

Practical guide how to apply the SFTMS

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This guide is intended for all organizations: the FTO wherever they are based, the producer group and the subgroups. It is a step by step implementation guide as to how the SFTMS is applied in the field in order to successfully fulfil the requirements of the SFTMS standard.

Having followed all the steps in this guide the organization will be compliant with the SFTMS and should be suitable for certification.

Written by Christine Gent and Carry Somers.
Working with a draft standard with no guidelines this is not a finite guide, please give feedback to the authors on improvements where ever possible. carry@panamas.co.uk christine@fairlycovered.com

PRINT THE SFTMS STANDARD NOW

All information in this guide is supplementary to the SFTMS standard and the SFTMS guidelines (not yet written).

To work with this guide please print The SFTMS Standard (SFTMS) and refer to it throughout the process.

PROCESS APPROACH

SFTMS is concerned with all the Fair Trade practices within the FTO and its supply chain.

To function effectively an organization must carry out several activities, such as production, marketing, exporting, etc. An activity or set of activities which ultimately deliver a product or service can together be considered as a process. **The application of a system of processes within an organization, together with the identification and interactions of these processes and their management to produce the desired outcome, can be referred to as the "process approach".**

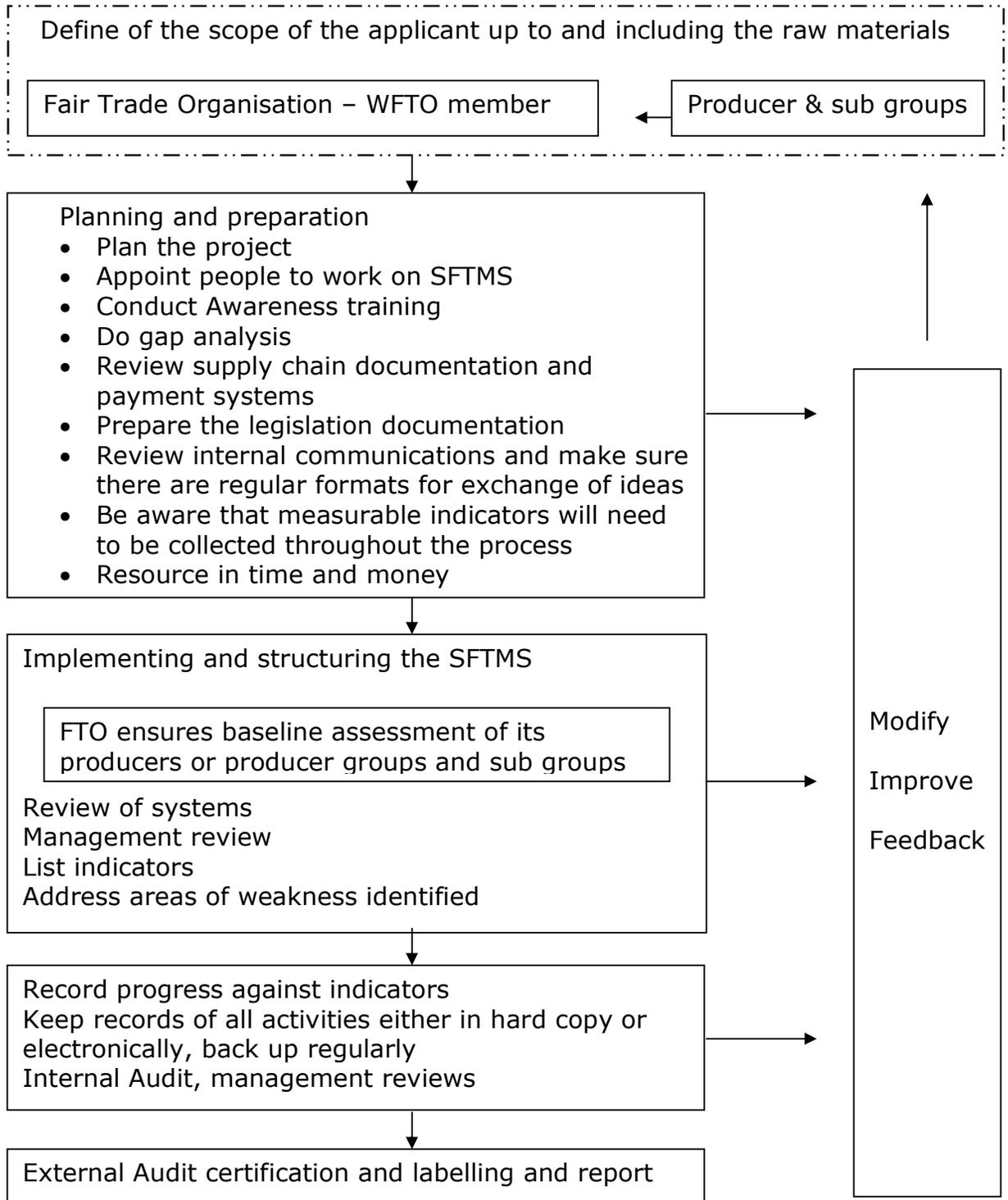
An advantage of the process approach is that while the individual processes are controlled, the other related processes are also controlled, so that one gets the best overall outputs. This also results in continual improvement of the processes. For example, processing a customer order is one activity; the next activity could be purchase of raw materials, then there is production, quality control, packing, delivery, etc. If each of these activities is well controlled and coordinated, then the customer's order would have been properly executed and would give much satisfaction to the customer.

