

# PARTICIPATORY ANALYSIS OF THE USE AND IMPACT OF THE FAIRTRADE PREMIUM

Response from the commissioning agencies, Fairtrade Germany and Fairtrade International, to an independent mixed-methods study of use and impact of Fairtrade Premium conducted by Laboratoire Interdisciplinaire Sciences Innovations Sociétés (LISIS).

## THE STUDY AT A GLANCE

### INTRODUCTION

Researchers from the Laboratoire Interdisciplinaire Sciences Innovations Sociétés (LISIS) conducted a mixed-methods based study with the aim of analysing how the Fairtrade Premium has been used by Fairtrade organizations and how it generates benefits for Fairtrade farmers, workers and their communities. Five cases were explored: a **coffee/cocoa small-scale producer organization (SPO) in Peru**, a **cocoa SPO in Côte d'Ivoire**, a **banana SPO in Ecuador**, a **banana SPO in Peru**, and **flower plantation in Kenya**.

Fairtrade Premium is one of the key interventions in the Fairtrade approach, as distinct from the Fairtrade Minimum Price. The Fairtrade Premium is an extra sum of money, paid on top of the selling price, that farmers or workers invest in projects of their choice. Over time, rules governing the use of Fairtrade Premium evolved to allow producer organizations to have greater autonomy over how Premium could be used. While Fairtrade case studies and examples of Fairtrade Premium projects exist, this study is the first to explore the pathways to impact that the Fairtrade Premium creates for Fairtrade producer organizations and their members.

### APPROACH

The researchers followed Fairtrade's Theory of Change in reviewing existing findings from other published studies, which suggested that the Fairtrade Premium is used to invest in farmers and workers, their organizations and communities (direct outputs of the Premium intervention). This investment should lead to resilient, viable and inclusive SPOs; improved farming performance; protection of the environment and adaptation to climate change; and enhanced influence and benefits for farmers, workers and their communities in the medium term. The longer-term impacts should be seen in terms of improved income, wellbeing and resilience among farmer and worker households; enhanced gender equality and intergenerational sustainability in rural communities; and increased environmental sustainability and resilience to climate change.

The researchers began with the assumptions implicit in Fairtrade's Theory of Change, which suggest that the process of taking collective decisions about how to use the Fairtrade Premium can contribute to a greater sense of empowerment for farmers and workers. Using a combination of analysis of data from existing literature and case studies, the researchers focused on four characteristics of an intervention (in this case, the Fairtrade Premium) that influence its impact within organizations and on systems: **use, participation, accountability and function**. Specifically, the researchers considered questions about the processes of 1) decision-making about Fairtrade Premium use and who participates; 2) implementation of the decision and how Premium-funded projects are carried out; and 3) the effects of specific Fairtrade Premium uses in influencing six expected impacts.

The study also explored evidence of '(in)effective' Premium uses, as well as barriers and enablers for effective Premium utilization. The researchers brought this together to analyse the possible pathways to impact and conclude with recommendations for future research and engagement with the Fairtrade Premium.

## METHODOLOGY

The study is a qualitative-led mixed-method study. It combined quantitative data analysis with participatory methods for collecting data.

The researchers adopted a step-wise approach to the data analysis. The first stage included an innovative approach to quantitative data analysis of documents and data shared by Fairtrade. This allowed for the statistical analysis and guided the selection of countries and products that would be included in the qualitative case studies. For analysis of Fairtrade Premium use, the researchers looked at Premium spending during the period 2011 to 2016, based on reporting from 893 Fairtrade certified producer organizations.

The researchers adopted a 'multiple-case' design that enables comparison of processes across different contexts. Fieldwork was conducted to examine the Fairtrade Premium decision-making processes in five cases in more detail. This included field observation (on-site visits of local Premium-funded projects); document analysis (audit reports, websites, additional documents accessed in the field); 27 focus groups (with producers, workers on plantations and on small-scale farms, supervisors); eight co-construction workshops with decision-makers (especially Fairtrade Premium Committees) and 166 individual interviews with members of the producer organizations.

It is important to note that this study did not intend to measure the extent of Fairtrade's impacts, and as such did not include any counterfactuals (e.g. non-Fairtrade organizations that could serve as comparisons).

## FINDINGS & RECOMMENDATIONS

### FINDINGS

In this section, we present a summary of the research findings for each of the four characteristics of an intervention (use, participation, accountability and function), followed by our response to the findings.

