

A man with short dark hair, wearing a dark blue jacket over a white t-shirt, stands in a large greenhouse. He is smiling and looking towards the camera. In the foreground, there are several large pots of roses, some red and some white. The greenhouse has a high, arched metal frame covered with translucent plastic. In the background, other workers can be seen tending to the plants.

Sustainable Procurement Kit User Guide

Providing insights into buying practices
and living wage contributions

2019



Introduction

The IDH Sustainable Procurement Kit calculates the degree to which the price paid for a particular product enables the payment of a living wage at the supplier level. This will enable users to set targets and commitments towards closing the living wage gap.

The Sustainable Procurement Kit (SPK) has been developed by IDH, The Sustainable Trade Initiative, in close collaboration with Oxfam GB and with support from Accenture Development Partners. It was developed for the tea sector and has been tested by a number of large tea companies in their supply chain in Malawi. Recently, IDH adapted the Kit for use in other sectors.

The SPK compares current commodity prices with several sector-, country-, and region-specific datasets covering productivity and purchase data, labour data and living wage benchmarks. Entering data in the SPK will provide users with insights into the impact of a certain price on a suppliers' ability to pay a living wage.

The SPK provides information and insights into buying practices and living wage contributions. Further principles of the SPK are outlined in the first section of this user guide.

The IDH approach

IDH was established by the public sector in 2009 to leverage and direct the strengths and interests of the private sector toward value chain sustainability. To improve working conditions and achieve living wages in several sectors, including tea, banana, flowers and apparel, IDH organizes and runs multi-stakeholder coalitions with private sector actors, governments, and civil society organizations. To support this goal, IDH develops practical tools for business, such as the [Salary Matrix](#) that enables supply chain actors to identify and calculate the living wage gap at a supplier level, and the Sustainable Procurement Kit (SPK).

The SPK has been tested and adopted by a number of tea companies that are part of the [Malawi Tea 2020](#) revitalization programme. Since 2015, Malawi Tea 2020 aims to achieve a competitive and profitable Malawian tea industry, where workers earn a living wage and smallholders earn a living income. IDH plays a convening role in the program together with the Tea Association of Malawi, the Ethical Tea Partnership, and Oxfam.

Coalition partners of the programme expressed the need to quantify the impact procurement decisions make towards the payment of a living wage in their supply chain, as well as to set clear commitments for the payment of a living wage over the duration of the programme. The Sustainable Procurement Kit was developed to give buyers and suppliers insight into whether the price paid for a product enables the payment of a living wage at the supplier level.

Following testing and improvements to the SPK, the kit has been redesigned to further the Living Wage work of IDH and its partners across different sectors.

Objective

This document will guide users of the Sustainable Procurement Kit through the context and basic principles of the SPK, and provide details on data entry and interpretation of the results.

Acknowledgment

The content of the SPK has been created in collaboration with Oxfam GB.



Glossary

Living wage:

Remuneration or compensation for a standard 48-hour work week sufficient to pay a decent standard of living for the worker and his/her family. The elements of a decent standard of living include food, water, housing, education, medical care, transportation, clothing, and other essential needs, including a provision for unexpected events (Global Living Wage Coalition).

Current wages:

Current compensation for workers from the defined farms and suppliers.

In-kind benefits:

Non-monetary benefits such as food, transport, medical care and housing, provided by an employer to an employee that reduce the amount of cash income that workers need for a decent standard of living.

Living wage gap:

The difference between the current wages plus in-kind benefits, and the Living Wage Benchmark as provided by the Global Living Wage Coalition or other comparable and recognized bodies.

Payment term:

Date upon which the buyer will make the full payment.

Total living wage gap bridged as per annual target:

The percentage of the living wage gap that can be achieved at a certain price, compared with user-defined annual goals, provided that other data points are valid.

Quality bands:

The varieties of the product that the buyer purchases if prices differ for each. The SPK gives users the option of including up to five quality bands or varieties of the product. If more than five quality bands of the product are purchased, users should simplify them into five categories (e.g. Premium, Good Quality, Average, Discounted, Poor Quality).