This is the process approach: the test is of the process not the product or service itself. The process defines itself, it not about passing or failing previously set minimum rules, although there are baseline levels of engagement the emphasis is on improvement.

TIMING

The SFTMS is not written in chronological order, print the chart below, give it dates, and refer to it alongside the SFTMS throughout process.

SFTMS FLOW CHART



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RECORDING

All WFTO members and their producers supply chains are already implementing many of the requirements of the SFTMS already. The question is if an auditor asked for evidence do you have it? Recording activities on an ongoing basis wherever possible helps achievement of SFTMS. This can be through photos as well as written documents. The policy action or improvement does not have to be complex, it does have to be recorded.

Your first document may be a gap analysis against the SFTMS standard to identify the areas that need to be actioned, recorded or addressed in order to meet the standard. (see *1 SFTMS Gap analysis template*) throughout the process the WFTO principles need to be addressed (*1a WFTO Principles GAP Analysis*)

Set up master electronic files for recording and sharing information, this will be designed to suit your organisation. This will be a dynamic file to link physical information to its users and give responsibility to each area of the SFTMS. (see *2 SFTMS Master Document template*)

SCOPE (1 Scope)

Who does the SFTMS apply to?

It has been proposed to WFTO that SFTMS should be closed for 2 years and given that this is approved at the May Mombasa 2011 meeting this is interpreted to mean that from May 2011 to May 2013 (at least) only WFTO members can apply to be certified against the SFTMS.

OK so you are a WFTO member or a WFTO members producer group. The SFTMS applies to you and all your supply chain over which you have control. This applies to your supply chain right down to the raw materials. Its more difficult to decide what is not in the scope, and the application of the SFTMS is different in every product with every supply chain and every country. The simplest approach is that the scope includes everything over which you have some measure of control and does not include that which is beyond your control. Where the scope places a risk to the organization and is not within the control of the organization effort should be made to address it. It is up to you to decide what is not in the scope and why.

The intention of the organization in terms of Fair Trade the Environment, Quality and Scope needs to be written down (see *5.1 Template SFTMS policy statement*).

COMMIT

Hold a meeting with everyone at many sites as possible, introduce the SFTMS why you are doing it and what it means in terms of change, improvement and participation. Appoint one person the SFTMS facilitator. Who will guide your organization or group through the process.

PRINCIPLES (SFTMS section 4)

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The principles guiding the whole process are the WFTO principles, these are being reviewed as at the moment there are different versions these are : SFTMS draft 2, SFTMS draft 3, and The Fair Trade principles as approved by WFTO AGM in 2007. Check for changes after the Mombasa meeting of WFTO May 2011.

