

# Shop For Change Fair Trade



## Generic Standards for Agricultural Supply Chains

Version 2009c

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**Shop For Change Fair Trade**

Flat 202, Plot no. 108, Sher-e-Punjab, off Mahakali Caves Road, Opp. Entrance of Green Lane  
Andheri (E) Mumbai 400 093 (Maharashtra) India

Tel: +91 (0)22 2839 1844, Email: [info@shopforchange.in](mailto:info@shopforchange.in)

These standards are also available for download at [www.shopforchange.in](http://www.shopforchange.in)

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## Foreword

Shop For Change Fair Trade is a not-for-profit company that seeks to harness the power of markets to create opportunities for poor farmers and handicrafts artisans across India. By promoting social standards and a product label to consumers as a guarantee of a fair deal for small-scale producers, Shop For Change adds value to products, creating benefits for producers, as well as companies looking to differentiate themselves. Shop For Change is building on international models of fair trade and corporate social responsibility (CSR). By focusing its work on production and consumption *within* India, Shop For Change seeks to address the unique dynamics of Indian supply chains, allowing a focus that maximises benefits to Indian producers, companies, and consumers.

Shop For Change was born out of a multi-stakeholder process that began in 2006. Looking for new ways to improve the livelihoods of poor farmers and artisans, producer organisations, NGOs, business leaders, and academics came together to create a fair trade market and movement in India. This process resulted in the founding of Shop For Change. Now established as a section 25 not-for-profit company, Shop For Change's work focuses on three areas. First, Shop For Change has created a fair trade standards and certification system that meets the unique challenges faced by Indian farmers and artisans, with particular interest in helping those who have not been able to access international fair trade markets find a value-added market within India. Second, Shop For Change is working with allies to create a network of informed consumers who will buy Shop For Change certified products and spread the fair trade message in major Indian cities. Finally, Shop For Change is helping to build producer capacity to meet its standards and consistently market quality products to India's fair trade buyers.

Shop For Change's work is guided by a set of core principles for fair production and business practices. These principles, which are represented in the Shop For Change standards, include:

- Equal opportunity for all people, particularly the most disadvantaged
- Healthy and safe work environments free from discrimination, harassment, and exploitation
- Fair wages for workers
- Environmentally sustainable practices
- Public accountability
- Long-term trade relationships between producers, producer organisations, and buyers
- Fair terms of trade between producers and buyers
- Building capacity of producers and producer organisations to increase viability and profitability

## **Introduction to Standards**

Using international fair trade principles as a point of departure, Shop for Change (SFC) has developed a standards and certification system that will lower barriers for producer participation, allowing new producers to access a value-added supply chain and reducing the dependence of established fair trade producer organisations on international markets.

The SFC standards were developed with the goal of providing a variety of benefits to the various supply chain actors.

- For producers, the SFC certification system creates opportunities for better livelihoods by encouraging capacity building programs that can lead to increased production efficiency and profitability, as well ensuring more stable and direct access to the market. The SFC system emphasises awareness, education, and skill building in order to build producers' efficiency and sustainability.
- For farm workers, the SFC system helps secure healthy and safe working conditions, fair pay, and a working environment free from discrimination and harassment.
- For producer organisations, the SFC system rewards strong collaboration with individual producers. The SFC system facilitates identification of key needs and priorities for capacity building and then helps ensure resources to address those needs over time. As part of the standards requirements, SFC has developed a Participatory Assessment System that aims to better balance top-down requirements on producer organisations with a process that empowers them to identify their own priorities and work progressively to achieve them. This system provides producer organisations with parameters that allow them to create many of the metrics and milestones for standards that meet the unique goals of their own organisations.
- For buyers and brand owners, the SFC system helps identify reliable sources of responsibly produced crops and differentiate consumer products in the market as socially and environmentally sustainable. This creates opportunities to bolster brand image and, over time, gain market share.

## **Standards development**

This version 2009c incorporates feedback collected as part of a public comment period on the previous version 2009b from April 15 - June 13, 2009. As part of that process, consultations were held with stakeholders including producer organisations, buyers, companies, NGOs, research organisations, academics, and government institutions. Additionally, comments were solicited electronically from a number of individuals and organisations, and the standards were made available for download and comment on Shop For Change's website.

As the leading system for responsible agricultural production in India, SFC strives to continuously improve the standards and certification system in close cooperation with all stakeholders. Input for future revisions will be collected throughout the year in the form of stakeholder feedback, producer meetings, certification agency trainings, and responses from ally networks.

The current version of the SFC standards is limited to producers, producer organisations, and the first and final buyers within the SFC agricultural supply chain. The next two years will be a significant learning period for SFC, where all relevant feedback will be compiled in order

to develop the most practical and effective standards and certification system for the Indian context. Based on this learning process, SFC may expand the scope of the standards to include other supply chain actors. Additionally, SFC will be developing standards that incorporate handicrafts production.

## Objective

The objective of the standards is to provide metrics against which to measure producer, producer organisation, and buyer operations. Compliance is evaluated through a combination of the Participatory Assessment System and third party inspections that measure the degree of conformity to compliance criteria for social, economic, environmental, and good management practices.

## Scope

These standards cover production of all agricultural produce grown by producers on their registered land, as well as the producer organisations that organise the registered producers and market their agricultural produce. The scope of the standards also covers the responsible sourcing of SFC certified products by first buyers that directly source from producer organisations and final buyers that use the SFC certification mark on consumer products.

The current geographical scope of standards and use of certification mark is limited to India.

## Standards Structure

The SFC Standards are grouped into *sections* according to their focus on three major supply chain actors:

- 1) Producers
- 2) Producer organisations
- 3) Buyers (first and final)

Certified supply chain actors will adhere to the section of standards applicable to their respective operations.

Within each section, the standards are further grouped into four *elements*: social, economic, environmental, and good management practices.

Within each element, the individual standards themselves are composed of three components:

- **A Principle** that reflects the intended goal of the standard. Each principle is written as a positive statement that is achieved by complying with minimum and/or progressive requirements.
- **Minimum requirements** that indicate criteria that must be met in order to comply with the standard and be certified.
- **Progressive requirements** that indicate criteria that will be used to measure continual improvement towards the standard's principle, which must be demonstrated over time.

Individual standards are evaluated through a certification and inspection process, described separately. The SFC Standards Interpretation Guidelines, a document that is being developed separately, will specify how the SFC standards are interpreted, implemented, and verified.

## Definitions

**Buyer** – A legally established retailer, processor, broker, trader, wholesaler, or brand owner that purchases SFC certified produce from a producer organisation or from an intermediate buyer in the SFC supply chain. The buyer holds the custody of product and may be eligible to use the certification mark on final consumer products as per SFC licensing guidelines.

**Capacity Building** – The activity, process, or programme of assisting producers either in a group or individually to identify and address agricultural production challenges and gain insights, knowledge, and experience to solve problems and implement changes. Capacity building covers areas including improving production practices, lowering costs, maximising efficiency, and conducting business more effectively and can be facilitated through site-specific assistance as well as all forms of education and skill building.