Basic principles of the Sustainable Procurement Kit

The purpose of the Sustainable Procurement Kit is to calculate the degree to which the price paid for a particular product enables the payment of a living wage at the supplier level. The SPK is based on five principles:

1 Applicability of the SPK

The SPK has been developed as a generic model for buyers and suppliers in supply chains, to estimate whether the price paid for a product enables the payment of a living wage at the supplier level. As with any model or tool, the SPK is a simplification of economic realities and even with entirely accurate data generalizations may occur.

The SPK is not and does not aim to be a pricing tool. Supply chain actors should not use it to set prices for products at farm level, but rather to understand prices better. Similarly, stakeholders should not use it to enforce prices on other stakeholders. Specifically, from the supplier perspective, each product and its varieties have different cost drivers. Therefore, the SPK is a guide and not a validation of pricing decisions. Any outcomes of the SPK need to be put in perspective with economic realities, in a balanced agreement between buyers and suppliers. The information shared between buyers and producers in the SPK should be used to encourage mutually-beneficial positive change and shared value across the supply chain.

Taking into account the basic principles, the SPK may be used by individual buyers and suppliers in their supply chains to understand the impact of the price paid for a product has on achieving a living wage.

2 Set realistic commitment levels

The SPK allows users to select up to five commitment levels for closing the living wage gap. These should be annual targets that specify the percent of the living wage gap that is to be reduced in that particular year. The proposed range of 50% living wage gap reduction over five years is suggested, but should not be considered standard. A long-term strategic commitment is based on mutual agreement between buyer and supplier and shall include yearly improvements that balancing economic realities of the sector with living wage aspirations.

3 The SPK is intended for a single supplier

Outcomes of the SPK can provide insights and recommendations to users for a single supplier. The SPK cannot be used for multiple suppliers and origin countries simultaneously but might be used to compare the impact of payment of a living wage across different suppliers and quality bands. When comparing multiple suppliers, individual SPKs must be completed for each.

4 Gathering Living Wage Benchmark and prevailing wage data

The SPK has been developed using the Living Wage Benchmarks based on objective and quantitative reports using the Anker Methodology. Whenever available, IDH recommends the use of the [Global Living Wage Coalition \(GLWC\)](#) benchmarks. If prevailing wages are not available through local CBAs, current wages can be calculated through the [Salary Matrix](#), published by IDH and Rainforest Alliance, and based on the Anker methodology.

5 The SPK requires data accuracy and integrity

The data entered into the SPK should be based on current cost drivers for buyers and suppliers incurred within the sector. The data entered in the SPK should be agreed by both buyers and suppliers and should be updated every six months to provide the most accurate results. Additionally, as the SPK contains potentially sensitive data such as costs and profit margin of the suppliers, data should always be completed with the full agreement of all parties involved and should be treated by the users with integrity and confidentiality.





Annex: context and additional information

Before proceeding, please note the following practical points:

- Data in the SPK must only be entered in the white colored cells. Other cells cannot be filled in.
- Data in the SPK needs to be as accurate as possible and based on real-time costs.
- Descriptions of the majority of data needed are in the SPK. This user guide provides additional information.
- The standard unit for all monetary data in the SPK is the US dollar.

It is important to have as much data that is required as possible before entering the information in the Sustainable Procurement Kit.



Sections of the SPK	Information needed
 1. Calculate Living Wage Gap	<ul style="list-style-type: none">• Data from the Global Living Wage Coalition Benchmark for a country/area/sector, or other relevant benchmarks;• Current prevailing wages, which can be retrieved through the Salary Matrix if needed;• Commitments for closing the living wage gap.
 2. Required Sector Data	<ul style="list-style-type: none">• Sector data on productivity• Cost drivers for suppliers
 3. Product Purchase Data	<ul style="list-style-type: none">• Specific data on transactions between buyer and supplier, including product specifications, transportation details, and the use of broker or marketing agents.• Targets for purchasing quality and volume.
 4. Living Wage Impact Dashboard	<ul style="list-style-type: none">• Select various scenarios that show the percentage of the total living wage gap bridged as per annual commitment.



