

EXPLANATORY DOCUMENT FOR THE FAIRTRADE PREMIUM IN SMALL PRODUCERS' ORGANIZATIONS



Photos: SOFA, Sri Lanka; Kuapo Kokoo, Ghana (Kenneth Havgaard); El Guabo, Ecuador (Eduardo Bluhm); Mpanga Growers Tea Factory, Uganda

This document may be helpful to members, staff, Board members, workers and sub-committees (where they exist) of Small Producers' Organizations. Organizations that are new in the Fairtrade system may find it particularly helpful.

The FLO Standards Unit provides this Explanatory Document to all stakeholders to explain the intent and requirements of the standard and to guide to full understanding of these. This Explanatory Document however is not part of the Standards, and neither does it replace it. Producers will only be audited on the Standard, not on this Explanatory Document.





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1. Introduction: The purpose of the document:

This document is intended to help to understand Section 2.1 of the Generic Fairtrade Standards for Small Producers’ Organizations (SPOs). It should be read together with this Standard (See http://www.fairtrade.net/generic_standards.html) and the FLO Product Standards <http://www.fairtrade.net/product-standards.html>).

Every organization is different, and representatives of small producer organizations can also request practical and specific regional advice from the FLO Liaison Officer or Producer Services and Relations Unit Coordinator for the region. When in doubt, ask the Producer Services and Relations Unit (PSR) at FLO.

-  This symbol will be used to refer to the FLO Generic Standards for Small Producers’ Organizations.
-  This symbol will be used to refer to additional training materials or support available from the FLO Producer Services and Relations Unit (PSR).



2. At a glance: the Fairtrade Premium in Small Producers' Organizations

- The Fairtrade Premium is an extra payment within the Fairtrade Labelling system which is intended to be a tool for socio-economic development and empowerment.
- The Fairtrade standards do not prescribe how producer organizations should use the Fairtrade Premium.
- The Fairtrade standards do, however, require that project selection and the management of the Fairtrade Premium monies be made through transparent, participative, and democratic processes.
- In their first year of Fairtrade certification, Small Producers' Organizations will undertake a needs assessment with their members to identify how the benefits of Fairtrade can be used most effectively to promote development and empowerment.
- Through this process, members may make proposals for how the Fairtrade Premium money could be best used to meet the needs they identify.
- The membership of the Producer Organization should have an opportunity to review and analyze the proposals and vote on the Fairtrade Premium Plan, which should be presented to the membership at the General Assembly. When deciding on a suitable project, each member has one vote.
- Once Fairtrade Premium projects are being implemented, the Board is responsible for accounting, monitoring and reporting on their progress to the membership.
- Producer organizations are not required to use the Fairtrade Premium exclusively for implementing community projects. They may also use the money to support the development and improvement of their business in all kinds of ways.
- If in doubt you can ask the Producer Services and Relations Unit at FLO or your local FLO Liaison Officer for support and advice on any aspect of Fairtrade Premium use and management.

3. What is the Fairtrade Premium?

Addition to the price: The Fairtrade Premium is an amount paid to the producer organization in addition to the payment for their products (either at least the FLO minimum price or the relevant market price, whichever is higher). It is an extra payment, which a producer organization receives automatically when they sell a Fairtrade product. The levels of the Fairtrade Premium payments are set by FLO and the amount payable is not negotiable. The Fairtrade Premium should never be included in negotiations about Fairtrade sales or prices.

Amount: The Fairtrade Premium is usually set somewhere between 5-30% of the Fairtrade minimum price, and is paid per unit of Fairtrade product sold. It is set by FLO Standards Unit (SU) for each specific product and is published on the FLO Fairtrade Price and Premium Online Database. The database can be accessed on FLO's website (www.fairtrade.net/list.html). FLO reviews and revises the Fairtrade Premium levels regularly, in consultation with producers.



The total amount of Fairtrade Premium that a producer organization receives will depend on the quantity of Fairtrade products that it has sold.

Payment: The Fairtrade Premium is paid to the producer organization (not to the individual members) by the Fairtrade payer (usually the exporter or the importer). The amount of Fairtrade Premium paid to the Producer Organization must correspond to the volumes of Fairtrade product sold. The Fairtrade payer is required to pay the entire premium without any discount, and according to the payment terms and timelines as defined in the Generic Trade Standards and product standards.