**Certification Agency** – An entity or organisation authorized by SFC to conduct the inspection and certification of production, processing, or trade.

**Child Worker** – A hired worker (not a producer's child) who is younger than fourteen years of age.

**Co-Mingling** – The physical mixing of SFC certified and non-certified products during production, processing, transportation, storage, or handling.

**Composite Product** – A product made or manufactured by using more than one raw material or ingredient. This excludes the ingredients salt and water.

**Contract** – Written terms and conditions between the producer organisation and buyer.

**Decent Work Conditions** – The work conditions on a farm or other location (refer to specific standards) as described in the SFC Producer Standards.

**Discrimination** – Any distinction, exclusion or preference based on race, colour, gender, religion, political opinion, nationality, or social origin that causes equality of opportunity or treatment in employment or work to be lifted or reduced.

**External Inspector** – A person retained or assigned by a certification agency to conduct the inspections of certification applicants, certified production, or trade against the SFC standards.

**Final Buyer** – A buyer who purchases products from the SFC supply chain and may be eligible to use the SFC certification mark on final consumer products.

**First Buyer** – A buyer who enters into a contract with a producer organisation for the purchase of produce and holds custody of the product.

**Force Majeure** – An event or effect that cannot be reasonably anticipated or controlled. A force majeure clause frees each party from liability for a failure to fulfil obligations due to causes beyond its reasonable control, so long as such party is using its best efforts to remedy such failures or delays.

**In-Kind Remuneration** – Full or partial remuneration or wages paid to workers in place of cash in the form of essential commodities/supplies. Specifically, this refers to commodities/supplies identified and assigned a monetary value by the producer organisation as per the requirements of SFC standards.

**Intermediary Buyer** – A buyer who purchases products within the SFC supply chain, but not directly from the producer organisation, and sells to the final or another intermediary buyer.

**Internal Code of Practice** – A code of practice, benchmark, or internal standard established by the producer organisation for its operations based on the applicable SFC standards and Standards Interpretation Guidelines.

**Internal Inspector** – A person retained or assigned by a producer organisation to conduct internal inspections of its registered producers against the producer organisation’s internal code of practice.

**Material Balance** – A calculation of incoming and outgoing products in a production or supply chain system in which the quantity utilised and the quantity purchased are equivalent.

**Mechanism** – A method or system established to execute an activity or process in a specific manner.

**Participatory Assessment System (PAS)** – The system used to establish producer and producer organisation standards and then monitor the standards for compliance internally. The system stresses a participatory approach that educates and creates awareness among producers and the producer organisation about addressing social, economic, and environmental issues. The participatory approach allows the producer organisation to set its own goals and metrics for achievement, which will include education and capacity building for producers.

**Post Harvest Handling Operations** – The operations immediately following the harvest of primary agricultural produce including cleaning, sorting, packing, and storage. This does not include processing or value addition.

**Pre-shipment Finance** – In the context of this standard, pre-shipment finance means short-term credit given by the first buyer to the producer organisation in advance of delivery of produce against an agreed upon contract. Pre-shipments finance is intended to provide the producer organisation with working capital in advance of shipment. It is typically recouped by the buyer at the time of final payment for the produce. The buyer may charge up to and no more than the prevailing market interest rate and, if necessary, involve a legitimate third party lending institution in the pre-shipment financing arrangement.

**Procedure** – A specific way of executing an activity or process in order to comply with the SFC standards.

**Produce** – Primary agricultural goods that have been cleaned, sorted, graded, stored, and/or packed, but have undergone no processing or value addition.

**Producer** – An individual producer who is associated with a producer organisation and is registered as part of the SFC certification system through a written agreement with the producer organisation.

**Producer Organisation** – A legal entity that is registered as a development organisation, co-operative, non-government organisation, company, or other type of organisation and has as part of its business model the explicit objective of developing the economic and social welfare of producers, their families, and their communities. A producer organisation holds SFC certification on behalf of its producer registrants and provides the necessary services and marketing capacity for its producers’ produce.

**Product** – A single or multi-ingredient good that has undergone some sort of processing and/or value addition. This includes both semi-processed and final processed goods.

**Records** – Documents that present results obtained or provide evidence of operations carried out.



**Small-Scale Producer** – An individual or family of producers having a cultivable landholding of 3 hectares or less, which is managed by the producer and the producer’s family. Small-scale producers are not structurally dependent on permanent hired workers and agriculture is the main source of the small-scale producer’s livelihood and income.

**Standards or SFC Standards** – Shop For Change Standards for supply chain actors, specifically producers, producer organisations, and buyers.

**Worker** – A person hired by a producer or other party (refer to specific standards) to work on a farm or at a place of operation with predetermined remuneration. The term in this standard refers to all workers, including migrant, temporary, seasonal, formally and informally contracted, and permanent.

**Young Adult Worker** – A hired worker who is between fourteen years and eighteen years of age.

# Producer Standards

## Scope

The scope of these standards is the cultivation of primary agricultural produce and post harvest handling operations, such as cleaning, grading, and storage, at the farm level.

## Applicability

These standards will be applicable to any small-scale producer who works with a producer organisation and is registered under the SFC certification system, and are relevant to any crops that the producer may grow on a registered farm.

## 1 Social Elements

*SFC standards include the following “Decent Work Conditions” for hired agricultural workers working on the land of producers who are part of the SFC certification system. Producers are required to comply with the minimum requirements of the SFC standards in order to be a part of the SFC certification system. In jurisdictions where local laws governing employment of agricultural workers are in place, SFC requires that producers abide by these legal regulations even if they set higher standards than SFC.*

### 1.1. Forced Labour

**Principle:** In accordance with well-accepted national and international norms there is no use of forced labour on the farm.

**Minimum Requirements:**

- 1.1.1. Workers shall have the right to enter into and terminate their employment freely.
- 1.1.2. Workers shall not be required to deposit their identity papers or any personal property with producers to secure employment on the farm.
- 1.1.3. Workers’ advances against wages shall be in accordance with prevailing local practices. However, producers shall not pay advances against possession of personal property such as jewellery, property documents, land deeds, or other valuables owned by workers.
- 1.1.4. Any extra hours or additional work done by workers on the farm shall be voluntary.

### 1.2. Child Workers

**Principle:** In accordance with well-accepted national and international norms, children will not be hired as workers on the farm. Children of producers will only work if their education and well-being are not jeopardised. Young adult workers and children of producers will not execute tasks that are especially hazardous for them because of their age.

**Minimum Requirements:**

- 1.2.1. Producers shall not employ workers younger than 14 years of age.
- 1.2.2. Producers shall not compel their children younger than 14 years of age to work full time performing agricultural tasks or operations on the farm. Children may provide assistance on their family’s farm during school holidays and vacation periods as long as their education and social, moral, and physical development are not jeopardized.