1. Calculate Living Wage Gap

Data in this section relates to the living wage gap at the producer level, and registers the user's commitment towards closing the living wage gap over a five-year period. This is the basis and starting point of the SPK, and will inform the outcomes of calculations made on bridging the living wage gap as per annual target.

Data point	Necessary data	Observations
Living wage at the farm or sector level for a specific country	Number as published by the Global Living Wage Coalition or other recognized sources	Benchmarks should include cash and in-kind payments to workers. Note that the Kit is compatible with the Anker methodology Living Wage Benchmarks. If such benchmarks are unavailable, other existing values can be used as estimates.
Prevailing wage	Prevailing wage at the farm or sector level	<p>Wages can be set at the farm level or a sector-wide Collective Bargaining Agreement.</p> <p>If no sector-level prevailing wage is available, use the Salary Matrix to calculate the prevailing wage at farm level (including in-kind benefits).</p> <p>If several prevailing wage levels at the farm or sector level exist, use the wage level of the lowest paid worker.</p> <p>To compare various job categories or wage levels, users can create multiple versions of the SPK.</p>
Commitment level	Percentage of the living wage gap to be closed over a year	The SPK calculates the bridging of the living wage gap as per annual target. The proposed range of 50% living wage gap reduction over five years is one example. All commitment plans should take the competitiveness of the sector and the agreement of all sector partners into account.



2. Required Sector Data

The data in this section of the SPK detail the cost drivers that influence the price of the raw product.

The inclusion of up-to-date data, specifically related to cost drivers and market price, is essential. It is advised that users are in full accordance on the data used and jointly revise it every six months.

Data point	Necessary data	Observations
Productivity: Raw Material Produced	Production data for raw materials	Data may be in kilograms, pounds, boxes or other units.
Productivity: days worked per month	Labour costs	<p>The total number of workers in scope under a living wage programme. For example: a supplier may have a certain number of workers earning above a living wage, but 'in-scope' would only refer to those earning below a living wage.</p> <p>GLWC benchmarks usually have an estimated average number of working days per month. Consult these or another relevant industry standard.</p>
Productivity: annual finished production	Production data for finished product	Data may be in kilograms, pounds, boxes or other units. This should reflect the units used in purchase orders.
Cost drivers: average base price	Cost of producing 1 unit of finished product	<p>This section of the SPK requires potentially sensitive supplier data. This data is critical for any further calculations and insights and therefore important that buyers and suppliers are in total accordance that all understand that the data cannot and will not be used for any negotiations or price setting mechanisms.</p> <p>Data on average base price is an average across all quality types.</p>
Cost drivers: supplier margin	Margin above cost of production for suppliers	
Cost drivers: contract costs	Interest rates and suppliers' savings resulting from long-term relationship	The SPK recognizes there are different interest rates between suppliers and buyers. For this reason, the SPK rewards prompt payment and long-term contracts, which financially benefits suppliers.



3. Product Purchase Data

The data in this section relates to the actual purchase of a product, including market price and costs related to transportation and purchasing methods. This reflects the purchasing history and typical transactions of a specific buyer rather than the sector. The calculations show users the impact of purchasing different quality grades, as well as costs of different transportation pathways.

The data entered in this section will be primarily related to costs incurred by buyers and will need to be in full accordance between the parties using the Sustainable Procurement Kit.