PLAN THE IMPLEMENTATION OF SFTMS

5.1 SFTMS policy statement

See draft SFTMS policy statement (*see 5.1 Template SFTMS policy statement.doc*)

5.2 Facing the Market: Inventory of Customer, Market and Legal Requirements

The organization needs a system for keeping up to date on all of the appropriate legislation relevant to the business in all of the countries in which it operates. It is also important to designate people responsible for carrying out this work on an ongoing basis. Documentation can be electronic or hard copy. The requirements will vary from organisation to organisation but must cover:

- Specific Customer Requirements - list every non-standard requirement which every customer has made in last 12 months. This information should be systematically recorded and updated with due process for sharing within the organisation.
- Market Requirements i.e. sizing, labelling, animal welfare
- Legal Requirements:
 - Minimum Wages
 - Employment Law
 - Human Rights
 - Health and Safety
 - Cultural Identity and Intellectual Property
 - Environmental Legislation and Directives including Chemical usage, Waste management, CO2 Reduction.
 - Trade, import and export Legislation

In addition to folders containing all relevant Customer, Market and Legal requirements (either in paper or electronic form), it is also necessary to draw up a chart showing Key Legal and Market Requirements *see (5.2 Template Managing Requirements updates.xls)*

Evidence must be kept of communications to both suppliers and producers updating them on relevant changes. This could be through product specification documents, communication at the time of ordering or during visits and meetings.

In order to formalise with suppliers/producers their willingness to comply with obligations, a number of tools can be used such as:

Supplier Manuals

Producer Agreements

Terms & Conditions on orders

5.3 and 5.4

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Now that the preparation information has been collected, it is time to see how the organisation is performing against the requirements. This is carried out through a series of Baseline Assessments at the individual places at which the organization is active. The aim is to cover all producers involved in the supply chain. This can be achieved through a step-by-step approach, prioritising high risk activities and key suppliers. (See 5.3 *Selection Template for the selection of producers.doc*)

You will already have held a staff meeting at the initial stages of the SFTMS. A follow-up meeting should now be held to identify areas of risk within the organisation and potential areas of improvement. In a small organisation this may be a meeting, but in a large organisation a staff survey may be required. Management should review the a SFTMS Gap Analysis, go through each of the requirements 5.1 to 8.2 deciding which requirements are already in place, need to start or are in need of further work.

Working at the Site of Production

Producers identified in the Producer Selection document now need to be visited so they can participate in the Baseline Assessment and participate in the development of Action Plans in response to areas identified for improvement.

See Baseline Assessment Guide for how to carry out Baseline Assessment.

During the producer visit, all issues are logged, whether through participative exercises, observation or management meetings. Any areas of improvement to be ranked for risk to the business, and reviewed against resources available.

Action plans need to be developed for each producer group with actions which are SMART. Initial realistic discussions as to how items within action plan are going to be resourced and who is responsible for ensuring they are carried out within a given time frame.

The Applicant FTO now needs to analyse these action plans into 4 areas:

1. Actions which are independently funded by the producers themselves - need to check these are fulfilled at end of given time period
2. Actions funded entirely by the FTO - plan of action as to how finance is generated and time frame for administration
3. Actions stemming from trading activity between the FTO and producer group and integrate them into a plan for its own operations
4. Immediate improvements to processes and procedures, especially in relation to supply chain management.

Action Plans should be signed by both the FTO and the Producer Organisation.

5.5 Improvement Programme (Back at the Office)

Three Year Plan: This plan includes all of the actions necessary to address areas of non-compliance and key strategic objectives of the business over the next three years. This plan should take into account all of the information gathered, both at the FTO and at the producers and also reflect key strategic targets which relate to the vision of the organisation for future growth.

Annual Action Plan: This plan is an active living document which should be referred to throughout the year and is crucial to the success of the SFTMS. The Annual Action Plan is generated out of the Three Year Plan and from points 2 and 3 above. Against each action, the corresponding Fair Trade Principle should be identified, (see 5.5 *Template Action Plan*).

Once all of the Action Plans from the FTO and Producers' Baseline Assessment have been categorised, a Baseline Matrix should be compiled. The Baseline Matrix lists the number of actions relating to each Fair Trade Principle (nb there may be principles against which there are no actions) and identifies the Key Aspects. The Key Aspects are the most significant and the most commonly arising issues. You may find it useful to create pie charts relating to the number of actions relating to each Fair Trade principle.

