

EXPLANATORY DOCUMENT FOR THE FAIRTRADE PREMIUM COMMITTEE IN HIRED LABOUR SITUATIONS



This document may be helpful to a hired labour organization that is applying for Fairtrade certification or one that is already Fairtrade certified. It is designed to address members of the Fairtrade Premium Committee (FPC) as well as managers or elected workers' representatives in the organization. It is intended to help you to understand Chapter 2 of the Fairtrade Standard for Hired Labour and therefore it is useful if you refer to a copy of the Standard as you read through this document.

The Fairtrade International Standards & Pricing 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 does not replace it. Producers will only be audited on the Standard, not on this Explanatory Document.

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1. INTRODUCTION: THE PURPOSE OF THIS DOCUMENT

This is the Explanatory Document referred to in the Fairtrade International Standard for Hired Labour *Chapter 2: Social Development* (pp.9 -15). The purpose of this document is to explain what is meant by the **Fairtrade Premium Committee (FPC)**¹ and the **Fairtrade Premium (FP)** in Hired Labour Situations. It explains in detail what is required of the Fairtrade Premium Committee and how the Fairtrade Premium should be managed and spent according to the Fairtrade International Standard for Hired Labour.

This document should be read together with the Fairtrade International Standard for Hired Labour (See <http://www.fairtrade.net/>) and the Fairtrade International Product Standards (e.g. for flowers, sports balls, etc. http://www.fairtrade.net/product_standards.html). Each operator is different and the company or the Fairtrade Premium Committee should also feel free to ask for practical and specific regional advice from the Fairtrade International producer support staff in the region. The company or the Fairtrade Premium Committee could also seek advice from a more established Fairtrade Premium Committee of another Fairtrade certified company. When in doubt, ask the producer support staff at Fairtrade International or your regional Producer Network².



This symbol will be used to refer to the Fairtrade Standard for Hired Labour. When seeing this symbol, you should always have a close look at the standard itself.

¹ Formerly call the Joint Body (JB). The new name Fairtrade Premium Committee better reflects the activities of the FPC

² African Fairtrade Network – AFN, Coordinadora Latinoamericana y del Caribe de Comercio Justo – CLAC, Network of Asian Producers - NAPP



This symbol will be used to refer to additional information or support from Fairtrade International producer support or your regional Producer Network.

2. AT A GLANCE: THE FAIRTRADE PREMIUM AND THE FAIRTRADE PREMIUM COMMITTEE

The Fairtrade Premium Committee and the Fairtrade Premium

- The Fairtrade Premium Committee is responsible for managing the use of the Fairtrade Premium on behalf of the workers.
- The Fairtrade Premium should be used to support social and economic development for workers, their families and the community.
- The company and management are not direct beneficiaries of the Fairtrade Premium.
- The Fairtrade Premium Committee is accountable to the workers for the use of the Fairtrade Premium.

Representation of all the workers on the Fairtrade Premium Committee

- All groups of workers should be represented in the Fairtrade Premium Committee, including migrant, seasonal or temporary workers.
- All workers must be informed about Fairtrade and the Fairtrade Premium Committee and understand how and when they can participate in Fairtrade Premium Committee decision-making processes.
- The Fairtrade Premium Committee should invite all workers to attend regular meetings, and records of those meetings must be kept.

Role of management of the Fairtrade Premium Committee

- Management advisors together with worker representatives are equally responsible for the functioning of the Fairtrade Premium Committee.
- Management of the company should appoint advisors on the Fairtrade Premium Committee.
- Management should guide and advise the Fairtrade Premium Committee.

Separate legal body

- A separate and independent legal body must be established to receive and own the Fairtrade Premium.
- The legal body must have its own terms of reference and own bank account.
- The Fairtrade Premium Committee must be elected as the management committee of the legal body.
- The Fairtrade Premium Committee must consist of both democratically elected workers and appointed management advisors.

Administration of the Fairtrade Premium Committee and the Fairtrade Premium

- Administration of the Fairtrade Premium Committee must be transparent, meaning that all workers must be able to see and understand the activities of the Fairtrade Premium Committee.
- The FPC must meet and consult with the workers to understand workers' needs and to discuss project ideas regularly.
- All activities, including meetings, trainings, and projects should be written down either in minutes, notes or reports.
- A detailed yearly Fairtrade Premium plan must be prepared, with a reasonable budget, and it must be approved by the General Assembly (GA) of workers.
- Risk assessments must be undertaken for all major projects.
- The Fairtrade Premium Committee must monitor and report annually to the GA on the activities carried out with the Fairtrade Premium funds
- All workers and the certification body should have access to the Fairtrade Premium

Committee records.

Fairtrade Premium spending and project management

- Fairtrade Premium projects may only be decided on the basis of consultation with all the workers.
- The Fairtrade Premium can be used for projects that involve individual disbursements of non-consumable goods when they are accessible to all workers equally.
- Up to 20% of the Fairtrade Premium may be distributed equally among the workers, per year in cash as a Fairtrade bonus. This amount may be increased to 50% in exceptional circumstances or where there is a majority of migrant workers who do not generally benefit from Fairtrade Premium projects. Cash distribution is only an option and does not have to be applied.
- The Fairtrade Premium may not be used for any illegal activity or for any activity which clearly jeopardizes the business or certification of the company or have a demonstrable negative structural, financial or social impact on the company.
- Fairtrade Premium projects should be managed by the Fairtrade Premium Committee.

Training and capacity building

- Training for the Fairtrade Premium Committee and for workers should be regular and ongoing.
- This should include opportunities for different types of training and learning.
- The Fairtrade Premium Committee should develop a training plan based on an assessment of training needs.