#### **Use: How is the Fairtrade Premium being used? What is it spent on?**

The use of Fairtrade Premium by the organization depends on the needs and the priorities of each producer organization and its farmer members (in the case of smallholder cooperatives) or hired workers (in the case of plantations), and reflects specific contexts and priorities. In terms of quantitative analysis, individual services to farmers and workers make up 52% of all Premium expenditure, followed by investments in the producer organizations (35%) and services to the communities (9%).

Services to farmers and workers include direct cash payments to members, which at 15% is the largest single category of investment across all Premium spending. These payments, in the form of cash or non-cash bonuses, can reduce the economic vulnerability of the farmers or workers. Still, many organizations choose to use their Premium on other services, in part because cash payments may be taxed as income. In particular, workers at plantations distribute Premium as cash payments at a much lower rate than small-scale producer organizations. Other services include provision of agricultural tools, organic inputs, and loans, among other things.

Investments in the producer organizations include processing facilities (at 5% of the total Premium spent this is the largest category under investment in producer organizations); administrative and office costs; financing debt; and capacity building (to improve the democratic governance of the organization, and other areas such as marketing capacity). At the community level, projects include health and education infrastructure and services; water and sanitation; community buildings; and community environmental projects.

The researchers looked at employee and worker training as a separate category of Premium

investment. The main investments here are in training Fairtrade Premium Committees in hired labour organizations, and training delegates and employee members of Fairtrade decision-making bodies in technical, financial and management skills and other types of capacity building. In addition, about two percent of all Premium is categorized as 'other use', most often because the Premium use description doesn't fit into one of the established categories for reporting, which can be subject to the interpretation of the reporter.

**Participation in decision-making: Who decides how Fairtrade Premium is used? Who benefits?**

Fairtrade Premium uses and impacts depend on participation and accountability arrangements in the decision-making process. The researchers identified two types of processes for making Premium decisions within an organization: a separated decision-making process (in which management of the Premium is handled by separate entities from other business decisions and receives more visibility) and an embedded decision-making process (in which Premium decisions are intertwined with the organization of other types of investment and there is less visibility in the daily life of the organization). Plantations are required by Fairtrade Hired Labour Standard to establish a separate committee of worker representatives to decide on Premium use. Some farmer cooperatives also use this structure although not required by the Fairtrade SPO Standard.

Key findings include that the participation of individual workers and producers does make a difference in ensuring that Premium investments are responsive to their needs and those of their families and communities. Participation can take place at various stages of the process and at different levels.

Large producer organizations have the responsibility to create structures that enable producers and workers to voice their individual and collective interests and priorities. For instance, the Kenyan flower plantation solicits ideas for Premium use from all workers on its two estates through an annual anonymous survey, which is then brought to the workers' elected central Fairtrade Premium Committee. At the cocoa union in Côte d'Ivoire, the annual General Assembly decides how to allocate Premium to the union's 23 cooperative members; each cooperative decides how to invest its Premium based on input from members via a series of assemblies. The evaluation of Premium investments tends to involve less participation and receive less attention than the decision making itself. Workers hired by small-scale farmers or by cooperatives often do not formally participate in a cooperative's Premium decision-making processes.

In terms of perception, interviewees who were part of organizations with separated decision-making processes felt more consulted about Premium decisions than those in organizations with embedded decision-making processes. Producer organizations that have a separate and more inclusive decision-making process make considerable investments in projects dedicated to social development, as compared to the organizations with more embedded processes, which tend to invest more in organizational and infrastructural projects that serve the increased production and prosperity of the producer organization.

**Accountability: Who knows about how Fairtrade Premium has been used? Do they trust that these uses are appropriate?**

Levels of knowledge and trust vary across gender, status and level of involvement in representative and management bodies. For instance, women are more aware than men of Premium decision-making meetings, but less likely to know the outcome of the decisions, and less likely to trust their Fairtrade Premium Committee to make 'the right decisions'.

In the hired labour organization case study as well as the SPOs where Premium decision-making is handled separately from organizational management, there are gaps in knowledge of the worker or farmer representatives on the Fairtrade Premium Committees, such as in budgeting and financial accounting or understanding certain decisions. Capacity building can play a role in addressing knowledge gaps, but there was no clear correlation between the amount spent on training (for instance in decision-making and financial accounting) and trust in the Premium decision-making process. Interviewees' responses emphasized that training can only be effective if there is sufficient transparency and participation.