6 Implementing and Structuring

6.1 Allocation of Human Resources and Responsibilities

At the start of the SFTMS process, roles and responsibilities need to be allocated. One person should be the SFTMS facilitator and other members of staff and stakeholders should collaborate or be informed as required. Job descriptions and Organigrams amended where appropriate to include work on the SFTMS. (see 6.1 *Template HR & Responsibility*)

6.2 Capacity Building and Empowerment

Training is essential and the FTO must put systems in place to monitor who participates, training hours, cost, areas of training and resulting key developments of the business. It is useful to record gender participation within this training plan as well. Training is taken here to mean not just business development activities but human rights and environmental knowledge transfer. Training usually comes from both the Producer and the FTO 3 year plan and may be implemented by any part of the organisation. At the end of the year, the organisation should be able to report against this in a quantitative manner.

A record should also be kept of capital expenditure by the FTO or the Producer Organisation which relates to capacity building and/or empowerment.

Training within the FTO staff should be recorded within 6.8 Advocacy and Training Control Log Book (6.2 *Template Advocacy and Training Control Log Book*)

6.3 Operating Procedures

A simple document needs to be written, if not already in place, setting out the methods which govern how the organisation operates. This should cover: Capacity Building Projects, Design of Products, Contract and Pricing Policies, Health and Safety Issues, Export Activities, Packaging, Transport, Organization of Events and Trade Fairs. Ideally, in time, each area should be covered by its own policy. This policy should look both up and down supply chain.

Environment

Fair Trade Organisations may need to put extra measures in place with regard to the environment in order to fulfill the criteria of the SFTMS.

An Environmental Policy needs to be written, if not already in place, covering green procurement (products and services), recycling & waste management, annual carbon emissions, weight of packaging, use of chemicals.

Every year, the Carbon Emissions of the organisation must be calculated, ideally against targets for reduction as set out in the Three Year Plan.

CO2 calculations should include, but should not be limited to:

- Energy Usage on the Premises (Kilowatt hour KWh)
- Travel (land, train, air) (kilometres)
- Transport of goods received from suppliers (sea, land, air) (kilos)
- Transport of goods delivered to customers (kilos)
- Water usage (cubic metres)
- Non-recyclable waste (kilos)
- Packaging material (kilos)
- Re-use and Recycling of packaging (percentage)

The indicators need to be recorded in a systematic way.

(For example, see folder: 6.3 Sustainable Business Processes and Procedures containing

- *Template Defra GHG Conversion Factors Oct10*
- *DEFRA Guidance on measuring GHG emissions*
- *Example CO2 chart*
- *Template Packaging)*

Visual and appropriate means of communication of these policies and procedures should be supported within the producer organisations.

6.4 Fair Price and Wage Policy

The organisation needs to write a procedure document on how agreement on prices is reached, if this is not already in place. This document should include: how prices are set, negotiated and agreed; compliance with external standards where appropriate; any tools used to calculate a fair wage. Cross-reference to any other documents which mention Fair Price and Wage Policy.

Where a Producer has employees, legal minimum wage and social security obligations must apply.

The organisation must provide evidence of Fair Wage practices. These may include:

- payslips for employees within the FTO and employees within producer organisation: amounts and frequency
- internal records of pay to artisans (including homeworkers) within producer groups. Cross check to worker interviews
- records from worker interviews (see Baseline Assessment)
- comparison of workers' income with cost of living analysis, working with a known indice such as national minimum wage, Canasta Familiar Vital. The indicator here is to see a positive trend against the indice.
- annual trends of wages paid
- benefits, financial or non-financial, in addition to wages i.e. health, housing, education, pensions
- procurement methods for raw materials when using homeworkers
- % of time dedicated to production as opposed to other work (income-generating and non-income generating activities)
- cost breakdown of producer price
- cost breakdown of wholesale and retail price

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Fair Trade Dividend: all expenditure on social and business development projects within the supply chain needs to be carefully documented with costs, beneficiaries and duration.

6.4.2 Moving products and producers up the value chain

Where there is a discrepancy between the minimum wage or living wage and the pro rata pay of the producer, the organisation must demonstrate a clear package of development. Key areas will include:

- working with producers to increase skill levels and improve quality assurance so that reject rates are minimised
- design development to secure the highest possible prices
- brand development

6.5 Trading Practice

The key element within this section is to ensure that conditions are mutually must be demonstrated through clear, consistent communications and evidence of exchange of information from both sides.