4. What is the purpose of the Fairtrade Premium?

The Fairtrade Premium is a tool for development and empowerment. It is an opportunity for producers to invest in the economic, social or environmental development of their organization, its members and workers and their families, and the surrounding community. It is also an opportunity for producers to work together to create positive change for themselves and others.

Fairtrade does not prescribe any specific use of the Fairtrade Premium. It believes that producers are best able to decide themselves on the most appropriate way to use the Fairtrade Premium. However, Fairtrade standards do require that this decision-making and the management of the Fairtrade Premium be accountable, transparent and inclusive of the organization's membership.

5. Managing the Fairtrade Premium in Small Producers' Organizations

5.1 *Identification of development needs*

 Generic standards reference 1.1.2.1 and 1.1.2.2

In their first year of Fairtrade certification, Small Producers' Organizations are requested to undertake a needs assessment to consider how the benefits of Fairtrade can be used most effectively to promote development and empowerment. Over time, the organization will create and implement a development plan which reflects this needs assessment. The Fairtrade Premium is a key Fairtrade benefit that can be used for implementing projects that meet identified needs.

The process of needs assessment and of developing proposals for using the Fairtrade Premium should be as inclusive as possible of the organization's members. Members should be able to make suggestions and proposals about how best to use the Fairtrade Premium to meet their needs.

Where an organization has put a delegate system in place to represent members' interests, the elected delegates should consult their members on their needs and proposals for Fairtrade Premium use.



5.2 Developing the Fairtrade Premium Plan

✓ Generic standards reference 2.1.2.1

Based on the proposals from its members, once an organization starts to receive the Fairtrade Premium, it is required to develop an annual Fairtrade Premium plan. Based on the organization's estimated Fairtrade sales projections, this plan sets out the proposed objectives, activities, and projects that will be financed by the Fairtrade Premium in the next year. It simply describes what producers want to do, how they will do it, how much it will cost, and when it will be completed. The plan is then proposed to the General Assembly for discussion and decision-making.

5.3 Decision-making processes

✓ Generic standards reference 1.3.1.2, 2.1.1.1, 2.1.1.2, 2.1.2.1

Decisions relating to the use of the Fairtrade Premium must be made based on **transparent** and **democratic** processes that are inclusive of the organization's members.

Where appropriate, a Premium Committee can be set up that can be a new committee or an existing structure (such as the Board). Responsibilities for a Premium Committee include for example gathering project ideas from members, evaluating them, rank them according to importance, viability etc. and elaborate the premium work plan.

The plan should include

- Description of the projects
- Timelines for implementation
- Responsible person(s)
- Budget

The organization will hold a General Assembly at least once a year. All members have the right to attend the General Assembly, either in person or through a delegate system, and to express their views in discussion and voting.

The Board will present the annual Fairtrade Premium Plan to the General Assembly. This is a key opportunity for the members to discuss, influence and vote on the proposals for how to use the Fairtrade Premium.

Where the organization has put a delegate system in place, it may be important for the elected delegates to be able to consult their members adequately on the proposed Fairtrade Premium Plan in advance of the meeting.

The approved Premium Plan should be the basis for the management of the Fairtrade Premium. If necessary, it is possible for the Board to change the agreed plans for spending the Fairtrade Premium in between General Assembly meetings. This might be appropriate in situations where, for example, the organization receives more or less Fairtrade Premium money than it had expected, or where members or the community are affected by an unexpected crisis, and the organization wishes to respond. If this happens, the Board must



explain the changes and the reasons for them to the next General Assembly, and the membership is asked to ratify the changes retrospectively.

The decisions made by the General Assembly must be documented in a clear and detailed way.

5.4. Managing the Fairtrade Premium

Generic standards reference 2.1.1.1 and 2.1.2.1

Once the General Assembly has approved the Fairtrade Premium plan, the organization can begin to implement it. Some producer organizations choose to appoint one or more members to be responsible for project implementation and follow-up.

Planning, accounting, and reporting on the Fairtrade Premium investment:

The organization must put safeguards in place to ensure that the Fairtrade Premium is managed in a transparent way.

All decisions relating to the investment of the Fairtrade Premium should be documented, and documentation (such as the Fairtrade Premium Plan, meeting minutes, and project proposals) should be accessible, clear and understandable to members.

Accounts should be kept separately for the Fairtrade Premium, reporting the details of all income and expenditure, and reflecting the Fairtrade Premium Plan and budget. This can be achieved either by keeping them in a separate bank account, or by clearly separating them in the accounting system. Members of the organization should be able to view these accounts if they ask to.