- 1.2.3. Young adult workers between 14 and 18 years of age who are hired by producers, as well as the children of producers, shall not be involved in hazardous operations on the farm as described in SFC's Standards Interpretation Guidelines. Agricultural tasks performed by young adult workers or the children of producers shall not jeopardize their schooling or social, moral, and physical development.

**Progressive Requirements:**

- 1.2.4. Producers shall make efforts to send their children to school and take measures to ensure that their children's social, moral, and physical development is achieved.
- 1.2.5. Producers shall encourage hired workers not to compel their children less than 14 years of age to work and to send their children to school.

### **1.3. Diversity, Non-discrimination and Harassment**

**Principle:** Diversity, respect, and dignity are promoted in the work environment, including providing opportunities for disabled people, ensuring gender equality, and guaranteeing equal pay for equal work. Discrimination and harassment are prohibited.

**Minimum Requirements:**

- 1.3.1. Producers shall pay equal wages for equal work to male and female hired workers.
- 1.3.2. Producers shall not discriminate in hiring workers on the basis of age, gender, religion, caste, race, creed, etc.
- 1.3.3. Producers shall not harass workers or subject them to physical, sexual, psychological or verbal abuse.
- 1.3.4. Producers shall follow guidelines developed by the producer organisation to ensure implementation of fair disciplinary practices related to hired farm workers. Producers shall take necessary steps to ensure that these disciplinary practices are clearly understood by the workers.
- 1.3.5. Producers shall not use monetary fines as a means of disciplining workers for misconduct, even in cases of poor performance or failure to abide by established requirements.
- 1.3.6. When women members of a producers' family are engaged in farm operations they shall participate in the producer organisation's capacity building programs.

### **1.4. Freedom of Association and Collective Bargaining**

**Principle:** Workers have the right to freedom of association and collective bargaining.

**Minimum Requirements:**

- 1.4.1. Workers have the right to join any worker organisation or union.
- 1.4.2. Workers have the right to bargain for their wage rate individually or collectively.
- 1.4.3. Collective bargaining on behalf of workers may be performed by either a formal or informal group.

### **1.5. Payment and Wages**

**Principle:** Workers on certified farms earn at least the applicable legal minimum wage or prevailing regional wage and receive prompt payment.

**Minimum Requirements:**

- 1.5.1. Producers shall pay hired workers the applicable legal minimum wage or the prevailing regional wage, whichever is higher.
- 1.5.2. Producers shall pay remuneration to workers through the provision of cash, its equivalent in-kind, or both. This shall be in line with the prevailing local practice and be decided with the consent of workers.
- 1.5.3. In cases where in-kind remuneration is paid to the worker, producers shall calculate its monetary equivalent using the value determined by the producer organisation (as described in the SFC Producer Organisation Standards).
- 1.5.4. Any cash or in-kind gifts from the producer to workers during festivals or at other times shall not be deducted from workers' regular payment.
- 1.5.5. Producers shall make payment to their workers in a timely fashion - daily, weekly or monthly - based on the type of work and with the consent of workers.

**1.6. Healthy and Safe Working Environment**

**Principle:** Producers provide workers with a safe and healthy working environment so as to minimise the risk of accidents and injuries occurring in the course of work or as a result of farm operations.

**Minimum Requirements:**

- 1.6.1. Producers shall ensure that workers are aware of hazardous operations performed on the farm and train them to take adequate precautions while executing these operations.
- 1.6.2. Producers shall make provisions for potable drinking water for workers on the farm.
- 1.6.3. Pregnant workers shall not perform operations that are potentially damaging to their health and shall be assigned tasks commensurate with any physical limitations.

**2 Economic Elements****2.1. Commitment to Participate in Capacity Building Programmes**

**Principle:** Producers show a willingness to increase knowledge in order to improve production practices, lower production costs, and maximise production efficiency.

**Minimum Requirements:**

- 2.1.1. Producers shall actively participate in the capacity building programme conducted by their producer organisation.

**Progressive Requirements:**

- 2.1.2. Producers shall adopt practices set by their producer organisation as a part of its capacity building programme and demonstrate progress against the organisation's objectives.

**3 Environmental Elements****3.1. Assessing Environmental Impact and Preserving Ecosystems**

**Principle:** Producers demonstrate continual improvement in minimising environmental impact and preserving the local ecosystem by adopting environmentally friendly practices at the farm level.

**Minimum Requirements:**

- 3.1.1. Producers shall actively participate in the environmental impact assessments carried out by their producer organisation's Participatory Assessment System (PAS) team.

**Progressive Requirements:**

- 3.1.2. Based on the producer organisation's environmental impact assessment, producers shall demonstrate continual improvement in adopting environmentally friendly practices on their farms in accordance with their producer organisation's environmental management and sustainability systems.
- 3.1.3. Producers shall take measures prescribed by the producer organisation's PAS team related to soil and water conservation, deforestation, preservation of bio-diversity and natural water bodies, efficient use of energy and fuel, disposal of agricultural waste, and pollution control.

**3.2. Safe Use of Agrochemicals**

**Principle:** The use of nationally banned chemicals is prohibited and producers adhere to their producer organisation's crop production guidelines for judicious chemical use.

**Minimum Requirements:**

- 3.2.1. Producers shall not use any nationally banned chemicals on the farm.
- 3.2.2. Producers shall follow the crop production guidelines for judicious use of agrochemicals provided by the producer organisation's PAS team.
- 3.2.3. Producers shall choose the frequency and type of chemical applications with the aim of minimizing the quantities used and the threat of human or animal exposure and environmental harm.

**3.3. Promotion and Adoption of Sustainable Agriculture**

**Principle:** Producers demonstrate continual improvement in adopting applicable sustainable agriculture practices as defined by their producer organisation in order to promote long term sustainable production and livelihood security.

**Minimum Requirements:**

- 3.3.1. Producers shall adopt goals for sustainable agricultural production set by their producer organisation, which may include but are not limited to: integrated pest management, integrated crop management, non-pesticide management, organic agriculture, and biodynamic agriculture.

**Progressive Requirements:**

- 3.3.2. Based on the long-term goals set by the producer organisation, producers shall demonstrate continual improvement in implementing sustainable agricultural practices.

**4 Agricultural Management Practices****4.1. Registration in Certification System**

**Principle:** Producers adhere to the requirements of registration in the certification system to ensure that the benefits of the SFC system reach the intended producer beneficiaries and their families.

**Minimum Requirements:**

- 4.1.1. Producers shall be registered in the certification system only after they are designated eligible by their producer organisation.
- 4.1.2. Producers must demonstrate to their producer organisation the legitimate right to cultivate on the land they are using. Examples accepted by the producer organisation may include but are not limited to: ownership in the producer's name or that of a family member, leased farmland, shared farming, or permitted farming on government/panchayat land. Producers must inform their producer organisation of all land they are using to grow produce designated for certification by SFC.
- 4.1.3. Producers can be registered with only one SFC certified producer organisation at a time.
- 4.1.4. Producers may end their registration with one producer organisation and join another once any obligations made to the first producer organisation have been fulfilled.