Review your systems for documentation so that good clear documentation is maintained with regard to the movement of goods through the supply chain and payment at every stage.

A prepayment policy should be created, stating percentage available and how and when pre-payment is available. This should be clearly communicated to the producers, either on the Producer Contract, Supplier Manual or on each Purchase Order.

6.5.4 Design Originality

Keep design briefs for any product development, especially outlining the key significant changes made where a previous product is used for inspiration. Never copy a design exactly without permission.

6.5.5 The policy regarding cancellation or rejection of orders should be contained within the Supplier Manual, Producer Agreements or Purchase Order Terms & Conditions. In the event of a non-compliance arising, clear communication should be maintained and documentary evidence kept to show how the resolution of the situation has been achieved.

For each producer, a non-compliance sheet should be kept which details the delivery date, product, issue (timing, quality, quantity), description of problem, no. of items involved, any costs associated with return, replacement, reworking or customer penalties for late delivery; action taken; root cause (this is the actual reason why this situation has arisen, for example, specifications being confused, inexperienced producer, unclear instructions etc); corrective action taken to ensure the non-compliance does not recur.

Each non-compliance should be dealt with on an individual basis with the producer concerned. This corrective action sheet summary must be fed back to the producer at time of producer visits. It is often only through a visit to the producer premises that the true root cause can be determined and effective corrective action implemented. *(see 7.2 Template Supplier non-compliances)*

In the case of a cancellation of an order, the organisation must keep records of compensation paid.

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6.5.6 When the guidelines for use of the SFTMS logo are available, these must be followed carefully.

6.5.7 *All contracts and small print written accompanying any purchase order must be immediately and carefully read. Any area which it is not possible to fulfil must be responded to immediately, especially if it is likely to compromise Fair Trade Principles. For example, it may not be possible to confirm delivery dates within 48 hours as producers need time to analyse production and raw materials available and in this case a 7 day confirmation of order may need to be negotiated.*¹

6.6 Review your communication channels and ensure that there are regular exchanges of information, for example monthly staff meetings, annual meeting to review action plans etc. Evidence should be kept of regular meetings between management and staff. This could be in the form of diary entries, minutes, notes from meetings.

6.7 Ensure records are kept of all appropriate communications sent to suppliers and other relevant stakeholders. Evidence could be as follows:

- Contract Performance: Non-compliance communication after each delivery (see 6.5.5); press coverage; trends in terms of annual sales; % of organization sales represented by each producer and, in turn, the % of the organization's purchases in terms of the producer's sales.
- Capacity Building Achievements: Communicating both plans and activities carried out by the organisation which will work towards capacity building within the producer group. For example, any staff who have undertaken training should communicate key benefits to the organisation on completion of their training.
- Market Requirements: The simplest method is to condense these into a Supplier Manual which is updated when necessary, with any changes highlighted and the date of issue clearly stated.

Producer visits

It is recommended that producers are visited annually within country and every two years internationally.

Photograph your visit and ensure these are dated when storing in electronic or printed form. Other evidence of producer visits will be shown through travel and accommodation receipts and invoices.

As part of the Baseline Assessment, an Organigram is drawn indicating the contact person and means of communication between the Producer group and Organisation. An additional means of communication (secondary email, phone, mobile) is also listed if first means fails. Record producer visits (*see 6.7 Template Producer Visits*), this can be used for sub groups or suppliers if you are the producer.

¹ The standard refers to "Fair Trading Contracts" The authors of this document are concerned at the validity of such documents when a mainstream contract has already been put in place. Legally, only one contract stands between supplier and purchaser. This must be signed by both. It is unlikely to gain second signature on a Fair Trading Contract from the mainstream when their own legal process is already in place.

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6.8 Records and Record Keeping

From the moment the organisation commits to the SFTMS process and on an ongoing basis, clear records need to be kept of all of the organisation's activities. Wherever possible, these should be systematic, in templates, and shared within the organisation. All relevant SFTMS documents are updated at least once a year eg: Fair Trade Report

In addition, a Control Log Book should be set up covering, but not limited to: Update of key documents, Fair Trade Advocacy and Training within the Organisation. *(See 6.2 Template Advocacy and Training Control Log Book)*

Back-up all electronic data regularly.