3. EXPLANATION OF IMPORTANT TERMS

Becoming part of Fairtrade involves a lot of learning - learning of new ideas and learning of new ways of doing things. To understand what the Fairtrade International Standard for Hired Labour requires, it is important to understand a few of the main concepts:

- The Fairtrade Premium
- The Fairtrade Premium Committee
- Socio-economic development

Fairtrade Premium: this is the main economic benefit of Fairtrade for workers, their families and the community. The Fairtrade Premium is an additional amount of money paid to Fairtrade organizations by the buyers of Fairtrade products. The Fairtrade Premium is paid in addition to the product price which is paid to the company (either the Fairtrade International minimum price or the market price, whichever is higher). The level of the Fairtrade Premium is set by Fairtrade International for each specific product and can be found in the Fairtrade International Price and Premium table (see <http://www.fairtrade.net/price-and-premium-info> for more details). The amount of Fairtrade Premium that a Fairtrade organization receives will depend on the quantity of Fairtrade products that have been sold. The Fairtrade Premium is not paid to the company, but instead is paid directly into a separate bank account, managed by the Fairtrade Premium Committee. The Fairtrade Premium is paid separately from payments for the product and the company does not own the Fairtrade Premium. The Fairtrade Premium is intended to be used for the benefit of the workers, their families and their communities, within the framework of Fairtrade Premium projects. The Fairtrade Premium may not be used for expenditures for which the company is legally responsible, nor may it be used to support the company's running costs or costs of compliance with Fairtrade standards.

Fairtrade Premium Committee: To ensure that the Fairtrade Premium is managed for the benefit of the workers and their families and communities, the Fairtrade International Standard for Hired Labour requires that the Fairtrade Premium is owned by a separate legal body representing all the workers. The Fairtrade Premium Committee is a group of democratically elected worker representatives and appointed management advisors who are responsible for jointly managing,

investing and spending the Fairtrade Premium on behalf of this legal body. In other words, the workers and management of the company work together to achieve improvements in the workers' lives using the Fairtrade Premium. The Fairtrade Premium Committee has two main responsibilities: firstly to inform and consult all the workers of the company about the Fairtrade standards and the Fairtrade Premium and its use; and secondly to manage and invest the Fairtrade Premium transparently and responsibly.

Socio-economic development: Fairtrade International considers socio-economic development to be a process resulting in changes which improve the capacity of a community to fulfill its aspirations. The aim is to empower individuals and groups with the skills they need to identify their needs and priorities and to develop plans and projects to address these. The Fairtrade Premium is intended to be used both for the empowerment of workers, and also for investing in plans and projects for social and economic improvement in the wider community. The Fairtrade Premium cannot solve all the social and economic problems and needs of the workers and the community. But if it is invested wisely and builds the capacity of workers to change their own lives, the Fairtrade Premium can have long-lasting benefits.

4. SPECIFIC GUIDELINES FOR THE FAIRTRADE PREMIUM AND FAIRTRADE PREMIUM COMMITTEE

4.1 REPRESENTATION: ELECTION AND COMPOSITION OF THE FAIRTRADE PREMIUM COMMITTEE



HL Standard requirement: 2.1.1, 2.1.4, 2.1.9, 2.1.10, 2.1.13, 2.1.20, 2.2.1

The Fairtrade Premium does not belong to any individual worker(s) or to the company. The Fairtrade Premium is owned by the legal body representing all the workers of a company. The workers' representatives on the Fairtrade Premium Committee are elected by the workers to manage the Fairtrade Premium on their behalf. The workers must benefit from the activities and projects for which the Fairtrade Premium is used. Representation of all the workers is essential to ensuring that all the workers' needs and priorities are considered in Fairtrade Premium projects. A representative is a person who represents the interests of others in an organization or meeting. A representative Fairtrade Premium Committee is one in which the different groups of workers are all represented.

Raising awareness: The company should provide information about Fairtrade to the workers and to the different levels of management. The purpose of the Fairtrade Premium and the role of the Fairtrade Premium Committee should be explained before the workers are given the opportunity to nominate their worker representatives for election. Workers and management must understand that the Fairtrade Premium Committee is a *joint* organization of workers and management: the workers elect their representatives and the management appoints their representatives to work together.



Refer to Fairtrade International producer support or your regional Producer Network for support on how to raise awareness among the workers and management of the company.

Representation: All workers should be represented on the Fairtrade Premium Committee. When planning the first Fairtrade Premium Committee election, management and workers should decide which groups of workers need to be represented, and how everyone will be able to participate in the election. Some groups of workers are at particular risk of being under-represented in the Fairtrade Premium Committee. Which groups are at risk of being under-represented will vary from situation to situation, but might include female workers, workers from different work areas,

workers from different communities, temporary or seasonal workers, and unionized workers. Management and workers should take care to ensure that these categories of workers are represented.

The number of representatives required will depend on the total number of workers and the number of different groups of workers that need to be represented on the Fairtrade Premium Committee. This depends on the specific work force, but should be agreed upon before the Fairtrade Premium Committee election takes place. The Fairtrade International Standards require proportional representation if possible. In other words if 50% of the workers are women, 50% of the representatives on the Fairtrade Premium Committee should also be women, wherever possible.

The Relationship between the Fairtrade Premium Committee and trade unions or other worker/community organizations: The Fairtrade Premium Committee is an independent body in the company and its purpose is different from that of other organizations like unions or workers committees, housing and community land associations, workers' welfare committees, savings committees, credit associations or charitable workers' trusts representing the interests of specific workers. The Fairtrade Premium Committee is only responsible for managing the Fairtrade Premium as described above.