Greater transparency and accountability stem from the existence of specific roles and responsibilities, specific strategies to improve the visibility of Premium use and distribution, as well as accounting systems clearly separated according to sources of income. For instance, some organizations use signs or logos on items purchased with Fairtrade Premium in order to make this investment more visible. Defining criteria and rules could increase transparency when investments cannot be carried out in all places at once, as long as these rules are decided in a participatory manner and documented.

### **Function: What does the Fairtrade Premium do for beneficiaries?**

The function of the Premium is primarily entrepreneurial and as a means to mobilize resources. When participatory decision-making works, the Fairtrade Premium increases the dignity of farmers and workers by enabling them to become 'patrons' of their communities. The five case studies shared in an appendix to the report document many examples of Premium investments and impact.

Fairtrade certified producers have six main functional uses for Fairtrade Premium: 1) collective investments for both the organization and individual members (e.g. fertilizer, equipment); 2) 'productive' training for farmers and workers (e.g. on technical assistance and the Fairtrade Premium Committee); 3) quality and productivity improvement (e.g. processing equipment, quality management, mostly in coffee); 4) support for the Fairtrade system and supplement to the market prices of the products (mostly direct payments to farmers but also payment of Fairtrade certification costs); 5) advancing the education of farmers and workers children (e.g. school fees, construction); and 6) 'private' capital investments in communities (e.g. community projects such as water tanks).

The most recognized and remembered projects were those involving physical infrastructure and individual payments of cash or school fee bursaries. Interviewees were asked about 'best' and 'worst' uses of Fairtrade Premium, and responses varied by the interviewee's position (albeit at first many interviewees stated that 'there is no bad project' since it is what members and workers decided). For example, in one SPO, top management found the direct payments to be best, while operational managers preferred the range of infrastructure investments. Supervisors, workers and farmers found the scholarships to be the most useful, while farmers found the gender projects for the communities (such as cassava production and processing for women) to be the most beneficial. There was a clear preference for school bursaries among respondents coming from those producer organizations with separate decision-making processes, while members of the embedded decision-making organizations preferred productive investments.

The researchers did not find significant correlations in the available overall data between productivity investments and percentage of Fairtrade revenue or percentage of Fairtrade sales, although they could only compare spending and yield data from the same year (2015) since longitudinal data were not available. Additional study would be needed with data from a broader period to further explore this. The researchers also noted that the case study SPOs that used Fairtrade Premium to pay for productivity inputs did not have these items as a budgeted expense. This raised a question about whether the SPOs could cover this operational expense and service to members on a long-term basis if Premium were not available.

### **Fairtrade Premium Impact Pathways**

The researchers identified five outputs of the Fairtrade Theory of Change that are achieved through Premium use, which map to six impacts (condensed from an original eight in the Theory of Change): 1) improved income, well-being and resilience; 2) enhanced gender equality and intergenerational sustainability; 3) increased environmental sustainability and resilience to climate change; 4) dignity and voice for small producers and workers; 5) transparency and equitable distribution of risks and rewards in supply chains; 6) fairness and sustainability embedded in business practices, policy and societal norms for production and consumption.

Ten possible pathways to impact were identified by the researchers. For instance, stronger, well-managed and democratic producer organizations provide enhanced influence and benefits for small producers, workers and communities and lead to greater dignity and voice for these actors at local levels. Improved labour conditions and enhanced knowledge and capacity also lead to multiple

impacts.

Interventions in stronger, well-managed and democratic producer organizations offer the greatest number of pathways to impact. Separated decision-making processes contribute to this strength by enabling producer organizations to increase the participation of members in the decision-making and hold decision-makers accountable for how they spend Fairtrade Premium funds. Every individual producer organization needs to develop its own pathway to impactful Premium use, depending on contextual conditions and organizational needs.

## RECOMMENDATIONS

The researchers make a number of recommendations in three main areas.

### **Improving Fairtrade Standards and support for producer organizations**

Recommendations include encouraging producer organizations to develop separated decision-making processes; integrating small-scale farm workers into the Fairtrade Premium decision-making process; encouraging Premium planning workshops by Premium management committees; and supporting the Fairtrade Premium Committees of hired labour organizations in the same area to work to collectively fund larger community projects.

### **Strengthening monitoring, evaluation and learning (MEL) systems**

Recommendations include supporting producer organizations to evaluate their own Fairtrade Premium projects; updating the categorization of Fairtrade Premium use to better capture function and ultimately impact; and ensuring good data management processes.