All receipts, bills, and other supporting documentation regarding expenditures made with the premium must be filed accordingly.

At the General Assembly, the Board is requested to make a public report on the use of the Fairtrade Premium in the year-to-date. The members should be informed about the status of the Fairtrade Premium projects, and how the money has been spent. Members should have the opportunity to give their feedback and opinions about the effectiveness of the Fairtrade Premium projects.

Monitoring and Evaluating the use of the Fairtrade Premium:

Once Fairtrade Premium projects are being implemented, monitoring their progress becomes an important part of the project management. To document or to monitor means to write down every decision and action that is taken regarding the Fairtrade Premium. Regular checking on the status of a project will help to highlight problems with progress or spending that may need to be addressed.

Fairtrade Premium projects should be evaluated when appropriate. Evaluating means assessing the effectiveness of the project in achieving its goals, usually through discussions with the target groups who were intended to benefit from it. An evaluation might consider questions like: was the project completed in time? Did we use the money as planned? Did the project meet our expectations? Who benefited from the project? How did they benefit?



The results of monitoring and evaluation should be documented and shared with the members of the organization, for example as part of the report to the General Assembly.

- Refer to FLO PSR/ LO for advice on project monitoring

5.5 Roles and responsibilities

 Generic standards reference 2.1.2.1 and 4.1.2.1

The Board members' role:

It is the responsibility of the Board to manage the Fairtrade Premium plan, and to manage any organizational staff in order to achieve the objectives set out in the plan. The Board will follow up the projects and supervises their implementation. This requires a certain time investment from the Board members. Some specific training and capacity building of Board members on management, communication and administration skills may be needed.

The role of sub-committees (Premium Committees):

Under certain circumstances, a small producers' organization may choose to create sub-committees to support the management of the Fairtrade Premium. This may be particularly appropriate for very large organizations where producers are spread across a wide area. In such cases, it can be most effective to implement Fairtrade Premium projects in more than one area so that many farmers will benefit. Sub-committees are one way to enable farmers to participate actively in developing Fairtrade Premium plans and projects that are responsive to their local needs.

Sub-committees might get involved in Fairtrade Premium planning and management in the following ways:

- Undertaking of needs assessment with members;
- Consultation of members to generate proposals to feed into the Fairtrade Premium Plan;
- Gathering feedback of members on the proposed Fairtrade Premium Plan;
- Planning and implementing Fairtrade Premium projects based on the agreed Fairtrade Premium Plan;
- Gathering feedback of members on the effectiveness of Fairtrade Premium projects that have been implemented.

Similarly, the Board might choose to put a sub-committee in place in situations where the organization decides to undertake a major project that will require a lot of management.

The Board will manage any sub-committees that are created, and ensure that their work is in line with the wider organization's agreed objectives, as well as with the principles of transparency and participation.

Workers' Premium Committees:

The standards require that, over time, the organization develops an employment policy identifying, assessing and responding to the needs of any workers. Some Fairtrade Premium resources could be used to implement the measures of this employment policy.



If appropriate, a Workers' Premium Committee could be created in order to include workers in processes for developing and deciding the Fairtrade Premium plan. Within the definition provided in the Fairtrade standards, any waged employee of the producer organization or of its members is considered to be a worker. This includes migrant, seasonal, temporary, sub-contracted and permanent workers, and could include both farm workers and workers in processing plants.

Creating a Workers' Premium Committee might be appropriate where an organization or its members employ a large number of workers. It is less relevant in situations where there is little dependency on hired labour at organization or member level.

The decision whether to establish a Workers' Premium Committee is taken by the members of the organization as part of the employment policy.

6. Deciding how to use the Fairtrade Premium

A small producers' organization may implement any kind of Fairtrade Premium project that it chooses, if the project will support empowerment and development. The Fairtrade standards do not prescribe how producer organizations should use the Fairtrade Premium.

The Fairtrade standards do, however, require that decisions about how to spend Fairtrade Premium monies be made through transparent, participative, and democratic processes as described above.

6.1 Guidance on selection of Fairtrade Premium projects

The way in which Fairtrade Premium projects are selected will be different in different places, but it is important that the organization's members know how it will be done and where and when they can participate in making proposals and taking decisions.