Organizing, negotiating and defending the interests of the workers are the responsibilities of a Trade Union, or a workers' organization where there is no active Trade Union. The roles and duties of the Fairtrade Premium Committee and the Union should be clearly distinguished and not confused. The presence and work of a Fairtrade Premium Committee must not undermine the work of the Trade Union or other worker representative body.

If a Trade Union or other worker/community organizations are active in the company they should be informed about the Fairtrade Premium and the role of the Fairtrade Premium Committee in managing it. Trade Unions and workers' organizations should recognize and support the role of the Fairtrade Premium Committee. If no official from the Trade Union or other worker organizations has been elected onto the Fairtrade Premium Committee, then one could be invited to sit on the Fairtrade Premium Committee as an observer (this would mean that they could contribute to discussions but would not be eligible to vote on Fairtrade Premium Committee decisions).

If workers choose to use up to 20% of the Premium as a Fairtrade bonus then the Fairtrade Premium Committee must consult with the Trade Union or workers' representatives to ensure that the collective bargaining process is not undermined. If the elected workers' representative or Trade Union is already present on the Fairtrade Premium Committee then they would be expected to ensure that the collective bargaining was not undermined.

Elections: The management and workers should agree on an election process – they must agree on how, when and where the election of the Fairtrade Premium Committee will be done. Both the company and the workers can invite external support to assist with the election process. The election process should include the different groups of workers, and ensure their representation on the Fairtrade Premium Committee. For example, female seasonal workers should be able to vote for a female seasonal worker to represent them on the Fairtrade Premium Committee. It is important that each worker has the opportunity to vote and that different workers' interests are represented on the Fairtrade Premium Committee.

The agreed election process should be written down in the terms of reference and made known to all the workers. Workers should know who they can nominate and which work areas and groups must be represented on the Fairtrade Premium Committee. The nominated individuals should understand and accept the responsibility. The election process should enable workers to vote freely for the representatives of their choice without threat or fear of discrimination. The Fairtrade Premium Committee should be elected before any Fairtrade Premium is paid.

Disadvantaged groups: At the beginning it is often difficult to ensure that enough women, temporary workers and other disadvantaged groups are represented on the Fairtrade Premium Committee. However, it is important that these groups' interests are represented in the projects and activities of the Fairtrade Premium Committee. Specific plans should be developed to increase the representation of these groups on the Fairtrade Premium Committee. If seasonal/temporary workers


cannot practically be present for meetings, then an elected permanent worker could be chosen to represent their interests. Continuous awareness-raising about Fairtrade with under-represented groups is essential to ensuring that they become more informed and involved. The responsibility for informing the workers about the Fairtrade Premium and Fairtrade Premium projects should be shared by the management advisors and worker representatives on the Fairtrade Premium Committee.

External support: Workers' representatives can invite external support from the Fairtrade International producer support, regional producer networks, Trade Unions, NGOs or independent consultants. These individuals can attend Fairtrade Premium Committee meetings as non-voting, advising participants if they are invited by the Fairtrade Premium Committee.



Refer to Fairtrade International producer support or your regional Producer Network for external support.

4.2 THE ROLE AND MANAGEMENT OF THE FAIRTRADE PREMIUM COMMITTEE

 HL Standard requirement: 1.2.3, 2.1.2, 2.1.11, 2.1.12, 2.1.13

Project selection and management: Developing ideas and concrete plans for how to use the Fairtrade Premium can often be a challenge for the Fairtrade Premium Committee and the workers. Management plays a key role in the early stages of this process. Management is a non-voting member of the Fairtrade Premium Committee, yet should guide and advise the Fairtrade Premium Committee on suitable projects, and develop communication channels and documentation about Fairtrade, the Fairtrade Premium Committee and the Fairtrade Premium in the company which include all the workers. Fairtrade Premium projects must have the majority of the worker representatives' support.


Time for Fairtrade Premium Committee activities: Management must be willing to offer time for regular Fairtrade Premium Committee meetings and consultation with workers during working hours. Time should also be given for additional management support for Fairtrade Premium Committee activities including the carrying out of duties between meetings and other project related tasks. Some times of the year are less busy than other times, but management must ensure that there is some continuity in the time available for Fairtrade Premium Committee activities. Minutes must be taken for all meetings held.

Information provider: Management is also responsible for informing the Fairtrade Premium Committee members about Fairtrade sales and sales forecasts, as well as other Fairtrade-related activities on a regular basis, and at every Fairtrade Premium Committee meeting. These should be cross checked against the Fairtrade Premium received and reflected in the minutes of the meetings together with the Fairtrade Premium balance.

Any high volume receipts should be reported to the FPC members without delay between meetings, and commissions and other bank charges should be made clear to members in the meetings.

For multi-estates the central structure must provide the certification body with an overview of the total Fairtrade Premium income of the company, the distribution of the Fairtrade Premium to the local Fairtrade Premium Committees and an aggregated version of the individual Premium Plans.

4.3 THE LEGAL STATUS OF THE FAIRTRADE PREMIUM COMMITTEE

 HL Standard requirement: 2.1.3, 2.1.4, 2.1.5, 2.1.6, 2.1.7, 2.1.8

Beneficiaries: The Fairtrade Premium is additional income which comes from the sale of Fairtrade products and which should be used for and invested in the social and economic development of the workers, their families and the community. Although the Fairtrade Premium Committee is made up of workers and management of the company the Fairtrade Premium belongs to the legal body representing the workers. The workers must benefit from Fairtrade Premium projects.