**4.2. Quality of Produce**

**Principle:** Producers commit to producing quality products that meet buyer and consumer expectations.

**Minimum Requirements:**

- 4.2.1. Producers shall meet the quality parameters for produce set by their producer organisation and its buyers.
- 4.2.2. Producers shall adopt measures set by their producer organisation for harvesting, post-harvest handling, and storing of produce in order to maximise quality.

**4.3. Material Balance**

**Principle:** Producers ensure that the amount of produce they sell to the producer organisation is not more than the quantity produced less the quantity consumed or used for other purposes. Producers prevent the co-mingling of produce from certified and non-certified farms.

**Minimum Requirements:**

- 4.3.1. Producers shall follow guidelines for material balance of produce by implementing the measures set by their organisation's PAS team at the farm.
- 4.3.2. Producers shall not co-mingle any produce from their registered farm with that from other farms or producer organisations that are not part of the SFC certification system.

**4.4. Record Keeping**

**Principle:** Producers maintain records of their crop production and employment practices to facilitate the certification process.

**Minimum Requirements:**

- 4.4.1. Producers shall maintain simple records in a producer diary and shall ensure that these records are updated regularly as described in the SFC's Standards Interpretation Guidelines.
- 4.4.2. Producers shall make the diary available to the producer organisation's internal inspector and/or external inspector during inspections.

# Producer Organisation Standards

## Scope

The scope of these standards is governance systems, procurement and post-harvest handling, and internal systems for effective control and assessment of social, economic, and environmental conditions on registered farms.

## Applicability

These standards will be applicable to a legally recognised organisation that is working with a group of producers. The organisation should be involved in the capacity building of its producers as well as the marketing of their produce. The organisation's producers should have homogeneous production practices and be located within relative proximity of each other and the organisation's operation centre.

In cases where the producer organisation is also engaged in produce processing, wholesaling, retailing, or other functions of a "buyer" as defined in the definition section of the SFC standards, the producer organisation is required to comply with the applicable buyer standards in addition to the producer organisation standards.

## 1 Social Elements

### 1.1. Transparency and Accountability

**Principle:** The producer organisation shares information with its producers in a transparent manner and is accountable for the decisions it takes.

**Minimum Requirements:**

1.1.1. The producer organisation shall establish transparent and accountable systems to:

- Register producers
- Provide equal access to capacity building services for its producers
- Disburse payments and share benefits from the capacity building funds
- Disseminate information to producers about the organisation's business and finances, as well as the organisation's policies, rules, and regulations
- Implement effective governance and decision making

### 1.2. Diversity, Non-discrimination and Harassment

**Principle:** The producer organisation is non-discriminatory and maintains diversity and gender equality among its registered producers.

**Minimum Requirements:**

1.2.1. The producer organisation shall not discriminate in granting and providing benefits of registration to any producer on the basis of gender, religion, caste, race, and creed.

1.2.2. The use of the capacity building funds shall not contribute to discrimination against a particular social group.

1.2.3. The producer organisation shall encourage women producers cultivating within its area of operation to register in the certification scheme, and shall ensure the active involvement of registered women producers in the planning and implementation of capacity building programs, as well as their participation in these programs.

1.2.4. If the producer organisation restricts new registration, the restriction may not be on the basis of or contribute to the discrimination of a particular social group.

- 1.2.5. The producer organisation shall develop a set of non-discriminatory disciplinary procedures relevant to worker conduct and shall ensure that they are clearly understood by the registered producers.

### **1.3. Promoting a Healthy and Safe Working Environment**

**Principle:** The producer organisation promotes healthy and safe working conditions for workers hired by producers as well as workers hired by the organisation itself.

**Minimum Requirements:**

- 1.3.1. The producer organisation shall conduct an assessment of potential risks associated with farming and related operations adopted by its producers and establish measures to reduce and/or eliminate such risks.
- 1.3.2. The producer organisation shall ensure implementation of these measures through verification during internal inspections.

**Progressive Requirements:**

- 1.3.3. The producer organisation shall provide periodic training to its producers on safe handling and storage of chemicals, good handling practices, and maintenance of farm machinery and equipment.

### **1.4. Promoting Decent Work Conditions**

**Principle:** The producer organisation facilitates registered producers' provision of decent work conditions for workers on their farms through information dissemination and internal inspections.

**Minimum Requirements:**

- 1.4.1. The producer organisation shall ensure effective provision of decent work conditions by its producers as described in the producer standards through an established internal inspection procedure.
- 1.4.2. The producer organisation shall identify different types of in-kind remuneration provided to the workers in their region. The organisation shall assess the monetary value of this in-kind remuneration based on the local market as well as SFC's Standards Interpretation Guidelines and convey this information to its producers for their use in adherence to the worker component of SFC's producer standards.

**Progressive Requirements:**

- 1.4.3. The producer organisation shall conduct periodic education and training programmes to create awareness of decent work conditions among its producers.

## **2 Economic Elements**

### **2.1. Management of Capacity Building Funds**

**Principle:** The producer organisation uses the capacity building funds paid by buyers to enhance the capacity of its producers to adhere to SFC standards and conduct business more effectively. Use of the funds is transparent.



**Minimum Requirements:**

- 2.1.1. The producer organisation shall utilize the capacity building funds only for such programmes that build the capacity of its producers and/ or help them to meet the SFC producer standards. This may include areas such as quality improvement, increasing productivity, reducing the cost of production, improving working conditions at the farm level, provision of risk management or insurance services to producers, and promoting social and environmental practices at farm level as described in the SFC Standards Interpretation Guidelines.
- 2.1.2. The producer organisation, in conjunction with registered producers, shall devise a system to ensure appropriate use of the capacity building funds. The system shall include processes for assessment, planning, decision-making, evaluation, and accountability.
- 2.1.3. The use of the funds shall be decided democratically with the input and consent of registered producers as per the producer organisation's governance norms.
- 2.1.4. The producer organisation shall maintain and update records that document how the decision to use the capacity building funds was made, as well as the plan for use and a summary of actual utilization of the funds. This information shall be made available to the external inspector during the audit process.
- 2.1.5. On request of the buyer the producer organisation shall provide a brief report on the use of capacity building funds within one year of their receipt.

**2.2. Payment to Registered Producers**

**Principle:** The producer organisation provides a mechanism for issuing prompt and transparent payment to registered producers.

**Minimum Requirements:**

- 2.2.1. The producer organisation shall develop a transparent system for disbursement of payment to producers.
- 2.2.2. The producer organisation shall issue a payment slip to the producer.
- 2.2.3. The producer organisation shall maintain all applicable payment records as per the local laws and regulations. Additionally, the producer organisation shall maintain and update payment records for each crop covered under the certification system.

**3 Environmental Elements****3.1. Promoting and Ensuring Adherence to Environmentally Friendly Practices**

**Principle:** The producer organisation promotes environmentally friendly practices to its registered producers and establishes mechanisms for implementation.