The Organisation will keep all financial records, including information on orders placed and received for 6 years.

Performance records, quality control information, non-compliances and other producer related issues will be kept for 3 years minimum.

6.9 Prevention of Incidents and Accidents

Health and Safety and Environmental issues should be identified during Eco Mapping as part of the baseline assessment and on regular producer visits by visual inspection. Results are listed under the Eco Mapping section of each producers baseline assessment and follow up assessments. Remedial actions to be taken are put into the Action Plan. This information could be backed up by annual Health & Safety questionnaires.

Producer visits provide an opportunity to educate on good practice. Care should be taken to ensure that appropriate communication is made to all sites to address Health & Safety issues. Good communications are often visual: posters, clear signage, use of video/DVD.

7.1 Monitoring, Performance Indicators and Internal Audit

7.1.1 All of the documents compiled to date comprise the system used to monitor and evaluate the organisation's achievements.

The following documents now need to be compiled:

1. Performance Indicators: This is a comprehensive document, vital to the success of the SFTMS listing all the key requirements of the SFTMS against the Performance Indicators in one column and the Evidence in another. Each list of Performance Indicators and Evidence will be unique to each Organisation. An example is in Appendix..... Each indicator should be measurable and timely.
2. Review of Progress against Indicators: This document chooses the most meaningful indicators for your organisation. These will need to be analysed in a way which is easy to communicate outside of the organisation via the Fair Trade Report. On an annual basis, you should review your progress against the Three Year Plan and against the Fair Trade Principles. See Appendix.....
3. Internal Audit Matrix

7.1.2 The internal audit

Who? Appoint a person who is able to take an objective perspective on the

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organisation, having sufficient sensitivity combined with authority to carry out the work.

What? The internal audit is used to establish if the Organisation is conforming to requirements of the standard and assessing the effectiveness of the procedures. It requires systematic collection of information. In the event that non-conformities are identified through the Internal Audit Report, these can be addressed prior to the external audit.

Where? The internal audit takes place annually at the Organisation's Headquarters and at a representative sample of the key sites, (see 7.1.2 *Template internal audit matrix*)

7.2 The emphasis of the SFTMS is on continuous improvement and this should be demonstrated through annual recording of information and fulfilment of targets and indicators showing improvement (see 7.2 *Template supplier non-compliances*)

7.3

Producers:

Every year action plans will be analysed and updated, with new Action plans created for the following year. Any points on the Action Plan which have not been completed within the past year will be prioritised, together with any issues which were highlighted in the previous baseline assessment but which the producer was unable to address in year 1 due to lack of time/resources/capacity.

Ideally this feedback should be obtained during site visits, but can be obtained by questionnaires or skype interview when a visit is not scheduled. Feedback from producer groups could also be obtained regarding training, community development projects, business development requirements, health & safety issues.

Staff: Feedback from staff should be invited on a regular basis, either through staff meetings, AGM, action plan updates.

Customers: Feedback from customers could include customer testimonials, customer complaints, questionnaires to retail and wholesale customers.

8 The Annual Review and External Communication

8.1 Key management need to meet at least annually to resume where you are, confirm your decision to move forward and follow the agenda set by SFTMS (see 8.1 *Template Management Review*).

8.2 Fair Trade Report

The Fair Trade Report should include:

- Key Achievements for the year
- Progress towards the 3 year plan
- Fair Trade Principles in Action

The Process of choosing the most meaningful key indicators (7.1.1 point 2) should now feed into the Fair Trade Report. In the 2nd and 3rd years of the 3 yearly reporting cycle, reporting should compare against previous years to show where progress, or lack of progress, has been made. It is important to relate statistics to increase/decrease in turnover wherever applicable.

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For suggestions on contents, (*see 8.2 Appendix Potential information for use it the Fair Trade Annual report*) and see existing Fair Trade Reports from Certified Organisations eg.
http://www.panamas.co.uk/downloads/Pachacuti_FT_report_2009_2010.pdf.

The auditor will use the Fair Trade Report as the key document of reference and once they have verified that the report is correct they will approve it and issue an Auditor's statement, (*see Example Pachacuti Auditor's Statement*)