Legal body: To ensure that the Fairtrade Premium is owned by all the workers, a separate legal body must be put in place to represent the entire workforce. A legal body is a formal body which is recognized by law and registered by a public entity. A legal body can own property and enter into legal contracts and have a bank account. The purposes of the legal body are to be able to receive the Fairtrade Premium in a separate bank account; be the owner of the Fairtrade Premium and any other assets bought by the Fairtrade Premium; reduce tax; and ensure that Fairtrade Premium is used for the benefit of all the workers. The worker members of the Fairtrade Premium Committee are the elected representatives of the legal body. The legal body and the Fairtrade Premium Committee must be independent i.e. free from control or influence of other parties.

Type of legal body: The legal body could be – for example - an association, a charitable trust, a company a co-operative or a corporation. The legal body should be formed in such a way as to that reduces or is exempted from tax burden due to the social character of the Premium. The structure adopted depends on the legal forms available in the country where the body is being registered. The terms of reference (discussed below) will form the basis of a more formal, active legal body. The process of formalizing should start once the first Fairtrade Premium Committee (see Section 1 on representation) has been elected and orientated, but could take as long as one or two years to complete. Where registration of the legal body is likely to take a long time to complete, alternative banking arrangements must be put in place for receipt of the Fairtrade Premium. However, the legal body should be in place before the Fairtrade Premium Committee purchases any assets.



Refer to Fairtrade International producer support or your regional Producer Network for an overview of different legal bodies in your country or region.

The role of the Fairtrade Premium Committee: The participation of all the workers in decision-making processes relating to the Fairtrade Premium projects is required by Fairtrade International standards. The Fairtrade Premium Committee is the elected committee of the legal body, and the officers of the Fairtrade Premium Committee therefore have legal and financial duties to perform on behalf of the workers. Workers must be able to elect their Fairtrade Premium Committee representatives, must be consulted on the yearly work plan, and must be given annual project and financial reports (see Section 4.4 for more detail on the administration of the Fairtrade Premium Committee and the Fairtrade Premium). The Fairtrade Premium Committee must be able to make decisions independently of the company or other committee.

The Terms of reference or constitution: The first elected Fairtrade Premium Committee should define in writing the aims of the legal body. This should be written down in the form of terms of reference or constitution.

The Terms of Reference should be developed by the representatives elected by the workers and by the appointed management advisors, and should be explained to the workers and formally adopted at a General Assembly of all the workers.

They should include at least:

- The aims of the committee
- The composition (who are the members)
- How worker members of the committee are elected

- Procedures of the committee (determining terms of office, frequency of meetings, how decisions are made, criteria for selection of Fairtrade Premium projects, criteria for classifying major projects, documentation, which reports should be delivered, what happens to the committee if the company is decertified or dissolved),
- Internal regulations, responsibilities, especially those responsible for finances
- That all decisions on Premium use are approved by the annual General Assembly (GA) of all workers;
- The delegate system of the GA where applicable;
- How the interests of migrant and seasonal/temporary workers are taken into account;
- How consensus can be reached for decisions.

In the case of multi estates, there must be a system for elected delegates to represent each affiliate plantation if a central FPC exists.



Refer to Fairtrade International producer support or your regional Producer Network for more information on the development of terms of reference.

Separate bank account: The legal body – and prior to its registration, the Fairtrade Premium Committee – should have a separate bank account, which is managed by the Fairtrade Premium Committee. The signatories to the account should include at least one worker representative and a management representative, as joint signatories. It is recommended that the manager who is a signatory is also a member of the FPC. The bank account should be in place before the first Fairtrade Premium is payable. C or there may be one joint bank account.

Upon establishment of the Fairtrade Premium account, the company must sign a legally binding agreement with the legal body registered to manage Fairtrade Premium that states that in case the company is decertified or dissolved, the balance of the Fairtrade Premium account must be made available to the Fairtrade Premium Committee and must be used for the on-going and planned Premium projects or be distributed among the workers (if allowed by national legislation) within 3 months after decertification or dissolution in accordance with the laws governing the legal body.

4.4 ADMINISTRATION OF THE FAIRTRADE PREMIUM COMMITTEE AND FAIRTRADE PREMIUM



HL Standard requirement: 2.1.6, 2.1.12, 2.1.14, 2.1.15, 2.1.16, 2.1.17, 2.1.18

Accountability: The Fairtrade payments must be paid directly into the established Fairtrade Premium bank account(s). If under exceptional circumstances Fairtrade Premium is received by the company it must be transferred to the Fairtrade Premium account as soon as possible or in exceptional circumstances within 30 days from the date received. (For India only, this period may be extended with permission from the certification body).

The Fairtrade Premium Committee is accountable to the workers as well as to the certification body for the administration and use of the Fairtrade Premium. Accountability means that the Fairtrade Premium Committee members are responsible for their decisions and actions and are required to explain them to others. The Fairtrade Premium Committee is responsible for informing and consulting workers about the Fairtrade Premium. The Fairtrade Premium Committee is also responsible for managing and spending the Fairtrade Premium according to the Fairtrade Standard

for Hired Labour and the guidelines given in this Explanatory Document, as well as the internal rules written in the terms of reference or constitution. The Fairtrade Premium Committee is responsible for Fairtrade Premium Committee activities as well as Fairtrade Premium projects and should regularly inform other workers about the Fairtrade Premium Committee's activities and progress. Fairtrade Premium Committees generally need a significant amount of support and training both from management and from external trainers to develop good administration and communication systems.