Each organization will develop its own project selection criteria. These might include (but are not limited to) the following: the number of people that benefit (widespread impact); whether the project will have a lasting benefit (long-term impact); whether the project provides something which was not available before (additional impact); which target groups will benefit; whether the project can be achieved with the resources available.

It is also possible for small producers' organizations to decide to contribute Fairtrade Premium monies to projects being led by other organizations. This can be a good solution where a producer organization decides to undertake a project in an area outside of its main expertise, or where there are already good initiatives underway that need additional finance. Where Fairtrade Premium money is given to partner organizations, it is important to document the purpose of the donation, for example through a signed partnership agreement, and to put in place some basic measures to ensure accountability.

Finally, the Fairtrade Premium does not have to be spent completely every year. The organization can also decide to save a part of the Fairtrade Premium to use in a subsequent year. This might be particularly appropriate where an organization wants to save for a major project, or where good sales lead to a larger than expected Fairtrade Premium income. Where an organization is having difficulty in identifying ways to spend its Fairtrade Premium



money – for example when much more money than expected has been received – the FLO Liaison Officer may be able to offer advice and support.

- Refer to FLO PSR/ LO for advice

6.2 Suggestions for Fairtrade Premium use

Producer organizations often ask for ideas or guidance about how to use the Fairtrade Premium, particularly when they are new to Fairtrade. The following list gives some examples of the kinds of projects that other organizations have chosen. It is meant as an indication only: producer organizations are free to choose any project that its members consider to be appropriate.

Existing small producers' organizations have chosen to use the Fairtrade Premium in the following ways:

- **Business development:**

The Fairtrade Premium offers an opportunity for producer organizations and their members to invest in business development, to support longer-term business sustainability, returns, and market power. This could include (but is not limited to):

- Investments in better production techniques and equipment to support quality, yield, or environmental improvements;
- Investments in income diversification (through the development of new products or new sources of income);
- Investments that enable an organization to take more control over the supply chain, for example investing in a factory, warehouse, or processing unit.

- **Training and capacity building:**

Similarly, some organizations choose to invest the Fairtrade Premium in providing training or capacity support for their members, their families and communities. This could include (but is not limited to):

- Business and professional skills training for the organization's staff, and Board members (such as negotiation skills, financial management, computer use, etc.);
- Training to support members' business and professional development (such as training in improved production techniques to support better quality, yield, or environmental impact; training in business skills, accounting, etc.);
- Training in other areas of importance to members and their communities, such as adult literacy and numeracy, or health and nutrition, citizens' rights etc.;
- Investment in longer-term extension services and support in an area of interest.

- **Community projects:**

Many producer organizations choose to invest their Fairtrade Premium in **projects aimed at benefiting the wider community** by complementing or filling gaps in the state's provision of services. These might include (but are not limited to):

- Provision or improvement of public utility services (such as clean water, sanitation, or electrification);
- Support for schools and education (such as improving school infrastructure, providing school materials, transportation, meals, tuition fees, scholarships);



- Support for public health (such as improving health infrastructure, supporting better training for health workers, supporting community access to health care, supporting prevention and public education programmes);
- Provision or improvement of social infrastructure and services (such as community halls, transport, or communications, cultural and recreational facilities);
- Support for other aspects of social welfare (such as support for chronically sick, disabled or elderly people; support for single mothers; support for pension and insurance provision);
- Support for empowerment amongst specific groups – for example women’s empowerment; training in rights for disadvantaged groups;
- Support for environmental protection and development (such as tree-planting; more fuel-efficient stoves; improving management of garbage/recycling);
- Support to reduce member and community vulnerability to economic shocks and disasters (such as improved water management, pest control, food storage; or measures to offset the impact of events such as floods, storms, or earthquakes, where this is relevant – e.g. flood defences, better building methods, early warning systems, etc.)

■ **Financial services:**

Some producer organizations decide to use the Fairtrade Premium to provide **financial services** to members, their families, and communities. These might include (but are not limited to):

- Provision of loans and microcredit (for example, to support new businesses)
- Creation of revolving funds with specific purposes (such as improving housing, or provision for emergency situations)
- Provision of savings, insurance, or pension schemes
- Provision of cash payments to members, for example in times of particular economic difficulty or crisis (see also next section)

If an organization decides to use some of the Fairtrade Premium to provide financial services, it is important to ensure that this will be managed transparently and fairly. The criteria and limits of financial service provision should be agreed by the organization’s members and documented.

