape poverty. That is where you see the greatest return and the greatest impact.”

● Interview by ZHONG Xingfei

With more investment, the developing world can lead the way to a low-carbon future

By **SEKITA GRANT**, Associate, Advisory Services, BSR (Business for Social Responsibility)

When it comes to helping the world transition to a low-carbon future, developing nations are in a unique position to lead – but they can't do it alone. Investments are needed. Luckily, the opportunities are promising for climate-savvy investors and companies with operations in the developing world.

In developing countries, low-carbon investments, such as those in energy-efficiency upgrades and low-carbon transportation, can open new markets for clean technologies and sustainable products while reducing pollution in local communities, ensuring energy and food independence by supporting local and distributed sources of power and agriculture, and alleviating poverty by providing new job opportunities. Many countries are already taking advantage of these opportunities. Ethiopia, for example, is using a green growth strategy to eradicate poverty and address climate change. To enhance these opportunities, global companies and investors can play a key role.

There are four reasons why global companies should consider investments in the developing world to mitigate climate change:

1) Government spending on climate is on the rise. In anticipation of new policy priorities that could be set in 2015 at the United Nations Conference of Parties in Paris, the international community is poised to invest billions of dollars in clean energy, much of it in developing nations. During the UN Climate Summit 2014 in New York, leaders announced plans to invest more than US\$200bn to finance clean energy and support resilience among vulnerable nations. In its new “Better Growth, Better Climate Report,”

“There is a strong case for the business community to focus on the developing world when it comes to investments in low-carbon initiatives. Doing so will not only serve the companies’ business interests, but will help pave the way to the “cleaner, greener, more prosperous future for all’.”

the Global Commission on the Economy and Climate calls for governments to triple their investments in clean energy research and development. The international community also is increasing financial innovations such as green bonds, feed-in tariffs and risk-sharing instruments.

2) Climate investments are paying off. The World Bank estimates that most investments required to address climate change in the energy sector will eventually pay for themselves. BSR (Business for Social Responsibility) has seen this firsthand in its Energy Management in China Programme, where investments in energy-efficiency upgrades in companies have led to both cost savings and greenhouse gas reductions for manufacturers and local communities. As more states and sub-nationals put a price on carbon, these low-carbon investments are in a position to become even more lucrative.

3) Investments in sustainable infrastructure are a relative bargain. It is easier to build new low-carbon infrastructure than it is to transform fossil-fuel-dependent systems. As vulnerable populations develop, there is an opportunity for them to shape their energy future with sustainable technologies such as electric vehicles and distributed renewable energy generation. The US and Europe are now dealing with the expensive challenge of upgrading their electricity grids, while the Indian state of Gujarat, with its less centralized power generation, has been able to spur rapid renewable energy development.

4) There's less cultural resistance in the developing world when it comes to low-carbon solutions. Many developing nations are more open than are developed nations to low-carbon transportation, historically relying more on affordable options such as walking, cycling, animal power, ride sharing and transit services.

Photo: istock.com



In these regions, there is less of a need to overcome cultural resistance that presents hurdles in countries like the United States and Australia, where urban sprawl and dependence on fossil fuel-based transportation is a cultural norm. Even in China, where bicycles and pedestrians traditionally dominated city landscapes, a culture of car-dependent urbanites has emerged – with car ownership up twentyfold in the past decade. Investors can counteract this trend in China and in other developing nations by marketing low-carbon transportation options, which can also open up markets for clean technologies and catalyze a highly efficient mobility system that will increase the countries' economic productivity.

Despite these opportunities, investments in developing nations can be complex. To lower risk and ensure community support, it is important for companies to engage in an inclusive and robust stakeholder process that responds to community development needs and sustainable growth priorities. Engineering and electronics company Hitachi did this successfully in its global business strategy, which emphasized extensive stakeholder input to help address global sustainability challenges such as energy use, urban development, health care and water scarcity in emerging markets such as Brazil, China and Indonesia.

There is a strong case for the business community to focus on the developing world when it comes to investments in low-carbon initiatives. Doing so will not only serve the companies' business interests, but will help pave the way to the "cleaner, greener, more prosperous future for all" that UN Secretary-General Ban Ki-moon talked about in his opening day remarks for New York's Climate Week 2014. But, as Ban also pointed out, "We do not have any time to waste now."

Reaching scale: start-ups to challenge our assumptions

By **CAROLINE ASHLEY**, editor of the Practitioner Hub for Inclusive Business

Can start-ups scale? Can social enterprises reach sufficient millions of people to really crack problems of poverty? This question has been around for many years. Now, first answers are emerging.

A crop of 'breakthrough' social enterprises are emerging. They are growing fast, securing investment and partners, and reaching millions of people. Of course they do not prove that *all* social enterprises scale, but they certainly show that they *can*.