Office bearers: The activities (meetings, training, information and feedback sessions, project management) of the Fairtrade Premium Committee should be organized by the office bearers. The office bearers include the Chairperson, the Treasurer and the Secretary. The office bearers need to be elected in Fairtrade Premium Committee meetings, but could also be elected by the General Assembly. The office bearers should be trained and supported by management in their roles and responsibilities. In the beginning (and for new Fairtrade Premium Committee members) it is also important that the Fairtrade Premium Committee learns more about Fairtrade and what is required by the Fairtrade International Standards so that they can explain, answer questions and motivate other workers.

Records and documentation: All activities, meetings, election results, communications and project proposals should be written down. At the minimum, reports should include annual reports, financial reports, a work plan for the following year, and meeting schedules. Minutes should be taken accurately and reflect all decisions made by the Fairtrade Premium Committee, especially spending decisions. The Fairtrade Premium Committee should have its own file, which is available to all Fairtrade Premium Committee members, to all workers and to the certification body.

Financial records: The Fairtrade Premium Committee should keep transparent records of all receipts and expenditure made on behalf of the legal body. These should be backed up with original paperwork.

A designated internal auditing committee is a best practice for checking relevant books of the Fairtrade Premium account.

External financial audits: If there is a significant amount of Fairtrade Premium income (e.g. if the legal body becomes eligible to pay taxes) then the financial records of the Fairtrade Premium Committee should be externally audited in addition to the cross-checking done by the internal audit committee. The Fairtrade Premium Committee should budget for the costs of auditing in the annual budget.

Internal rules: With some experience the Fairtrade Premium Committee should define and write down internal rules and processes for transparent management of the Premium e.g. displaying minutes of FPC meetings, having a yearly schedule for the FPC and General Assembly meetings, project progress reports. 'Transparent' means that the management of the Premium, and decision-making about projects, should be clear and available to all the workers. All the workers have the right to see how decisions are made and how money is spent.

Meetings: The Fairtrade Premium Committee should meet regularly. The Fairtrade Premium Committee or its representatives are also expected to have regular meetings with workers or with delegations/groups of workers. In these meetings they are expected to consult with workers to understand their needs and discuss project ideas on a regular basis.

The Fairtrade Premium Committee is expected to have at least an annual General Assembly with all the workers. The purpose of this meeting is to report to all the workers about the previous year's projects and activities, to present the financial reports (what was the income, what was spent, what is the balance), and to present and approve the work plan for the following year. An example of and template for planning and reporting on Fairtrade Premium is available in the Supplemental document section to the Hired Labour Standard on the [Fairtrade website](#).

The Premium Plan may need to be changed in between GA meetings e.g. in situations where, for example, more or less Premium money was received than planned, or where members or the

community are affected by an unexpected event and workers wish to respond, the FPC will need to document the decisions to make the changes, and explain the changes and get ratification from the GA of workers retrospectively. If large changes need to be made in the Premium Plan then these changes would normally be pre-approved by an extraordinary General Assembly.

The GA should be held during the time of year when the majority of the workforce is present.

A delegate system can be put in place where appropriate to ensure representation of all workers in the case of a large workforce, as defined in the terms of reference of the FPC.

Premium Work plans: After consultation with workers the Fairtrade Premium Committee should develop an annual Fairtrade Premium plan. This is a Fairtrade Premium project work plan and is separate from any company work plan. It should include the overall annual budget, including expected Fairtrade Premium income for the year, and a description of projects. The descriptions should include, at least:

- Purpose and objectives
- Target group(s)/beneficiaries (e.g. men, women or all workers, migrant and temporary workers, family members, community);
- Activities;
- Roles and responsibilities;
- Project budget (total/annual)
- Project start and end date;
- How the project will be monitored;
- Date of approval of the project by the GA

A quick and easy project will have a very simple plan. Bigger projects will have more detailed plans. Tools to select projects can include needs assessments, setting of priorities, feasibility studies, cost analysis and risk assessments. Cash distribution must also follow the guidelines for planning and reporting.

Risk assessments: must be undertaken for all major projects including loans and investments, which must be carried out with all necessary formalities and guarantees. What is classified as a major project must be determined in advance and agreed on in the GA.

Simple risk assessment examples are given in Annex 1 on page 16. Training on risk assessments is also recommended and may be provided by Fairtrade International producer support, your regional Producer Network or organized by the FPC or by management.

Risk assessments may need to be undertaken by an independent third party if the FPC does not have the qualifications to do so.


Monitoring and Reporting: should be carried out annually on the activities carried out with the Fairtrade Premium money and on the progress of existing projects to the GA. This is to ensure that the success of the plan can be evaluated, and it should be compiled based on regular monitoring and evaluation of the Premium projects. The report must be documented and include at least:

- Details on overall Fairtrade Premium income received, expenditures and balance;
- A description of each project that is planned, on-going or concluded within the last reporting cycle;
- Where the activities carried out, yes or no? If not, why?
- When were they carried out?
- At what cost?
- Was the objective achieved or are there any other further actions needed?



Refer to Fairtrade International producer support or your regional Producer Network for details on planning, budgeting and reporting.

4.5 FAIRTRADE PREMIUM SPENDING AND PROJECT MANAGEMENT

 HL Standard requirement: 2.1.18, 2.1.19, 2.1.20

Aim of the Fairtrade Premium: The Fairtrade Premium is to be used for improvement of the social and economic conditions of the workers, their families and communities. The Fairtrade Premium does not belong to the company or to an individual or specific group of workers. The Fairtrade Premium belongs to the legal body representing all the workers. The Fairtrade Premium must be used for development projects that benefit the workers, their families or the community. It is important to remember that Fairtrade Premium projects will not always benefit all the workers and communities at the same time.