Data point	Necessary data	Observations
Product specification: quality types	Quality types	<p>This data informs users of the impact price differentials and quality grades will have on bridging the living wage gap.</p> <p>Users can include up to five quality types with corresponding prices. If more than five quality types exist, the five most common should be utilized.</p>
Product specification: value differential	Value differential per quality type	<p>Enter the names of any quality variations and the value differential per quality.</p> <p>For example, if one quality valued as half as expensive as the initial quality, then the second unit value would be .5. If there is no value differential between different qualities, put one for all qualities.</p>
Product specification: market price	Quality types and market price	Not applicable
Product specification: total supplier output	Output per quality type	Total output should represent 100% of all production.
Transportation pathway	Possible pathways and cost per pathway	The transportation data informs the price paid per final production unit at port of pick up. It should include cost of warehousing at origin and destination.
Use of broker or marketing agent	Type of broker/marketing agent and costs	<p>Data on the broker or marketing agent informs the price paid per final production unit at port of pick up.</p> <p>If selecting 'cents on final product', then enter the unit as a dollar amount (e.g. 0.03 would be 3 cents on the final unit of product). If users select percentage of final price, then please enter the whole percent (e.g. 5 for 5%).</p> <p>If a broker is used, enter the respective unit. If no broker is used, select none.</p>



4. Living Wage Impact Dashboard

This section of the Sustainable Procurement Kit is made up of previously entered data and new data entry points. Most of the data points rely on data entered under the 'Product Purchase Data' section. It is therefore key that this data is added as correctly as possible by the buyer.

Data point	Necessary data	Observations
Purchasing: quality bands	Quality types	Previously entered data (product purchase data tab)
Purchasing: quantity per quality band	Quantity purchased per quality band	Data can be adjusted to reflect commercial reality. Different quality bands can be entered simultaneously
Purchasing: living wage gap in scope	Automatically provided by the SPK	Users can refer to this cell to show the amount of the living wage gap that is in scope.
Purchasing: choose logistical pathway	Logistical pathway	Data in drop-down menu is populated with data entered under 'transportation pathway' in 'product purchase data' section
Purchasing: broker/ marketing agent	Use of broker/marketing agent	Data in drop-down menu is populated with data entered under 'use of broker/marketing agent' in 'product purchase data' section
Pricing mechanism: sustainable cost of production	Automatically provided by the SPK	Users can refer to this cell to show the cost of producing while including living wage calculations, supplier margins and premium pricing for better qualities.
Pricing mechanism: price paid per final production unit	US Dollars/purchase unit (inclusive of transportation costs)	This is the key cell in this section of the SPK for determining the impact of the price paid towards closing the living wage gap.
Total living wage gap bridged as per annual target	Automatically provided by the SPK	Users can refer to this cell to assess whether a price that they are planning to pay is sufficient for closing the living wage gap.
Contribution towards living wage: type of contract	Type of contract	Prompt payment and long-term contracts benefit suppliers due to their ability to better save and have a larger impact towards closing the living wage gap. Use the drop-down menu to select applicable contract and payment terms.
Contribution towards living wage: payment term	Payment term	

General considerations and disclaimers

Refer to the basic principles and learnings as outlined in this user guide when considering Sustainable Procurement Kit results. As with any model or tool, the SPK is a simplification of economic realities and even with entirely accurate data some generalizations may occur. Also, any strategy towards closing the living wage gap needs to include strategic and realistic goals that balance sector competitiveness and economic realities. Please consider the following:

The objective of the SPK is to allow individual buyers and suppliers to estimate whether the price paid for a product enables the payment of a living wage to workers. IDH is committed to full and fair competition and buyers and suppliers shall not use the SPK and the data contained therein in any way inconsistent with relevant competition laws. Because of the importance of preventing competition law violations in the interest of all parties and in the general interest, acceptance of and compliance with applicable competition laws is considered a condition for usage of the SPK.

- **Market realities:** Variations in exchange rates, inflation and cost of procurement over the period in case of long-term contract are not factored in the SPK.
- **Scope of the living wage gap:** The living wage gap in scope signifies the amount of money required to bridge the living wage gap for employees needed to produce the desired quantity for a given year against set targets.
- **Cost division of price:** Transportation cost and brokerage fees are separated from the price. The final cost is the price that buyer is willing to pay + transportation costs + brokerage fee.