**Minimum Requirements:**

- 3.1.1. The producer organisation shall assess the chemicals that are being used by its registered producers. The organisation shall educate producers about the prohibition of nationally banned chemicals and verify that producers do not use them.
- 3.1.2. The producer organisation shall develop guidelines for and provide training to farmers on judicious use of agrochemicals, with an aim to reduce application to the greatest extent possible, as well as reduce toxic residues and harmful exposure of humans, animals, and the environment.
- 3.1.3. The producer organisation shall develop a procedure for disposal of chemical waste, as well as empty containers and chemical packing material used by producers and the organisation.

**Progressive Requirements:**

- 3.1.4. The producer organisation shall assess the environmental impact of farming in its region based on the SFC Standards Interpretation Guidelines.
- 3.1.5. The producer organisation shall develop and implement environmental management systems that include strategies for prevention of deforestation, preservation of biodiversity and natural water bodies, efficient use of energy and fuel, disposal of agricultural waste, and pollution control at the farm level. These systems shall also include strategies for retention of groundwater in drought-prone areas, efficient water use in irrigated areas, and soil erosion control and water conservation in hill slope areas. The organisation shall verify during the internal inspection that its producers adopt these practices.
- 3.1.6. The producer organisation will raise awareness of and educate producers about preserving ecosystems and adopting environmentally friendly practices.

**3.2. Promotion and Adoption of Sustainable Agriculture**

**Principle:** The producer organisation promotes appropriate sustainable agricultural practices for its registered producers by setting long-term goals, establishing appropriate mechanisms for implementation, and making relevant support schemes available to its producers.

**Minimum Requirements:**

- 3.2.1. The producer organisation shall set goals and develop systems for its producers to adopt sustainable agricultural practices, which include but are not limited to: integrated pest management, integrated crop management, non-pesticide management, organic agriculture, and biodynamic agriculture.

**Progressive Requirements:**

- 3.2.2. To adopt these practices, the producer organisation shall provide necessary support through awareness raising, training, and on-site assistance to motivate producers.
- 3.2.3. The producer organisation shall work to link its registered producers to relevant agricultural support schemes and subsidies sponsored by government agencies, not for profit organisations, international donors, etc.

**4 Organisational Requirements for the Producer Organisation****4.1. Governance Requirements Specific to the Producer Organisation****4.1.1. Structure and Business Model of the Producer Organisation**

- 4.1.1.1. The structure of the producer organisation shall ensure that producers have the option to negotiate the prices and terms of sale to the producer organisation collectively.
- 4.1.1.2. The structure of the producer organisation shall not require registered producers to purchase agricultural inputs from producer organisation.
- 4.1.1.3. The business model of the producer organisation shall have the explicit objective of sharing profitability with the registered producers and be designed to increase producer profitability, improve farm productivity, reduce production costs, improve produce quality, and/ or reduce producer risk.

**4.1.2. Organisational Leadership**

- 4.1.2.1. The producer organisation shall elect a new Board of Directors or equivalent governing body at regular intervals as per pre-determined, written rules and regulations of the organisation.

- 4.1.2.2. The producer organisation shall develop a strategy to ensure that women members are included in the organisation's Board of Directors or equivalent governing body.

#### **4.1.3. Complying with Applicable Legal Requirements**

- 4.1.3.1. The producer organisation shall have legal status and comply with all applicable legal requirements for its operations.
- 4.1.3.2. The producer organisation shall provide any relevant legal documents to the external inspector as required.

#### **4.1.4. Commitment to SFC Principles and Standards**

- 4.1.4.1. The producer organisation shall have a documented policy that includes:
- Respect of SFC principles and commitment to adhere to SFC standards.
  - Commitment to the capacity building of producers.
  - Commitment to continual improvement of the social, environmental, and economic conditions of its producers.
- 4.1.4.2. The producer organisation's management shall be responsible for compliance with standards.

#### **4.1.5. Registration in Certification System**

- 4.1.5.1. The producer organisation shall provide registration to producers based on established criteria and procedures.
- 4.1.5.2. The producer organisation shall ensure that registered producers are committed to comply with the applicable requirements of the SFC standards and shall allow inspection to verify compliance whenever required.

#### **4.1.6. Production Homogeneity and Size of the Producer Organisation**

- 4.1.6.1. The minimum number of the producer organisation's registered producers shall be large enough to sustain a viable PAS. To ensure cost effectiveness, the minimum number of registered producers should not be less than 50.
- 4.1.6.2. At least 50% of the producers registered in the SFC certification scheme by the producer organisation shall be small-scale producers as defined in the SFC Standards definitions. Additionally, a minimum of 50% of the total land registered under the certification scheme shall be held by small-scale producers.
- 4.1.6.3. The producer organisation shall make efforts to maintain the homogeneity of producers in terms of geographical location, crop production, production practices, and size of landholding.

### **4.2. Operational Requirements Specific to the Producer Organisation**

#### **4.2.1. Procurement and Trade of Produce**

- 4.2.1.1. The producer organisation shall identify a suitable, centralised place for collection, administration, and management of produce procurement from producers.
- 4.2.1.2. The producer organisation shall procure produce intended for SFC certified buyers only from producers who are registered under the SFC certification system.
- 4.2.1.3. The producer organisation shall procure and trade its producers' produce under the name of the producer organisation as per its established procedure for procurement and trade.

- 4.2.1.4. Individual producers may not use the certification and/or sell their produce under the SFC certification mark independently. Certification is held by the organisation, not the individual producer.

#### **4.2.2. Quality of Produce**

- 4.2.2.1. The producer organisation shall establish quality criteria for produce based on buyer requirements and then inform its producers about these criteria at the beginning of the season.
- 4.2.2.2. The producer organisation shall provide relevant technical services to ensure that appropriate quality standards are met. Training shall be given in areas such as land preparation, seeds, sowing, fertilisation, nutrient management, water management, pest and disease control, harvesting, and on-farm storage of produce.
- 4.2.2.3. The producer organisation shall monitor the quality of producers' produce by visiting their farms during the crop season.
- 4.2.2.4. The producer organisation shall develop a policy that establishes explicit criteria for acceptance or rejection of producers' produce and shall make this policy available to its producers.

#### **4.2.3. Adherence to Agreements with Producers**

- 4.2.3.1. The producer organisation shall establish a procedure for written agreements with its producers and shall make efforts to sign agreements with its producers prior to the start of the crop season.
- 4.2.3.2. Agreements with producers shall be made on an individual basis and shall include but not be limited to: the terms of registration, procurement and payment procedures, quality criteria, and a commitment to capacity building, as described in the Standards Interpretation Guidelines.
- 4.2.3.3. The producer organisation shall adhere to all responsibilities detailed in agreements with producers.
- 4.2.3.4. Agreements shall be made in the local language, whenever required.
- 4.2.3.5. The producer organisation shall make available all relevant records and documents of agreements to the external inspector during the audit process.