Fairtrade International Guidelines for Fairtrade Premium use: The Fairtrade International Standard for Hired Labour states what the Fairtrade Premium cannot be used for, and this section will provide some ideas about how the Fairtrade Premium Committee should approach the Fairtrade Premium and think about Fairtrade Premium projects. It is important that the Fairtrade Premium Committee members are informed about these guidelines and that they also communicate these to the other workers. It is often necessary for the FPC to answer questions and manage the expectations of other workers.



Refer to Fairtrade International producer support or your regional Producer Network for an introduction to Fairtrade.

The Fairtrade Premium **MUST NOT** be used to:

- To meet any expenditure for which the company is legally responsible (e.g. health and safety requirements);
- To replace existing social and environmental expenditures of the company
- To cover the running costs of the company;
- For costs of compliance with the requirements of this Standard or associated Fairtrade product Standards unless stated differently;
- To be involved in any activity which is illegal or could jeopardize the business or certification of the company or have a demonstrable negative structural, financial or social impact on the company;
- As salary supplements to individual workers.

The Fairtrade Premium **MAY** be used for:

Social projects: including free/subsidized activities, equipment and facilities which are accessible to the workers and improve the quality of life of the community. Examples would include health care projects, sports equipment, learning and play equipment for children, mobile libraries for workers and many others.

Education and training: of workers, their children, their families and the community. This could include adult education and literacy programs, labour rights training, training for the Fairtrade Premium Committee, bursary schemes for further education of workers and their children, community health training and any other training and educational needs expressed by the workers or identified by the Fairtrade Premium Committee.

Economic projects: including provision of low-interest loans for the creation of small & medium-sized enterprises; pension schemes; projects intended to create additional employment; the creation of cooperative stores where workers can buy general provisions; and unconditional payments in response to specific circumstances (e.g. a crisis situation such as a family's house

burning down); individual disbursements of non-consumable goods when these are accessible to all workers equally e.g. solar light, mattress, bicycles.

The criteria and limits of micro-financing should be defined and written down by the Fairtrade Premium Committee. The Fairtrade Premium can also be invested or loaned at competitive interest rates.

In addition, up to 20% of Fairtrade Premium per year can be distributed equally amongst all workers in cash as a Fairtrade bonus. If this is chosen by workers, the FPC **must** consult with the workers' representatives to ensure that the collective bargaining process is not undermined. The percentage of cash distribution may be increased to up to 50% of total Premium under exceptional circumstances, such as where there is a majority of migrant workers in the work force that cannot benefit from Premium projects or in case of a natural disaster or other natural occurrence.

Fairtrade recognizes that workers are fully capable and qualified to determine how their interests are best served by Premium; whether through individual expenditure of a cash portion or through communal projects benefiting all workers. Should workers want to consider cash payment, it is recommended that the FPC make the implications of using Premium for cash clear to workers by:

- calculating the amount workers would receive individually in case of a pay-out;
- suggesting that they compare the potential impact of that individual amount on their livelihoods with the impact of pooling those individual amounts and starting a new project or continuing existing projects.

Example of calculating Premium distribution. Suppose a Kenyan flower plantation receives a total amount of Fairtrade Premium of 54,000,000 KES (approximately 623,000 USD) in 2013. If the plantation has 5000 workers, that would mean that 20% of 54,000,000 or 10,800,000 KES (approximately 125,000 USD) would be divided by 5,000 workers. This would give each worker 2,160 KES (25 USD), and leaves an amount of 42,000,000 KES or approximately 499,000 USD for collective projects.

Infrastructure: including new buildings, renovation, facilities for training and recreation, transportation like a school bus, basic amenities like fencing for housing. The Fairtrade Premium can also be used for services which are not the responsibility of the employer but are not being attended to by the responsible authorities, like community lighting.

Environmental projects: such as tree planting, the removal of alien vegetation, or recycling initiatives.

Administration: of FPC activities, including legal costs, book-keeping costs, communication, costs of attending meetings, transport, internal and/or external auditing.



Refer to Fairtrade International producer support or your regional Producer Network for examples of Fairtrade Premium projects.

It is advisable to start with simple and easy projects which are easy to implement and can have a wide impact, such as social and community activities and capacity building. When the Fairtrade Premium Committee has more experience it may decide to plan and manage more complex projects like buildings and businesses. These types of projects require lots of planning, as well as legal arrangements which secure the legal body's ownership of its assets, or enable it to donate assets to other community organizations. The Fairtrade Premium Committee usually requires external support for these types of projects.

Consultation: The most important thing is that workers have the opportunity to suggest and influence the choice of Fairtrade Premium projects. This means that the Fairtrade Premium Committee must collect project ideas and find out what needs the workers have. The workers should also be part of the decision-making process, and the Fairtrade Premium Committee is required to develop the yearly work plan based on consultation with all the workers.

Budget: The amount of Fairtrade Premium that will be received depends on the quantities of Fairtrade-labelled products sold by the company. The spending of the Fairtrade Premium depends on the size of the farm, the composition of the workforce, the needs of the community, and the capacity of the Fairtrade Premium Committee to manage the projects. The Fairtrade Premium Committee should have an overall budget for the year. The budget should reflect: predicted Fairtrade Premium income for the year based on Fairtrade sales, and predicted expenses based on planned Fairtrade Premium projects and other Fairtrade Premium Committee activities. Not all the Fairtrade Premium has to be spent each year, and the Fairtrade Premium Committee can also decide to save a part of the Fairtrade Premium. Management has a responsibility to provide information on sales and sales forecasts to support the Fairtrade Premium Committee budgeting process (see also section 4.3).