Five years ago, some had an assumption, some a question: start-ups are great for innovation, but do we need to rely on large and multinational companies to reach scale? Emerging evidence suggests 'probably not'. Data today does not prove the opposite – that small and medium-sized enterprises (SMEs) are better than multinationals for scale – but it does challenge those initial assumptions.

An important source of data is the recent review of the portfolio of the Business Call to Action (BCtA), *Breaking Through – Inclusive Business and the Business Call to Action Today*, conducted by BCtA with a team from Ashley Insight. Half of the 94 member companies are large or multinational, for whom their inclusive initiative is one of many business lines. Half are 'emerging and maturing' companies, whose business is young, and

premised on engaging the Base of the Pyramid (BoP). The term 'small and medium' is beginning to be too constraining to include all the 'emerging' companies. Take ZHL Ambulance Service in India as an example: founded in 2005, they now have over 5,000 employees, a total that does not fit most definitions of 'SME.'

Comparing these two groups of companies, the findings are really surprising:

- In terms of revenue, the emerging and maturing companies are outperforming the inclusive business initiatives of the large companies.
- In terms of reach to people at the BoP, the emerging and maturing companies are matching the large companies for numbers reached.

Not surprisingly, both groups of companies have some that are progressing slowly and some flourishing. The emerging and maturing companies have more at either end of the spectrum ('progressing slowly' or 'flourishing'), whereas initiatives of large companies are more often perceived (by the company) to be 'on track'. Several of the emerging and maturing companies are in finance, energy and health, which are sectors that show high potential, though also some failures.

In the energy sector, SolarNow is a great example of a 'breakthrough SME.' In an interview for the report, CEO, Willem Nolens, explained that consumer

financing, product quality, and local word-of-mouth – and definitely not an NGO or donor-led approach – have been critical for building the foundations for success.

The role of finance is key. We often hear how hard it is for SMEs to access finance and how hard it is for investors to find investable propositions. So it is great to hear that SolarNow have just closed a €2m equity investment, which will finance faster growth and geographic expansion.

Another breakthrough SME, Waste Capital Partners, has even more astonishing news: their first investment round was so successful that they were turning away willing investors. Waste Capital Partners received a seed grant from Sida's Innovations Against Poverty programme (IAP) some years ago: at the time, it was an innovative company that initially barely registered on the IAP monitoring metrics for revenue or numbers served. Now, Parag Gupta, their CEO, credits that early, risk-tolerant grant finance from IAP as critical for crossing the gap to where they are today, rolling out across multiple Indian cities.

For other breakthrough SMEs, a business-to-business partnership can be the key that unlocks scale. For example, ClickMedix's partnership with Medtronic, a global medical device manufacturer, is the driver of fast growth for ear-screening services that harness the mobile-enabled applications and connectivity of ClickMedix.

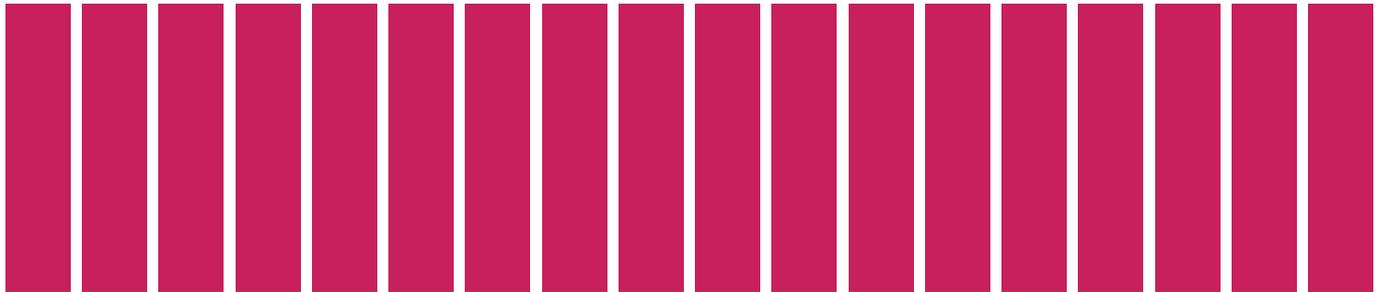
A new driver of growth has been spotted, and this is really good news. We always hear about regulatory constraints. There are now cases where positive regulation contributes to growth of these emerging inclusive businesses. Empower Pragati in India has benefited tremendously from government support for vocational training of low-income youth.