#### **4.2.4. Adherence to Contracts with Buyers**

- 4.2.4.1. The producer organisation shall negotiate and agree to contract terms with their buyer in advance of the crop season as per the established procedure for contracts with the buyer.
- 4.2.4.2. Contracts with buyers shall include detailed elements of the contract as described in the buyer standards as well as the SFC Standards Interpretation Guidelines.
- 4.2.4.3. The producer organisation may request that buyers issue the contract in the applicable local language.
- 4.2.4.4. If the producer organisation is not able to provide the specified quantity or quality due to crop failure or crop problems such as plague or pest, the producer organisation shall immediately inform the buyer to negotiate contingency arrangements.
- 4.2.4.5. The producer organisation shall make available all relevant contract-related records and documents to the external inspector during the audit process.

#### **4.2.5. Post Harvest Handling Operations by the Producer Organisation**

- 4.2.5.1. The producer organisation shall provide the same decent work conditions detailed in the SFC producer standards whenever the organisation hires workers for post harvest handling operations.

- 4.2.5.2. The producer organisation shall follow good handling and good storage practices while performing post harvest handling operations.
- 4.2.5.3. The producer organisation shall maintain records and documentation about post harvest handling operations.

#### **4.2.6. Complaint Handling**

- 4.2.6.1. The producer organisation shall establish procedures to deal with complaints from its registered producers, buyers, and other supply chain actors, as well as develop appropriate mechanisms for taking remedial actions.
- 4.2.6.2. The producer organisation shall record all complaints and actions taken.

## **5 Management of the Participatory Assessment System**

### **5.1. Establishment of the Participatory Assessment System - PAS**

#### **5.1.1. Structure and description of the PAS**

- 5.1.1.1. The producer organisation shall document the structure and description of the PAS as described in the SFC Standards Interpretation Guidelines.

#### **5.1.2. Personnel and Resources**

- 5.1.2.1. The producer organisation shall identify and make resources available to establish, implement, and evaluate the PAS.
- 5.1.2.2. The producer organisation shall identify a centralised, convenient location from which to base the administration and management of the PAS and maintain the documentation and other resources required for effective implementation of the PAS.
- 5.1.2.3. The producer organisation shall appoint a PAS manager who shall be responsible for developing and implementing the PAS. The PAS manager shall ensure that all standards requirements are fully implemented by the organisation's producers.
- 5.1.2.4. The PAS manager shall clearly define and assign roles and responsibilities for the following personnel to implement the PAS as described in the SFC Standards Interpretation Guidelines:
  - **Internal Inspectors**  
An adequate number of internal inspectors shall be assigned to conduct inspections of registered farms. The inspectors shall be familiar with the SFC standards and be qualified to perform internal inspections.
  - **Field officers**  
An adequate number of field officers shall be assigned to train producers and provide technical services. The field officers shall also maintain records and documents relevant to the PAS.
  - **Procurement officers**  
Procurement officers shall be assigned to ensure procurement of produce from producers in accordance with the SFC standards. The procurement officers shall be familiar with quality standards for produce.
  - **Training officers**  
Training officers shall be assigned to ensure periodic training of producers and other PAS staff in SFC standards and internal codes of practice.

### **5.1.3. Training the PAS Team**

- 5.1.3.1. The producer organisation shall establish and document training procedures for all PAS staff.
- 5.1.3.2. The producer organisation shall organise periodic training programmes for all staff, particularly the PAS team, to ensure proper understanding of local laws and regulations applicable to the operation, SFC standards and requirements of certification, internal codes of practice, internal inspection procedures, and capacity building programmes.

### **5.1.4. Internal Code of Practice**

- 5.1.4.1. The PAS shall establish an internal code of practice in the local language for producer and organisational adherence to SFC standards.
- 5.1.4.2. The PAS team shall periodically update its internal code of practices regarding the progress on progressive requirements of the SFC standards.

### **5.1.5. Conflict of Interest**

- 5.1.5.1. The PAS personnel shall not have any conflict of interest that might hinder their work. All possible conflicts shall be declared in a written statement. In such cases, the PAS team shall ensure that solutions are found to address the conflict and ensure legitimacy of the PAS process.
- 5.1.5.2. Internal inspectors of the PAS team shall not engage in any functions designated for the PAS field officers, such as providing producers with technical services. The PAS manager shall not assign the same personnel to both provide technical services to producers and conduct the internal inspection.

## **5.2. Implementation of the PAS**

### **5.2.1. Mandatory Education and Training for Registered Producers**

- 5.2.1.1 The PAS shall identify and plan training programmes for its producers as per the organisation's established training procedure.
- 5.2.1.2 The PAS team shall conduct annual trainings for producers to ensure that they are well acquainted with SFC standards, the organisation's internal code of practice, record keeping, internal inspection and corrective action procedures, and their rights and responsibilities.
- 5.2.1.3 The PAS team shall maintain and update the records and documents of all its education and training programmes.

### **5.2.2. Capacity Building Programme for Registered Producers**

- 5.2.2.1. The PAS manager and field officers shall identify, plan, and implement annual capacity building programmes as per the organisation's established procedure for the use of the capacity building funds.
- 5.2.2.2. The PAS team shall build the capacity of producers through awareness and education programmes including field demonstrations, seminars, workshops, face-to-face trainings, and technical services. PAS field officers shall work closely with individual producers to provide necessary technical services as a part of the capacity building programme.
- 5.2.2.3. The PAS team shall maintain and update records of planning and implementation of capacity building programmes and make them available to the external inspector during the audit process.

### **5.2.3. Updated List of Registered Producers**

- 5.2.3.1. The PAS team shall periodically (or whenever major changes occur) update the list of the organisation's registered producers as described in the SFC Standards Interpretation Guidelines.

- 5.2.3.2. The PAS team shall make available an updated list of the organisation's registered producers to the certification agency during the audit process or whenever required.

#### **5.2.4. Material Balance**

- 5.2.4.1. The PAS team shall develop guidelines for the material balance of produce at the farm level for its registered producers as described in the SFC Standards Interpretation Guidelines.
- 5.2.4.2. The PAS shall establish adequate mechanisms to maintain the balance between the produce procured from producers at collection points through to the point of sale to the buyer as per the description in the SFC Standards Interpretation Guidelines.
- 5.2.4.3. The PAS team shall demonstrate the material balance of produce to the external inspector during the inspection process.
- 5.2.4.4. The PAS team shall maintain and update records pertinent to the material balance requirements.

#### **5.2.5. Record Keeping**

- 5.2.5.1. The PAS shall establish a centralised record keeping system compatible with its operation as per the description in the SFC Standards Interpretation Guidelines.
- 5.2.5.2. The PAS team shall submit copies of all required records and documents to the certification body and also make them available to the external inspector during the audit process.

