

SMALL PRODUCER ORGANIZATION DEVELOPMENT, STRENGTHENING AND RESILIENCE

Response from the commissioning agency Fairtrade International to an independent qualitative baseline study of Fairtrade small producer organizations, conducted by KIT.

THE STUDY AT A GLANCE

INTRODUCTION

Researchers from the Royal Tropical Institute (KIT) in the Netherlands conducted a **qualitative baseline study** in six countries: **Côte d'Ivoire, India, Indonesia, Kenya, Mexico and Peru**. The objective of the research was to provide insights into processes of development and strengthening of Fairtrade small-scale producer organizations (SPOs). The research aimed at identifying the conditions, internal and external, that are necessary for SPO development to be successful, and how Fairtrade can best support and influence those. The study focused on collecting baseline data on present organizational strengths and weaknesses; providing insights into processes for strengthening SPOs within the Fairtrade system; making recommendations for how Fairtrade International can best support the strengthening of SPOs; and exploring how the development of SPOs can benefit individual members.

APPROACH

Fairtrade's Theory of Change defines a **strong organization** as a sustainable organization with a balanced governance structure, in which democratic principles are practiced and the business is effectively managed in function of the collective needs of the members. A successful SPO should therefore have characteristics of democratic structures to ensure participation and communication; good governance, inclusive leadership and transparent management; skill-sets and capacities for managing businesses; and strong economic and financial foundations.

Since the Fairtrade definition of a strong organization is closely related to Baser and Morgan's (2008) 'five core capabilities framework', the researchers used it to assess SPOs' capacity and resilience.

- *The capability to adapt and self-renew;*
- *The capability to act and commit;*
- *The capability to relate to external stakeholders;*
- *The capability to achieve coherence; and*
- *The capability to deliver on development objectives.*

METHODOLOGY

The study is a qualitative led mixed-method study. The overall report is accompanied by six country reports on Côte d'Ivoire, India, Indonesia, Kenya, Mexico and Peru, presenting details from the respective country study. In total, 55 SPOs were visited, the majority of which were organizations of farmer members (known as 1st Grade SPOs in the Fairtrade system). Four 2nd Grade SPOs (organizations whose members are 1st Grade organizations) were also included, one in each country, with the exception of Côte d'Ivoire and Indonesia. The participating SPOs produce tea, coffee, cocoa, banana, spices, mangos, sugarcane, raisins, asparagus and snow peas (numbers of SPOs are indicated in the table below).

	Tea	Coffee	Cocoa	Banana	Spices	Mango	Sugar-cane	Raisins	Asparagus	Snow peas	Total
Côte d'Ivoire			9								9
India		1			2	2	2	1			8
Indonesia		9									9
Kenya	4	5								1	10
Mexico		9									9
Peru		5		3		1			1		10
Total	4	29	9	3	2	3	2	1	1	1	55

Primary data collection relied on qualitative interviews generated from:

- Semi-structured focus group discussions (FGDs) with leadership and management;
- Semi-structured FGDs with men members;
- Semi-structured FGDs with women members; and
- Key informant interviews with local representatives from producer networks and local Fairtrade International staff.

In the period of May to November 2016, 1,049 persons were interviewed through FGDs: 353 leaders and professional staff (287 men and 66 women), 691 members (411 men and 280 women), and five Fairtrade International staff. The table below shows the details:

	Month	Leaders			Members			Fairtrade International staff	Total
		Men	Women	Total	Men	Women	Total		
Côte d'Ivoire	July	62	2	64	65	69	134	1	199
India	August	30	4	34	118	42	160		194
Indonesia	May	18	9	27	72	50	122	2	151
Kenya	July	54	10	64	96	64	160	2	226
Mexico	October	55	13	68	24	15	39		107
Peru	November	68	28	96	36	40	76		172
Total		287	66	353	411	280	691	5	1049

FINDINGS & RECOMMENDATIONS

FINDINGS

In this section, we present a summary of the research findings for each of the five core capabilities and recommendations, followed by our response to the findings.

1. Capability to Adapt & Self-Renew

This capability is key to the resilience of an SPO. It requires flexibility and reflexivity, i.e. the capacity to affect and interact with the environment in which the organization and its members operate.

This capability requires good leadership and strong adaptive management capacities with a clear mandate and the autonomy to take and implement decisions if necessary. At the same time,

ownership by, and accountability to members, and consequent communication and information provision, are seen as key qualities of an SPO. In addition, many SPOs are bound by arrangements with their donor organizations, or at least perceive their relationship with donors as restricting.