The stories tell of energy and enthusiasm. What does the data show? The

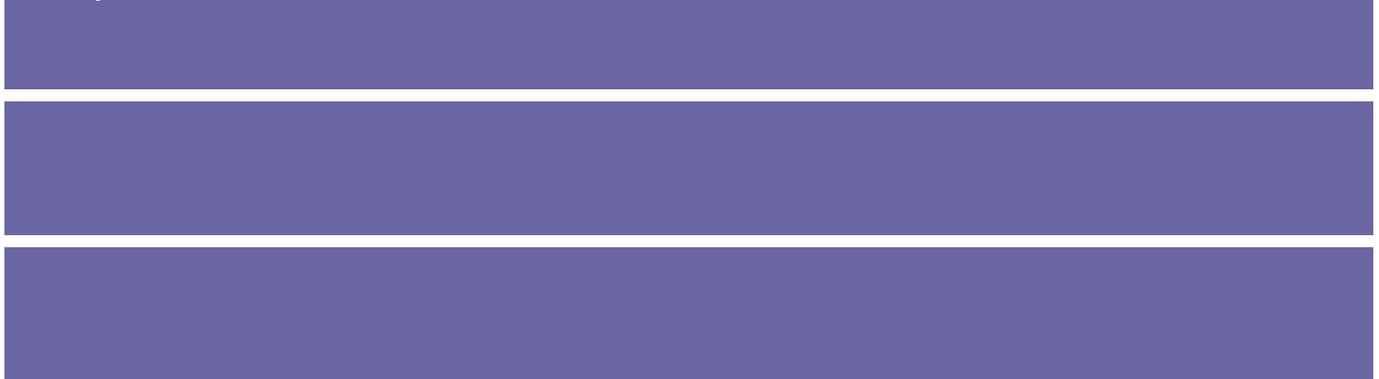
Annual revenue of small/medium inclusive businesses in the BIF, IAP and BCtA portfolios



18 companies: annual revenue of \$\$1m-\$10m



3 companies: annual revenue of \$10m-\$100m



graphic shows amalgamated data from the last year for 76 emerging or maturing companies in three inclusive business portfolios: Business Innovation Facility pilot (2010-2014), Innovations Against Poverty (2011-2013) and Business Call to Action (ongoing). It shows what we expect: annual revenue varies widely. Plenty are still at zero to US\$10,000, but almost as many are between US\$1m and US\$10m per

annum. The common theme across all these portfolios is that it takes time – about a decade – to get the model right and scale. But at least we now have evidence emerging that some of them are getting there.

We don't want to fall into the trap of over-hype. We've had too much of that. We've seen at least one well-known innovative company win plaudits at the Ashden Awards, but then disappear,

and plenty of others that never quite got off the ground.

The breakthrough SMEs still represent a fraction of the total BoP market and all companies trying to expand in this space face huge obstacles. But where evidence exists, let's share it, review it and learn from it. It is clear that the journey is long, and that every business model takes time to get right. It is also clear that it is not impossible.

City on the sea

As a taster for the next issue of *Making It* focusing on urbanization, **CHARLES ARTHUR** looks at the challenges faced by Malé, the capital of the Maldives.

The Republic of Maldives is an island nation in the Indian Ocean consisting of a double chain of twenty-six atolls. The capital and largest city is on the island of North Malé Atoll. According to the 2014 census, there are 153,379 people living on an area of just two square kilometres, making Malé one of the most densely populated islands in the world. Such a density is problematic in itself, but Malé faces a host of other challenges arising from the fact that, as there is no surrounding countryside, everything needed in terms of infrastructure has to be located in the city.

The supply of water to meet the needs of so many people living on a small island is an obvious challenge. Traditionally, the city has relied on rain and groundwater. However, as the population increased in size, the island began to run out of space for facilities to store rain water, and groundwater became increasingly unsuitable for drinking as a result of contamination from sewage and higher levels of salinity caused by seawater leaking into wells.

In 2010, the Japanese multinational, Hitachi, acquired 20% of the shares in the state-owned Malé Water and Sewerage Company and since then has been working on comprehensive and sustainable solutions to address the water challenges facing the island. Hitachi's Aqua-Tech Engineering company has supplied desalination systems that use

reverse osmosis, a process in which pressurized seawater is pushed through a semi-permeable membrane which acts as a filter to remove the salt.

Solid waste management is another environmental challenge. In 1992 the Maldivian government took action to try and resolve Malé's growing waste management problem by authorizing the transport of the capital's rubbish to Thilafushi, a lagoon formed by shallow coral reef, situated seven kilometres to the west of Malé. Each day, barges delivered around 330 tons of refuse, which underwent a rudimentary sorting and was then tipped into the shallow lagoon waters to create new land, a process known as land reclamation. In time, an artificial island, seven kilometres long by 200 metres wide, known to locals as 'Rubbish Island', was created. The Thilafushi 'solution' soon developed into a new problem, as smoke from burning plastic sometimes blew towards Malé and toxic waste from batteries, asbestos, lead and electronic goods began leaking into the sea.