### **5.3. Evaluation and Verification of the PAS**

#### **5.3.1. Internal Inspection**

- 5.3.1.1. The PAS team shall establish a procedure for internal inspection based on the SFC Standards Interpretation Guidelines.
- 5.3.1.2. At least two inspections of every registered farm (including one in the growing season) shall be carried out by the internal inspector every year. The inspection shall be carried out in the presence of the producer or the producer's designated representative.
- 5.3.1.3. The internal inspector shall verify that the internal code of practice has been followed by each producer and whether the prescribed corrective measures from the previous inspection have been implemented.
- 5.3.1.4. The visit of the internal inspector shall be documented in a farm inspection checklist that shall be duly signed by the inspector and the producer or the producer's representative.

#### **5.3.2. Non-compliance and Sanctions**

- 5.3.2.1. In the event of non-compliance with the SFC standards the PAS staff shall take appropriate corrective or mitigating measures based on the following severity levels:
- 5.3.2.2. If there is a *severe* non-compliance, the result shall be reported immediately to the PAS manager and necessary measures shall be taken according to the internal sanction procedures established by the PAS. The PAS team is required to document such sanctions, including justification for and duration of the sanction.
- 5.3.2.3. If there is a *major* non-compliance, the PAS staff shall mandate corrective action and schedule follow-up verification.
- 5.3.2.4. If there is a *minor* non-compliance, the PAS staff shall recommend opportunities for improvement, which shall be verified during the next internal inspection.

### **5.3.3. Internal Review**

5.3.3.1. The PAS team shall periodically (at least annually) review and document all internal systems to ensure that the operations plan, objectives, and targets are all achieved.



## **Buyer Standards**

SFC standards define a buyer as a legally established retailer, processor, broker, trader, wholesaler, or brand owner that purchases SFC certified produce from a producer organisation or from an intermediate buyer in the supply chain. The buyer holds the custody of produce and may be eligible to use the certification mark on final consumer products as per SFC licensing guidelines.

SFC standards describe two types of buyers: the first buyer and the final buyer. A buyer that has entered into a contract directly with a producer organisation for the purchase of produce is the “first buyer”. A buyer that uses the SFC certification mark on its final consumer products is considered the “final buyer.” In some cases, the first buyer may also be the final buyer. A producer organisation may also be a first and/ or final buyer.

### **Scope**

The scope of these standards is the trading relationship directly between a producer organisation and a first buyer, as well as between a first buyer or intermediate buyer and a final buyer.

### **Applicability**

Section A, “Generic Standards for Buyer” is applicable to both the first and final buyer. The first buyer, who deals with the producer organisation directly, is also required to comply with the specific standards described in Section B, “Additional Standards for First Buyer.” Any buyer that is engaged in the marketing or selling of final consumer products may be eligible to use the certification mark on those products as per SFC’s Standards Interpretation Guidelines.

SFC recognises that the supply chain of some products may involve other intermediary buyers to facilitate processing and sales to the final buyer. Such operations are not covered under the direct scope of the standards. However, such operations are required to abide by the requirements of material balance of products. It is the final buyer’s responsibility to demonstrate the material balance of products across the supply chain. Buyers and suppliers should work together to limit the number of supply chain intermediaries to those that are absolutely essential for efficient operation.

In cases where the first and final buyers are the same, the buyer is required to comply with the standards in both Sections A and B.

### **A. Generic Standards for Buyer (applicable to first as well as final buyer)**

*In addition to the monitoring of its standards, SFC respects national and local labour, health, and safety laws. SFC standards require that buyers abide by regulatory requirements applicable to their operation. Buyers will be accountable for violations of national and local labour, health, and safety laws at their operations. In the event that a buyer’s operations are found by relevant authorities to be in violation of these laws, the buyer’s certification status will be reviewed and may be suspended until a remedy for the violation is put into place. Further, buyers will be expected not to purchase products intended for the SFC supply chain from intermediary suppliers who are found in violation of local or national labour, health, and safety laws, or contract the processing or handling of products with any operator that is found to be in violation of these same laws until a remedy is put into place.*

## 1 Long-Term Trading Relationship

**Principle:** Long-term trading relationships based on trust and mutual respect are created throughout the supply chain in order to create stable and predictable market conditions that will benefit producers.

### **Progressive Requirements:**

- 1.1. Buyers shall work in good faith to establish a long-term trading relationship with suppliers by:
  - Negotiating and agreeing to contract terms in advance. In the case of contracts with producer organisations, this means negotiating and agreeing to contract terms in advance of the crop season.
  - Informing suppliers of expected product requirements (i.e., quantity, quality, etc.) well in advance. In the case of contracts with producer organisations, this means providing requirements well in advance of the current crop season and, whenever possible, for the following year.
  - Signing procurement contracts as far in advance as possible. In the case of contracts with producer organisations, this means agreeing in principle to, and when possible signing, procurement contracts for at least 2 years.

## 2 Communication and Information Flow

**Principle:** The buyer and its supplier (either producer organisation or intermediary buyer) work together to ensure that the needs of all supply chain actors for market information are met, and that consumers and the final buyer can access information about how the SFC certified consumer products are produced.

### **Minimum Requirements:**

- 2.1. The buyer and supplier shall establish a mechanism through which they can communicate effectively in the event of any concerns, delays, or quality issues. Information of mutual interest, such as that relating to crop quantity and quality, processing techniques, trading procedures, and market conditions, can also be exchanged between the buyer and supplier through this mechanism.
- 2.2. A clear distinction shall be made between confidential and public information shared between the buyer and supplier, and both parties shall agree to respect confidentiality.

### **Progressive Requirements:**

- 2.3. The buyer and supplier shall identify key information relevant to consumer marketing and develop an information profile for public dissemination that includes relevant aspects of production, certification, processing, and trade.
- 2.4. The final buyer shall make information accessible to retailers and consumers regarding relevant aspects of production, monitoring, processing, and trade such that SFC can be promoted on product labelling, displays, brochures, or websites.

## 3 Material Balance

**Principle:** The quantity of certified products sold or used as raw materials and/or ingredients by the buyer match the quantity procured, less any processing loss or wastage.

### **Minimum Requirements:**

- 3.1. The buyer shall demonstrate the material balance of incoming and outgoing SFC certified products.

- 3.2. In cases where the buyer is engaged in making SFC certified composite products, the material balance of final products, including the total quantities of other raw materials and/or ingredients, is also required.
- 3.3. In cases where there is involvement of intermediary buyers apart from the first and final buyer, the final buyer shall demonstrate the material balance of the product across its supply chain by furnishing relevant documentation, records, and other information.

## 4 Promoting Environmentally Friendly Practices

**Principle:** The buyer does not encourage the supplier to perform any activity, process, or operation that may hinder the supplier's ability to adhere to the Shop For Change environmental requirements.

**Minimum Requirements:**

- 4.1. The buyer shall not require or exert pressure on the supplier to perform any activity, process, or operation which compromises adherence to SFC environmental requirements, including those relevant to agrochemical use.