Challenges related to this capacity include climate and price shocks, for which SPOs and quite limited coping strategies, although some SPOs are planting more pest- and climate-variation-resistant seed varieties. Most SPOs lack information on international markets and price implications, such as the impact of a drought in Brazil on international coffee prices. Moreover, some SPOs had challenges in business management, whether having no recurring contracts, changing traders every year, or being highly dependent on one buyer. Few SPOs – with the exception of tea SPOs in Kenya – conducted risk assessments for the projects they engaged in. The limited capacity to predict or control the amount of premiums also contributes to the vulnerability of SPOs, even in those cases where a reasonably good estimation about production can be done. To reduce risks, farmers are sometimes advised to have diverse sources of food production or income. The movement of young people out of agriculture is also a key challenge under this capacity.

2. Capability to Act and Commit

This capability is related to the individual capacities of an SPO's leaders, staff and members to fulfil their roles and perform these according to agreed standards. The capability to act and commit requires systems and structures that balance democratic principles, accountability and transparency on the one hand and the ability and flexibility to respond adequately and timely to emerging challenges on the other.

The six country cases showed a limited capacity to control, understand, negotiate and acquire Fairtrade sales. This is somewhat product-specific; coffee and cocoa SPOs are dependent on traders and millers, and long-term relationships are rare in some countries such as Kenya. Those SPOs engaged with continuous harvest crops (i.e. tea and banana) have higher and more reliable cash flow than SPOs producing other crops, which makes them capable to act and commit in a more sustained manner. Similarly, the SPOs that have a stronger business plan are able to manage their operations in a more controlled manner. SPOs rarely demonstrated capitalization strategies; it was more common for members to choose to distribute earnings at the end of a season rather than strategically invest in something to benefit the whole membership. However, even the smallest SPOs used some type of system to keep a record of relevant membership variables, such as active members, volume of sales, organizational income, expenses, utilities and tax payments (perhaps driven by audits).

3. Capability to Relate to External Stakeholders

This capacity is embedded in the nature of SPOs as they develop and maintain linkages with external actors (private sector value chain actors, service providers or public sector and government agencies) on behalf of their members. These roles include policy influencing, lobbying and advocacy, mobilizing support, and negotiating better services and a better position in the value chain. The interactions can result in improved access to services, improved policies, rules and regulations, access to markets and more power through improved value chain linkages. It is important that SPOs are truly representative of their members in order to be considered credible partners by stakeholders, and to ensure that the benefits of improved external relations serve the majority of their members.

There seems to be a general tendency among SPOs to switch between actors rather than to maintain and enhance relationships. Although taking up certain value chain functions can be an important for SPOs to grow and enhance their independence, sometimes these functions can be carried out more efficiently by other actors and adequate analysis to support moving up the value chain is often lacking. For example, rather than negotiating better arrangements with traders, SPOs engage in trading

themselves. Access to good, reliable buyers was a key concern under this capability, and perception varied as to whether this was due to a lack of demand or whether buyers had difficulty finding SPOs. If trading relationships go bad, SPOs are uncertain about their recourse to the law (and the expense involved).

The 55 visited SPOs were particularly weak at any sort of lobbying or developing lasting relationships with other SPOs (both 1st and 2nd Grade), NGOs or the government. In the cases where interactions with the government did exist, this revolved around improving infrastructure to facilitate the movement of produce (Côte d'Ivoire), or around SPO members benefiting from government input subsidies (India), or technical assistance, credit, financing of technological innovations or tax advantages (Peru). While results from lobbying activities was limited, one SPO in Peru was able to advocate with the government to intercede with their lender to freeze interest rates on a loan and extend operating credit so they could recover from a lost crop and pay off their debt to the bank.

4. Capability to Achieve Coherence

This capacity relates to an SPO's ability to meet the needs of often a wide variety of members. Translating members' diverse needs and interests into services that meet everyone's expectations is a significant challenge for most SPOs. In addition, if members do not feel represented they might lose interest in and loyalty to their organization, which could have business implications, for instance in terms of the ability to deliver on contracts.

This capacity appeared to be strong in all visited SPOs (although to different extents), and often influenced by or attributed to Fairtrade. For instance, most coffee and cocoa SPOs are registered under a national cooperative act, and in Indonesia this is attributed to Fairtrade's influence. SPOs were perceived to be transparent and democratic, and had stronger internal than external relations. Overall, the majority of SPOs demonstrated good governance practices. Members felt they had a voice, could express their concerns, and that systems existed for constant and effective communication.