- Refer to FLO PSR/ LO for advice on project selection



6.3 Frequently asked questions about Fairtrade Premium use

There are some specific areas where producer organizations often have questions about the use of the Fairtrade Premium, and where there has been confusion in the past. Frequently asked questions include:

- Can a producer organization use the Fairtrade Premium to make cash payments to members?
- Must the Fairtrade Premium be used to support community projects?
- Can a producer organization use the Fairtrade Premium to pay for organizational running costs?

This section aims to provide guidance on these questions.

Using the Fairtrade Premium for cash payments

Fairtrade does not prescribe how the Fairtrade Premium shall be used by Small Producers' Organizations. The standards require that Small Producers' Organizations work with their members to collectively identify their development needs, and consider how to use the Fairtrade benefits to meet them. The provision of financial services and benefits to members – including cash payments - is therefore an option that can be adopted if the members have identified it as a priority as part of their needs assessment.

The use of cash payments might be particularly effective in dealing with unforeseen situations of economic hardship, for example resulting from a failed harvest or natural or social disaster.

However, an organization which frequently uses the Fairtrade Premium to make cash payments to individual members may be foregoing opportunities to support empowerment and development over the longer term.

The effects of cash distribution to individuals are more likely to be short-term rather than long-term. If the reason for cash distribution is that producers want to increase their income over time, a better option may be to use the Fairtrade Premium to make investments in business development at the organizational and member level. Larger-scale shared investments of this kind have the potential to generate long-term economic returns to members.

In situations where communities are very vulnerable to economic shocks (for example where harvests are often unreliable, or where conflict and natural disasters occur frequently), one option may be to use part of the Fairtrade Premium to create a fund from which payments to members can be generated in times of need, and to use part to invest in projects that are intended to reduce vulnerability to shocks and disasters. This could provide both short-term help to members while supporting improvements over the longer-term.

If a producer organization decides to make cash payments to support some specific purpose, like buying food or schoolbooks, it may be appropriate to develop a voucher system instead of distributing cash. This can ensure that the money is spent in the way that the organization intended.

Sometimes, organizations want to use extra cash payments using the Fairtrade Premium to be able to ensure member loyalty by offering a more competitive payment. This is especially the case where other buyers are able to offer members higher prices for their crops. Long-



term partnership between producer organizations and their members can be supported in other ways, for example through investments in their technical and business skills, and through investments in the competitiveness of the organization itself. This may be a more sustainable way to ensure member loyalty than short-term cash payments.

Finally, it can be difficult for an organization to agree what is the fairest way to distribute the Fairtrade Premium as cash. For example, cases arise where members who have sold more product as Fairtrade request a larger share of the Fairtrade Premium, in line with their product sales. This approach would tend to favour larger farmers over smaller ones, and might not be in the best interests of the majority of members. If the organization decides to distribute Fairtrade Premium money as cash, the organization should demonstrate that the distribution was made in a non-discriminatory manner.

The Fairtrade Premium and Community Projects

Although producer organizations often choose to invest their Fairtrade Premium in community projects, this is not required in the Fairtrade standards. As explained above, producer organizations can choose to use the premium for all kinds of projects that support development and empowerment, including business development, training, and capacity building for the organization and its members.

Using the Fairtrade Premium for organizational running expenses

The running costs of a small producer organization should in principle be covered by its business activities, and not from the Fairtrade Premium. Running costs include ongoing operational costs, such as staff payments, certification costs, administration, or subcontracting. There might be some exceptions to this, for example when an organization is in the very early stages of development and needs a lot of support.

For some organizations that are facing difficulties in covering their running costs over the longer term, a better use of the Fairtrade Premium might be to try to address the business challenges that the organization faces – for example by taking measures to improve product quality, diversity, business management, negotiation skills, and so on.

Similarly, the costs of subcontracting aspects of production, packaging, or processing to other businesses should in principle be met through the organization's business turnover, and not from the Fairtrade Premium. Where the costs of such subcontracted activities are high – for example because of a lack of competition – an organization might consider using the Fairtrade Premium to build its own internal capacity to do the subcontracted function, if this will enable it to do the same activity at a lower cost.

Like any other Fairtrade Premium use, in case the organization chooses to use the Fairtrade Premium money to cover its running costs, this must be previously approved by the General Assembly.

Organizations that are struggling to meet their FLO certification costs can apply to FLO's Producer Certification Fund. See: http://www.fairtrade.net/certification_fund.html