## 5 Product Labelling and Claims

**Principle:** product labelling and claims convey clear and accurate information about Shop For Change certification of the final consumer product.

**Minimum Requirements:**

- 5.1. The buyer shall only use the SFC certification mark on its final consumer product if it holds a valid certificate of registration.
- 5.2. The product and/or product label or package shall carry the SFC certification mark only when a license agreement is signed between the buyer and SFC or its designate.
- 5.3. The product label must clearly and accurately describe the product and comply with the applicable statutory and regulatory requirements of product labelling as they relate to SFC certification.
- 5.4. The design for labels of SFC certified products shall be furnished to SFC or its designate for approval before the final printing of product labels or packaging.

## 6 Complaint Handling

**Principle:** The buyer develops procedures and mechanisms to deal with complaints received from producer organisations, consumers, or other supply chain actors.

**Minimum Requirements:**

- 6.1. The buyer shall establish procedures to deal with complaints from certified producer organisations, consumers, and other supply chain actors, as well as develop appropriate mechanisms for taking remedial actions.
- 6.2. The buyer shall record all complaints and actions taken.

## 7 Support to Local Communities

**Principle:** The buyer is a key actor in the SFC supply chain and its support of local communities will contribute to their overall growth. The buyer actively engages with local communities in order to expand relationships and promote better awareness of the associated advantages of the SFC system.

**Progressive Requirements:**

- 7.1. Whenever possible, the buyer shall source and/or process products in the local area surrounding producer organisations in order to reduce transportation and bring economic benefits to those areas. To the extent that this requires hiring, the buyer shall strive to employ workers from the producer organisations' communities or the local communities surrounding the producer organisations.
- 7.2. To extend the benefits of the SFC certification system, the development of local markets for the sale of SFC certified products is encouraged.
- 7.3. The buyer shall take an active role in the development of areas in which farming communities are based. Whenever possible, the buyer shall support these local communities through sponsorship of infrastructure improvements and participation in relevant events in the communities.

**B. Additional Standards for First Buyer**

A buyer that purchases directly from a producer organisation is required to comply with the following additional requirements.

In cases where the first buyer and final buyer are the same, the buyer is required to comply with the standards in both Sections A and B.

**1 Price of Produce**

**Principle:** The buyer negotiates a price with the producer organisation that takes into consideration the producer organisation's costs and quality of produce. Additionally, the buyer provides financial support to the producer organisation for the capacity building of its members.

**Minimum Requirements:**

- 1.1. The buyer and producer organisation shall negotiate a price for produce that takes into consideration market conditions, overhead, quality of produce, and other costs incurred by the producer organisation.
- 1.2. In addition to the negotiated price for produce, the buyer shall support the producer organisation's implementation of the certification system and capacity building of its members by paying the producer organisation an additional 15% of the total contract value, which shall be reserved by the producer organisation for these purposes.
- 1.3. Pitting one producer organisation against another in order to drive down prices is prohibited.
- 1.4. Upon delivery of produce by the producer organisation the buyer shall promptly make full payment or payment of any outstanding balance as per the terms of the contract, including the price of the produce and the corresponding funds for capacity building.
- 1.5. The buyer must maintain and update records of price and payments to the producer organisation and make them available during the audit process.

## 2 Pre-Shipment Finance

**Principle:** The first buyer makes pre-shipment financing available to the producer organisation to ensure access to funds needed to procure produce from producers and fulfil the contract with the buyer. The buyer may choose to apply interest rates only up to those available commercially.

### **Progressive Requirements:**

- 2.1. In instances when fixed-price contracts have been agreed to, the first buyer shall make available a minimum of 50 % of the contract value as a pre-shipment payment to the producer organisation to provide working capital to procure produce from producers. In instances when prices have not been fixed, the buyer shall make available up to 50% of the estimated contract value as a pre-shipment finance payment. The first buyer and producer organisation shall arrange the details of the financing arrangement as part of their contract.
- 2.2. The first buyer may charge up to (and no more than) the prevailing market interest rate and, if necessary, involve a legitimate third party lending institution (e.g., banks, government institutions, and NGOs) in the pre-shipment financing arrangements.

## 3 Contracts with the Producer Organisation

**Principle:** Contracts between the first buyer and the producer organisation are clear, fair, and adhered to strictly unless both parties agree to amendments.

### **Minimum Requirements:**

- 3.1. The first buyer shall establish procedures for contracts with the producer organisation as described in the SFC Standards Interpretation Guidelines.
- 3.2. Contracts between the first buyer and the producer organisation shall include but not be limited to: the negotiated price and corresponding capacity building funds, quality and quantity specifications, delivery and transport conditions and schedule, delegation of responsibility for late delivery of produce, pre-shipment finance arrangements, a termination clause, a *force majeure* clause, and conflict resolution procedures. The detailed elements of the contract are described in the Standards Interpretation Guidelines.
- 3.3. The contract shall clearly mention all rights and obligations of both parties. The first buyer is required to show records that obligations included in the written contract were met (e.g. payment and delivery records).
- 3.4. The contract shall clearly indicate transfer of ownership and be written on an F.O.B. (Free on Board) basis unless otherwise requested by the producer organisation and agreed to in writing by both parties.
- 3.5. Whenever possible the contract shall be made in the applicable local language.
- 3.6. The buyer shall not terminate the contract without just cause.

## 4 Conflict Resolution and Arbitration

**Principle:** The buyer and supplier agree in advance to an unbiased resolution mechanism in the event of dispute over terms of the contract or delivery of produce.

### **Minimum Requirements:**

- 4.1. The buyer and the supplier shall include a conflict resolution and arbitration clause in their contract. If the contract does not specify a conflict resolution and arbitration procedure in accordance with accepted written industry norms, the contract shall establish a mechanism that allows either party claiming bad faith on the part of the other to call for appointment of a neutral arbitrator to conduct binding arbitration proceedings between the parties.

## 5 Quality, Quantity, and Delivery Schedule

**Principle:** Both the first buyer and producer organisation have a common understanding of quality, quantity, and delivery requirements at the time that the contract for produce is signed, and both parties adhere to those requirements unless they mutually agree otherwise.

### **Minimum Requirements:**

- 5.1. The first buyer shall clearly define quality standards or requirements, including the exact quantity and form of produce, in the contract with the producer organisation.
- 5.2. The first buyer shall not change the contract terms related to quality or other characteristics of the produce without a written addendum to the contract signed by both the first buyer and the producer organisation.
- 5.3. Should the producer organisation not be able to provide the specified quantity or quality due to crop failure or crop problems such as plague or pest, the first buyer shall make a reasonable effort to make contingency arrangements with the producer organisation that allow alternate means of fulfilling the contract or release from all or some of the contract obligations.
- 5.4. To facilitate the production planning by the producer organisation, the first buyer shall inform the producer organisation of quality requirements well in advance of the crop season.
- 5.5. Whenever possible, the first buyer shall make provisions to collect the produce at or as close as possible to the location of the producer organisation and its producers.