### **Improving research on Fairtrade Premium**

Recommendations include collecting more data on the type of Fairtrade Premium decision-making processes that producer organizations have in place, to expand on the data collected for these five case studies.

## FAIRTRADE'S RESPONSE TO THE FINDINGS

Fairtrade welcomes the overall insights regarding Fairtrade Premium use and decision-making as well as the case study detail. The Fairtrade Premium – which reached €178 million in 2017 – and the empowerment to decide how to invest it are core benefits of Fairtrade, and we are encouraged that pathways to impact of Fairtrade's Theory of Change are validated through this study.

The analysis that Fairtrade Premium projects that develop stronger, well-managed and democratic producer organizations offer the greatest number of pathways to impact is a valuable insight, balanced with recognition that producer organizations' own decision making prioritizes services to farmers and workers (52%) above investment in producer organizations (35%). In addition, we recognize that some specific areas of support could help in increasing participation in Fairtrade Premium decision-making and deepening the impact for producers and their communities.

These findings add to our own analyses of Fairtrade Premium. We report Premium expenditure annually, disaggregated by SPO and plantations since, as this study highlights, these two types of producer organizations have different memberships, needs and priorities which we find valuable to understand consider separately. For instance, in 2016 Fairtrade SPOs (farmer cooperatives) spent the most Premium on services for farmers (48%) and investing in producer organizations (42%), followed by services for communities (7%) and other projects (4%). Workers on plantations (hired labour settings) chose to spend about two-thirds of their Fairtrade Premium on services for workers and families (66%), followed by communities (22%), and trainings and empowerment of workers (11%). (See our latest [monitoring report](#) for more detail.)

Separate from this study, other consultation with banana plantations has indicated a similar pattern of

low rates of distributing a portion of Fairtrade Premium directly to workers, although the Fairtrade Hired Labour Standard allows 20% of the Premium to be used in this way (up to 50% exceptionally). The intention of this part of the Fairtrade Standard is to explicitly allow workers to choose to increase their own incomes, although it is clear that in some settings there are disincentives to doing so, such as the taxability of such distribution (as mentioned in this study). We will be exploring this further during our the 2019 review of the Fairtrade Standard for Fresh Fruit for hired labour organizations, which is part of our effort to progress towards living wages for banana workers.

In the case of small-scale farmer cooperatives (as distinct from plantations), organizations can also choose to distribute Premium as part of income: as noted in this study, it can be in the form of increasing the effective selling price that is paid by the cooperative to its farmer members. Our living income strategy includes strategic investment of Fairtrade Premium as a means to increase farmers' incomes, and will benefit from this study's analysis of the cocoa producers' union in Côte d'Ivoire.

## REFLECTIONS AND NEXT STEPS

The findings, including the perspectives of farmers and workers on what they value and decision-making best practices from the case studies, will inform how Fairtrade supports the most effective use of the Premium in pursuit of impact for farmers and workers.

The findings and recommendations of this study have been shared with the Fairtrade International Standards Committee, the multi-stakeholder body which includes farmer and trader representatives and makes final decisions on updates to the Fairtrade Standards. In terms of investment in productivity (currently required for coffee since 2014), this is scheduled for review in 2019 as part of the Fairtrade Standard for Coffee update.

In addition, we have shared the findings with some commercial partners and with Fairtrade Producer Networks so that they can design support services and programmes that will inform producer organizations on the benefits of various decision-making and monitoring structures for the Fairtrade Premium, among other issues.

Finally, we have shared the suggestions related to monitoring and research with the Fairtrade Monitoring, Evaluation and Learning Working Group, which sets research agenda and disseminates findings across the Fairtrade system. We have engaged a research group to consult on improving data management practices and reviewing our Fairtrade Premium categories (with the aim of better capturing Premium uses and reducing the 'other' category).

Although the analysis from this study's literature review indicated that differences in outcomes could be attributed to the different types of Fairtrade Premium use (i.e. individual payments to farmers, investments in producer organizations, the capacity of the organization to invest and manage the Premium, and the decision-making process used to determine its use), the researchers were hesitant to attribute any direct impact to the Fairtrade Premium as there was significant co-financing of the Premium projects with other rural development funds. This study also points to the need to research more closely the specific role that the Fairtrade Premium plays in making an impact on farmer livelihoods and empowerment, as well as on the fairness of terms of trade, which we will factor into our research priorities in the future.