As the first step towards developing a national solid waste management system, in 2008 the Maldives government announced a partnership with the World Bank, which provided a loan of \$US13.8m to establish the Maldives Environmental Management Project. Operated by the Ministry of Environment and Energy, the main objective of the project was to develop a socially and environmentally sustainable system of solid waste management by developing a community participatory approach, and designing and implementing island waste management centres and regional waste management facilities.



Malé, the capital of the Maldives.

Fifty percent of the project's funding focused on setting up a waste management system in the northern region of the Maldives, with a strong focus on composting organic waste at island level and separating recycled waste for reuse or resale. A new waste management centre on the island of Vandhoo, which is due to become operational in 2014, will use environmentally friendly incineration to dispose of waste, with unrecyclable incinerated ash stored in cells to prevent chemicals leaking into the water. In contrast to what happened at Thilafushi, the facility at Vandhoo will not allow open burning, the disposal of mixed waste or the use of refuse for land reclamation.

A third challenge is providing a supply of energy. Malé, and the rest of the Maldives, have been dependent on importing diesel to generate electricity. As part of the government's drive to increase the amount of electricity provided by renewable sources, in 2012 an



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agreement was reached with Japan's International Cooperation Agency (JICA) for a three-phase 'Project for Clean Energy Promotion in Malé'. A Japanese company, the Kyocera Corporation, installed solar panels at twelve school, university, hospital and government buildings, which together can generate 740 kilowatts of electricity. Speaking at the project's completion in May 2014, the Maldives' Minister of Environment and Energy, Thoriq Ibrahim, noted that the Maldives spent close to US\$487m – equivalent to 30% of its Gross Domestic Product – on the import of oil in 2013, and said that it was essential that the country find ways to reduce its expenditure on unsustainable energy.

Perhaps the greatest challenge Malé faces – but one that it can do little about – is the prospect of rising sea levels resulting from climate change. Although the Maldives contributes a minimal 0.001% to the global

greenhouse gas emissions, it is among the most susceptible to impacts of the changes in climate. With an average ground level elevation of 1.5 metres above sea level, the Maldives is the planet's lowest country. It is also the country with the lowest natural highest point in the world, at 2.4 metres. A breakwater has been constructed around Malé at a cost of around US\$30m and the government has also taken action to protect the coral reefs by reducing import duty on construction materials and prohibiting the use of coral for government buildings and tourist resorts. However, the magnitude of sea level rise projected in the Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report – between half a metre and one metre by the end of this century – threatens the very existence of life and livelihoods in the Maldives.

FURTHER READING

- Inter-American Institute for Cooperation on Agriculture (IICA) – Investing in Agro-tourism Development in the Caribbean Region
- The Republic of Nauru/AOSIS – Tackling the Challenge of Climate Change: A Near-term Actionable Mitigation Agenda
- Small Island Developing States Accelerated Modalities of Action (S.A.M.O.A. Pathway)
- United Nations Cape Verde – An Emerging Nation
- United Nations Environment Programme – GEO: Small Island Developing States Outlook
- UNOHRRLLS – Small Islands, Bigger Stakes
- World Tourism Organization – Challenges and Opportunities for Tourism Development in Small Island Developing States

FURTHER SURFING

- <http://sids-liisd.org> – SIDS Policy & Practice is a knowledge -management project on UN and intergovernmental activities addressing small island developing states
- www.aosis.org – The Alliance of Small Island States (AOSIS) is a coalition of small island and low-lying coastal countries that share similar development challenges and concerns about the environment, especially their vulnerability to the adverse effects of global climate change
- www.canari.org – The Caribbean Natural Resources Institute promotes participatory natural resource management in the Caribbean
- www.carbonwarroom.com – The Carbon War Room is a global, independent non-profit with a mission to accelerate the adoption of business solutions that reduce carbon emissions at gigaton scale and advance the low-carbon economy
- www.creativeindustriexchange.com – The Creative Industry Exchange provides a regional framework for the collection, collation and dissemination of data and information on the cultural/creative industries in the Caribbean
- www.forumsec.org – The Pacific Islands Forum is a political grouping of 16 independent and self-governing states
- www.sids2014.org – The SIDS Action Platform supports the follow-up to the Third International Conference on Small Island Developing States
- www.sidsdock.org – SIDS Dock is an initiative to provide SIDS with a collective institutional mechanism to assist them transform their national energy sectors into a catalyst for sustainable economic development and help generate financial resources to address adaptation to climate change
- www.sidsnet.org – SIDSnet is an online platform for sharing knowledge and motivating action towards the sustainable development of small island developing states
- www.sprep.org – The Secretariat of the Pacific Regional Environment Programme has been charged by the governments and administrations of the Pacific region with the protection and sustainable development of the region's environment

MakingIt

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