Challenges in representation, for instance at the General Assembly level, are that SPOs sometimes struggle to find people sufficiently educated and willing to take on the role of delegate representing members. Women often did not feature strongly among SPO memberships, leadership nor within the representative delegate system in large SPOs. The duration of the board mandates varied per country but in general, turnover in leadership is relatively low.

5. Capability to Deliver on Development Objectives

This refers to an organization's ability to fulfil its commitments once the organization has mobilized and committed to its activities. This capacity is related to human and financial resources, and is influenced by the systems and procedures in place like administration, finance, information management, communication, and facilities available (including hardware).

Services to members are a key deliverable for SPOs, including input provision, transport/collection of raw produce, storage, marketing, processing, and training. Overall, members were pleased with the SPO services provided, which vary according to the financial resources of each SPO.

In general, stronger and better managed organizations seemed to offer more services to their members. Fairtrade Premium is used to fund member services, with some SPOs crediting members' needs as driving this demand, while buyer demand drives quality improvement efforts. Still, all SPOs organize some type of training on Fairtrade Standards and good agricultural practices (GAP).

There were wide regional and product variations: in India, all SPOs provided transport and processing for members' coffee produce, while few in Kenya did. In Mexico, some SPOs provide transportation for free while others require farmer contribution toward driver and fuel costs. Banana and mango SPOs in Peru provided members with labour for various stages of production and transport. SPOs that have a presence along the entire value chain (e.g., some SPOs in Mexico that roast their own coffee) tend to be stronger than those that sell green coffee. SPOs engaged in perennial produce tended to have more economic power thus, more chances to provide financial services (i.e. inputs on credits, pre-harvest loans) to their members.

Experience of SPOs with Fairtrade Standards and Certification

Farmers and SPO leaders reported their overall experience to be positive, with a few caveats. Most of the visited SPOs reported that Fairtrade Standards helped them improve the quality of their production and promote improvements in their community. The SPOs receiving significant premiums were particularly thankful about the community improvements made possible. However, despite reasonable estimations on production, most SPOs had difficulty predicting the amount of Fairtrade Premium they would earn. Challenges include occasional confusion about the Fairtrade Premium and the link between sales on Fairtrade terms and earning Fairtrade Premium, and perception on the part of some SPOs that Fairtrade certification would automatically bring sales and Fairtrade Premium (as the researchers put it, the perception of Fairtrade as a project). SPOs also expressed a desire for stronger communication channels, particularly for audit-related questions. On the positive side, SPOs report that Fairtrade requirements and audits have helped them better understand transparency and good governance, and see audits as a way to benchmark their progress. They therefore take audits very seriously and want to receive feedback as well as timely response to questions.

RECOMMENDATIONS

The following recommendations are based on the findings from all six countries.

Business Development:

Small SPOs particularly have limited marketing capacity and experience. Accessing the Fairtrade market is clearly seen as one of the main challenges for all SPOs. Fairtrade can support SPOs by strengthening their ability to find and maintain commercial partnerships/buyer relationships. Fairtrade could also better **assist SPOs to link to potential Fairtrade buyers and increase transparency across the value chain**, so SPOs are in a better position to increase their Fairtrade sales.

Management:

While all of the SPOs seemed to function relatively well, there are a few areas where Fairtrade can better support SPOs. Fairtrade can **support SPOs in designing risk management plans** (related to climate change, commerce, legal, political) and **improve internal management and governance** through training on leadership and supporting inclusive strategies. It can help the SPOs to **promote and facilitate the use of information and communication technology (ICT)** which can be a powerful tool to improve administration, financial and production management. Helping the SPOs to **pilot new financing models and improve access to working capital** can help SPOs in having more financial capacities and thereby help them to professionalize their services to members.

Strengthen the participation of women in different decision-making bodies:

Lack of land titles, low land ownership or limited amounts of land formally under the control of women are often barriers for women's participation in decision-making bodies. Fairtrade should consider how male dominated SPOs can extend further support to women who are already involved in production

and marketing at the household level, but who may lack access to training and other forms of support. Fairtrade could develop or provide incentives for training programmes aimed at empowering female members of SPOs. This may involve training and sensitization on the five domains of empowerment in agriculture: production, resources, income, leadership and time. It could encourage positive discrimination through electoral lists for the board of directors and supervisory board, and for management contracts, technical assistants.