Project selection: The way in which Fairtrade Premium projects are selected will be different in different places, but it is important that the workers know how it will be done and where and when they can participate. The project selection criteria should be included in the terms of reference of the Fairtrade Premium Committee and clear internal rules and procedures should be explained to the workers. The Fairtrade Premium Committee should consider criteria for how they will select Fairtrade Premium projects, including: the number of people that benefit, whether the project will have a lasting benefit, whether the project provides something which was not available before, and which groups of workers will benefit. Not all projects will fulfil all the criteria, but it is important that the Fairtrade Premium Committee should develop their own guidelines about how they will decide. For bigger projects the Fairtrade Premium Committee would need to conduct a feasibility study to assess whether a project idea or objective can be achieved with the resources available.

Planning: The Fairtrade Premium projects implemented by the Fairtrade Premium Committee depend on a number of important things: what the workers say their needs and priorities are; how much Fairtrade Premium is available for the year; and what the Fairtrade Premium Committee can manage and control. An overall work plan (see Budget above) and specific project plans should be developed. The work plans should be presented in a format that suits the Fairtrade Premium Committee and is understandable to the workers. The work plan should include the aim of the project, the beneficiaries of the project, the necessary activities, when the activities will be done, who will do them and how much it will cost.

Management: The Fairtrade Premium Committee is responsible for the management of the Fairtrade Premium projects. Sometimes this responsibility can be allocated to individual Fairtrade Premium Committee representatives. Sometimes the Fairtrade Premium Committee may need to establish a sub-committee or appoint a project manager, but the Fairtrade Premium Committee must still take responsibility for overseeing the sub-committee or project manager. When the project is completed the Fairtrade Premium Committee should report back and inform all the workers.



Refer to Fairtrade International producer support or your regional Producer Network for more detailed explanations and examples of how to plan and manage Fairtrade Premium projects.

Evaluation: Fairtrade Premium projects must be evaluated at least once during the implementation, after completion of the project, or on a yearly basis for on-going projects. Doing an evaluation means assessing the effectiveness of the project in achieving its goals. It is important to analyze both the positive and negative aspects of the project. The Fairtrade Premium Committee should answer questions like: was the project completed in time? Did we use the money as

planned? Does the project meet our expectations? Who benefited from the project? How did they benefit? How could the project have been more effective? The results of the evaluation should be written down and should also be shared with the workers and management.

Records and reports: All Fairtrade Premium project ideas should be recorded. All decisions about Fairtrade Premium projects should be recorded in the minutes of Fairtrade Premium Committee. The Fairtrade Premium Committee should also present progress and final reports about Fairtrade Premium projects to the workers and to the certification body.

Templates and examples for planning and reporting can be found under supplemental documents to the Hired Labour Standard on the [Fairtrade website](#).

4.6 TRAINING AND CAPACITY BUILDING OF THE FAIRTRADE PREMIUM COMMITTEE



HL Standard requirement: 2.2.2, 2.2.3

The empowerment of workers is one of the main objectives of Fairtrade and also of the Fairtrade Premium. Empowerment means increased opportunity for women and men to exert control over their own lives, including increasing their power to make and influence the decisions that affect them. Training and capacity building are important for both the Fairtrade Premium Committee and the workers. Training of the Fairtrade Premium Committee and the workers should be regular and ongoing. The Fairtrade Hired Labour Standard require that training of the Fairtrade Premium Committee takes place partly during working time, but it is important that individuals are also prepared to commit some of their own time to training. The Fairtrade Premium Committee can include training in their annual budget.

Different types of training: The Fairtrade Premium Committee should receive regular training including both on-the-job training provided by management and more formal training. There are different types of training and learning activities that could benefit Fairtrade Premium Committee representatives, including but not limited to:

- Learning new skills needed to perform their tasks: participatory project planning and financial management;
- formal training leading to new qualifications and certificates;
- mentoring from a person who has experience in performing the tasks;
- capacity building by having the opportunity to practice and exercise new skills with support and feedback;
- exchanging experiences through contact with other Fairtrade Premium Committees;
- exchanging experiences through contact with national or regional producer and worker networks.

Training plan: In the beginning, training of the Fairtrade Premium Committee representatives as well as other workers and community members is especially important. The Fairtrade Premium Committee must develop new skills to be able to ensure the administration and management of the Fairtrade Premium. The training plan developed by the Fairtrade Premium Committee will depend on the needs of the Fairtrade Premium Committee and the workers, the amount of Fairtrade Premium available, and the service providers and trainers available in your region.

The Fairtrade Premium Committee should:

- identify training needs of the Fairtrade Premium Committee representatives and the workers
- identify possible service providers/trainers and costs
- develop a budget for the training
- ensure that training takes place during working hours and on an annual basis

- record all training activities with information on topics, time, duration, names of attendees and trainers.

Training topics: Some training topics that the Fairtrade Premium Committee can consider are listed below, but this is not a complete list and the Fairtrade Premium Committee may identify other needs.

- ❖ literacy and numeracy
- ❖ labour rights training
- ❖ conflict management
- ❖ needs assessment and communications
- ❖ record keeping and basic administrative skills
- ❖ project planning and budgeting
- ❖ project management
- ❖ monitoring and evaluation
- ❖ book keeping and reporting
- ❖ computer skills



Refer to Fairtrade International producer support and your regional Producer Network for advice on training and training providers.

ANNEX 1 WHAT IS RISK?

Risk is the potential effect of uncertainty on project objectives.

Risk management has four essential parts to it: the risk assessment, which includes identification and analysis, or assessment of risks in a project, the subsequent action or response, and finally the evaluation of risks and responses. In other words, in order to manage the risks involved with any project, a risk assessment needs to be carried out to enable you to act on the finding.

The process of risk management is basically a structured way to think about risk and how to deal with it and can be broken down into the progression shown with communication at its core.



