



the sustainable  
trade initiative

# Living wages

Covenants - Sourcing for Social Impact

Globally there are 1.8 billion workers. The majority in developing economies earn wages that are insufficient to work themselves out of poverty. Businesses increasingly understand that paying living wages has commercial benefits like lowered absenteeism, turnover, and recruitment and training costs and improved workers' satisfaction which translates into higher productivity and quality.

IDH developed a **Salary Matrix** to calculate the wage gap between current and living wages. And a **Sustainable Procurement Kit** that companies can use to assess the degree to which the price they pay for their products enables the payment of a living wage by their suppliers. IDH applies living wages approaches in tea, flowers and bananas in multiple countries in Africa, Asia and Latin-America



193,925

workers' wages/working  
conditions improved



25%

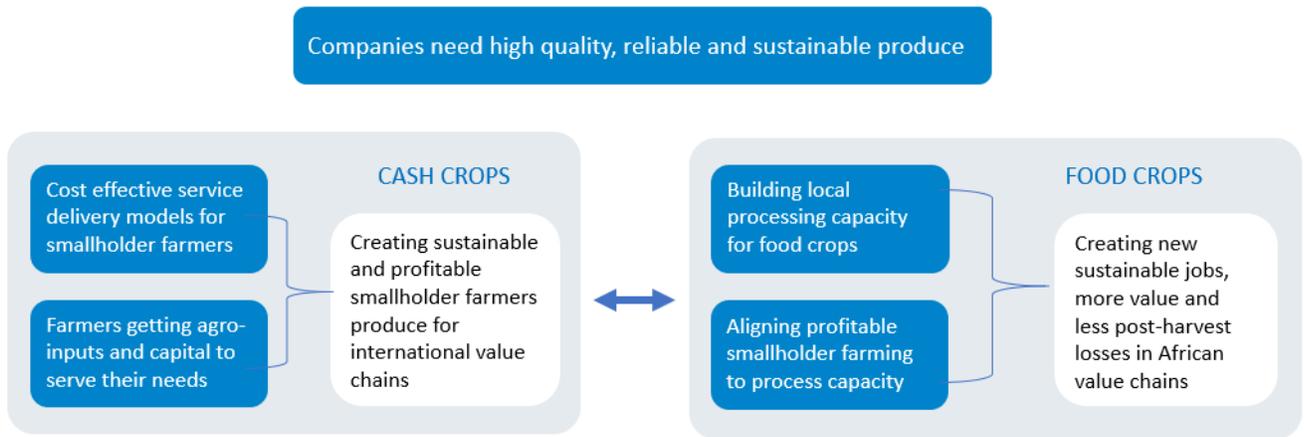
net living wage gap  
closed in Malawi

IDH works towards living wages with producers, traders, brands, retailers, CSOs and governments. First we identify the gap, then we work on increasing productivity, on improving secondary benefits like housing, mid-day meals etc... with producers. We negotiate premiums with buyers for plantations that pay better wages. In our African Value Chain Development projects we help build and align smallholder production and local processing capacity of food crops like cassava or rice. This creates new and sustainable jobs in processing industries, adds value to products made in Africa and creates living incomes for smallholder farmers. On the market end we convene retail covenants to work towards living wages for all bananas sold in supermarkets. In five examples, we show how we work toward living wages/incomes.

## African Value Chain Development : Fruits & Vegetables in Rwanda and Cassava in Nigeria

Cassava is a major staple in Nigeria. 30 M smallholders produce an annual 53 MT. Due to the root's short shelf-life over 40% is lost before it is processed. By investing in cassava processing industries and aligning smallholder harvests with processing capacity, we aim to bring post-harvest losses down from 50 to 20%. This will create more value in Africa (less starch needs to be imported), new and sustainable jobs in processing industries and improvement of the livelihoods of smallholder farmers towards living incomes. We apply the same approach with fruits & vegetables in Rwanda connecting local smallholder production to (juice) processing facilities and build local and international market demand with traders and supermarkets in both Europe and Africa.

## Value Chain Development



### Floriculture Sustainability Initiative, East Africa

In the Floriculture Sustainability Initiative (FSI) of IDH, Fairtrade flower farms in East Africa raise the wages of over 40,000 workers in 2018. Before this, they were lower than the new Fairtrade Floor Wage, which was formulated with research support by IDH. All Fairtrade farms are currently identifying business cases towards increasing wages as part of their supply chain margin and price setting.

### Malawi Tea 2020

IDH and Oxfam GB build the Sustainable Procurement Kit which informs buyers on prices that enable living wages. This model forms the guidance for contractual negotiations between buyers and producers. After tea plantation wages leapt up 25% in Malawi in 2017, in 2018 wages again increased by 11%. This means that tea plantation workers in Malawi now earn 40% more than the country's minimum wage. The main challenge to make further progress is the income tax threshold in Malawi. Due to higher wages, tea workers now fall into the income tax bracket, lowering their purchasing power. This shows the clear need for government involvement and policy alignment in support of living wages, both in and outside of Malawi. The effects of income increases need to be built into future living wage

roadmaps. With stakeholders from across the entire value chain, the Malawi Tea 2020 program reached its mid-point. As other African tea-producing countries remain behind in terms of wage levels, we believe a regional approach is required.

### Retail living wages covenant, the Netherlands

Supermarkets have joined forces to ensure a living wage for banana workers in the international production chain. Under the umbrella of IDH the partnering retailers aim is to reduce the gap between the currently paid wages and the living wage for their entire banana assortment by at least 75% within five years. The commitment was signed by most Dutch retailers and we will expand it to other European countries. The goal of is to predominantly sell bananas that are sourced from plantations that pay a living wage to their workers. The retailers can use the Salary Matrix, made available by IDH, to calculate the difference between the current wages and the living wage. By using the tool, they can analyze current wages in the supplying locations of their total banana assortment. This will serve as the baseline from which future wages will be compared. From 2021 onwards, they will gradually bridge the living wage gap by at least 10% each year.

## Sourcing for Social Impact