External Relations:

Fairtrade could **support SPOs to make cross-sector strategic alliances, partner with local governments** as well as **facilitate exchange among SPOs**. In some of the visited countries (i.e. Kenya and Peru), SPOs pointed out that the government is willing to increase support for certification, which presents an opportunity for standard and certification bodies to work with the governments to the benefit of farmers and farm workers. Fairtrade could support SPOs in jointly investigating alternative models for increasing productivity; engage with fertilizer-related initiatives; and support SPOs with testing labour pooling models. In partnership with agriculture and environment ministries, Fairtrade could develop a marketing strategy to promote SPO products in potential niche markets, allowing smallholder farmers to diversify their portfolio of customers and have alternative sales channels as well as raise awareness about Fairtrade products.

Beyond the Project Mentality:

There is a need to **create awareness and internalization of the Fairtrade Standards**, to contrast a current perception of some SPO members of Fairtrade or other certification schemes as a development project. This would support members to have realistic expectations of Fairtrade, an understanding of benefits for themselves as smallholder farmers, and insight into planning and sustainable use of the Fairtrade Premium. Lessons could be learned from 'failed' SPOs.

Benefit of Individual Farmers

SPOs can help their individual farmers by better supporting activities which are not directly linked to the main crop the SPO produces (**livelihood diversification**).

Supporting Tasks

Fairtrade could work with SPOs to identify **reliable legal service providers** who are knowledgeable about their specific sector. Fairtrade could also help to strengthen SPOs through **reporting and financial management tools**, including Fairtrade Premium planning and financial reporting. The Fairtrade Standards and procedures would be easier to follow if **translated into local languages**; while official documents are usually available in English and Spanish, SPOs have encountered difficulty with Fairtrade documentation especially in Asia.

FAIRTRADE RESPONSE TO THE FINDINGS

We welcome the report's baseline findings and recommendations. We are encouraged that the cooperatives have been able to establish themselves with Fairtrade support, and to begin to function as businesses and service providers to their members. The impacts of certification take time to develop, as cooperatives develop their market access, leadership capacity, deepen their implementation of Fairtrade Standards and start to gain more benefits from the Fairtrade Premium. We recognize that the cooperatives have many support needs, and we agree that key challenges include expanding Fairtrade sales; supporting agricultural diversification; and strengthening cooperatives to achieve greater member engagement and support more viable livelihood options for members.

Because this is a baseline study with a mix of recently- and longer-certified groups, the intention of this study was to provide insight into the status quo of Fairtrade certified small-scale producer organizations and better understand the supporting and limiting factors which enable SPOs to become strong and sustainable businesses. We did not measure the impact of Fairtrade per se in this research, nor did the study look at correlations, for instance between certain factors and outcomes such as level of Fairtrade sales or member incomes. Rather, the qualitative feedback provides insight into farmers' and SPO managements' perceptions and experiences of their own development.

Nevertheless, it is encouraging to see that even recently certified cooperatives have already experienced a number of positive impacts arising in the early stages of their certification. The baseline findings suggest that the cooperatives and the cooperative unions (i.e. 2nd Grade organizations) have taken the first steps towards building a viable business. They have forged commercial relationships with buyers, developed procedures for basic business operations and for ensuring compliance with government and Fairtrade Standards, gained valuable experience in the basic operation of a cooperative enterprise, and been able to deliver services and benefits to their members.

NEXT STEPS: ACTION FOR FAIRTRADE

Enhancing the viability and resilience of small farmer organizations sits at the heart of Fairtrade's Theory of Change. Fairtrade believes that smallholder farmers can achieve economies of scale, more bargaining power in markets, and improved access to services and inputs on better terms, when they form producer organizations (cooperatives). If they are to provide maximum benefits to their membership, producer organizations need good governance, inclusive leadership and transparent management; effective democratic structures for member participation and communication; the right skills and capacities for managing their businesses; and access to relevant information, resources, services, and infrastructure.

This study provides important guidance as to how Fairtrade can better support Fairtrade cooperatives, so they can succeed in their efforts to become viable social enterprises and create value for their members. In particular, this report has informed the development of Fairtrade's strategy to support living income for smallholder farmers, which is being applied as a priority in cocoa in West Africa. Strong, efficiently managed producer organizations are critical drivers to improve the livelihoods of their members, and thus many of the findings and recommendations from this study are relevant to our focus on improving farmer incomes to support a decent standard of living. Other components of our living income strategy include sustainable pricing, Fairtrade sales growth, sustainable farm yields, diversification, cost efficiency and an enabling environment through advocacy for policies that support living incomes.

The data collected via the research constitutes a baseline which will be a reference point for future programme work in order to improve our support to the farmers with whom we work. Specifically, we will be developing new programmes designed to support the development and strengthening of small farmer organizations, and working with commercial partners that are committed to enabling SPOs to develop their capacity in the key areas identified through this study.