Figure 1: Risk Management Process

For any major project that is to be carried out, understanding the potential risks that might affect the project is an important factor in the initial design and set up. For some larger projects, loans and investments, risk management is complicated, but often even a simple exercise can be carried out to highlight areas of risk and enable better set and management.

Note: What is classed as a major project by the FPC should be decided and approved through the GA.

Below are some steps that can be followed to enable a very simple risk assessment to be done and integrated in to the management of a project.

Risk identification: - identifying and documenting all the risks that can affect the project

These can be either negative or positive. Negative risks can be potentially harmful to the project and will generally be avoided, whereas positive risks are those that are initiated because they might provide a potential opportunity, although this might also have the potential to fail.

Any risks that could affect the project either in a negative or positive way need to be identified and then ideally put into different categories for clarification.

Categories should not be too broad or specific, but appropriate to allow the risk to be identified with ease, they can be either external or internal factors that might have an effect on the project. The categories chosen should be unique to the project itself.

Once risk categories have been identified, specific risks need to be identified from each category. This should be done by the members of the FPC and other stakeholders through brainstorming sessions, focus group discussions or specific interviews e.g. If the project was to build a new school laboratory, it would be useful to interview the science teachers, or the local education officer.

Table 1. Examples of risk categories

Economic/financial	Exchange rate fluctuation Interest rates instability Market development adversely affect project
Organizational	Poor leadership Lack of communication No clarity of roles and responsibilities Clash of personalities Lack of qualified personnel
Technical/operational	Inadequate design and planning Unclear expectations
Political	Change of Government War Interference by politicians
Environmental	Natural disasters
Project management risk	Lack of planning Unrealistic schedules Delays in the approval of project documents

Each identified risk should be written in a way that describes what the cause of the risk is, what the risk is and what its impact might be on the project, so that appropriate responses can then be given. For example, due to there being no chemistry teacher at the school to advise, there is a risk that the laboratory will not have all the necessary design specifications and therefore the schools expectations will not be met.

The risk identification process needs to continue through the entire life of the project as it evolves over time. Initially risks might involve funding, while later on they might involve more operational aspects such as budgeting and scheduling.

Risk assessment: - determining the probability that risks will occur, estimating their potential impact, and prioritizing risks

Having identified the risks, the next step is to quantify them by:

- Prioritising risks according to their probability and impact
- Identifying the risk tolerance; which risks are acceptable and which needs to be managed.

A risk map or matrix is usually used to help to assess the risks, using a scoring system to identify the likelihood of the risk occurring and the impact that it might have should it occur.

An example is given below of a simple system that could be used.

First define your scoring system, for example

Table 2 Probability of risk

Points	Probability of risk occurring	Definition
3	High	Expected to occur, more than even chance.
2	Medium	Quite possible that it will occur, even chance.
1	Low	Very unexpected and unlikely to occur.

Table 3 Impact significance

Points	Probability of risk occurring	Definition
3	High	Impact can make a significant difference
2	Medium	Impact can make a difference
1	Low	Can have an impact but it is manageable.

Next assign each of your risks a probability and an impact and multiply them:

probability = 1; impact = 3; $3 \times 1 = 3$

Then add them into your risk matrix.

Table 4 Example of a Risk Matrix

Impact	Probability			
		Low 1	Medium 2	High 3

	High 3			
	Medium 2			
	Low 1			

Risk tolerance will have to be established, i.e. what needs to be actively managed, what will be monitored and what is below the tolerance levels.

In this case, where the probability is high and so is the impact, the score would be 9 and this would be considered a major risk and would need to be actively managed. Slightly less of a concern would be risks that were scored at 4 and 6, and these could be monitored and reviewed. Of even less concern would be risks that were assigned values of 1, 2 and 3.

Risk response: - deciding what actions are needed to reduce or remove threats, particularly those with high-probability and high-impact.

If a risk is identified to be above the risk tolerance line, a response or a strategy is needed to address it. Any of the following options might be used as a way to respond to the risk.

Terminate/Avoid – Don't deal with the risk e.g. if the project area was decided to be insecure, then you might choose not to do it in that area.

Transfer – Share the risk by involving stakeholder or other party e.g. by taking out insurance to transfer the risk to the insurance company.

Treatment/Mitigation – Act to reduce the probability and/or impact of a potential risk e.g. adjust or revise certain activities.

Tolerate/Accept – If the risk is below the defined toleration level, you might choose not to take any action.

Once the risk response activities have been selected a risk management plan should be prepared to determine the ways in which the risk responses are put into action and to plan for adequate resources for the risk assessment.

For small projects the risk management plan might be as simple as a documented list of the risks that have been flagged or identified as needing to be actively managed. The list should be kept updated as the project develops.

For larger projects a risk register can be produced which will give much more details. An example is given below:

Table 5 Example risk register

Category	Risk	Current status	Probability	Impact	Score	Response	Who	When
Organizational	Lack of communication leads to mistrust	Actively monitored	2	2	4	Treatment – ensure that meetings take place regularly and minutes are communicated	FPC and FTO	All Year
Operational	Design might not be appropriate due to lack of technical expertise	Resolved	3	3	9	Treatment – consult with an expert from the local education department for technical expertise.	Project Manager	Q1

Risk monitoring: responding to risks as they occur and ensuring proper risk management procedures are being followed, as well as the continual identification of new risks

Regular risk reviews should be carried out throughout the life of the project to identify any new risks that might threaten the project, and also to ensure that the previously identified risks are being appropriately managed or corrected. It is better to have a system which will prevent the further reoccurrence of the risk. The risk register is a good tool for this, and if developed at the onset of the project then it can be used throughout the project.