

SUSTAINABLE PROCUREMENT PRACTICES TO SUPPORT LIVING WAGES IN MALAWI TEA

A review of progress and what else is needed

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MALAWI TEA REVITALISATION PROGRAMME 2020

OXFAM'S ROLE IN MALAWI 2020

- Oxfam's priority is sustained positive impact on workers' incomes
- We work at both ends of the value chain:
- a) removing barriers to freedom of association and the right to collective bargaining
- b) engaging with brands and retailers on their sourcing practices
- A key role for Oxfam is to hold companies to account for the commitments they made in the MOU



- ***Malawi 2020 MOU:***
- ***“Tea Buying, Trading and Retail Companies will: Implement business practices that support the economic ability of employers to pay a living wage”***

Understanding barriers, seeking solutions

Understanding barriers

Barrier (2011-12): lack of understanding of in-work poverty

Barrier (2013): companies/certifiers: 'what's the number?'

Barrier (2014): lack of sector-wide way forward

Barrier (2015): limited industrial relations, no collective bargaining in 90 year history

Barrier (2016): too little value for producers to close LW gap alone

Finding solutions

Solution: *Understanding Wage Issues in the Tea Industry* (2013)

Solution: Anker benchmark for tea growing region of Southern Malawi (2014)

Solution: Malawi Tea 2020 coalition established (2015).

Solution: first ever union recognition agreement and CBA in Malawi tea (2016)

Solution: Sustainable Procurement Model (2017)

THE LIVING WAGE BENCHMARK IS NOT A LUXURY



Assumes a family of 5 with 1.59 earners per household.

Diet: low cost nutritious foods (e.g. small fish eaten whole including head and bones), least expensive fruits and vegetables, cooking oil, inexpensive beans). Milk powder only for children aged 2-5 and pregnant mothers.

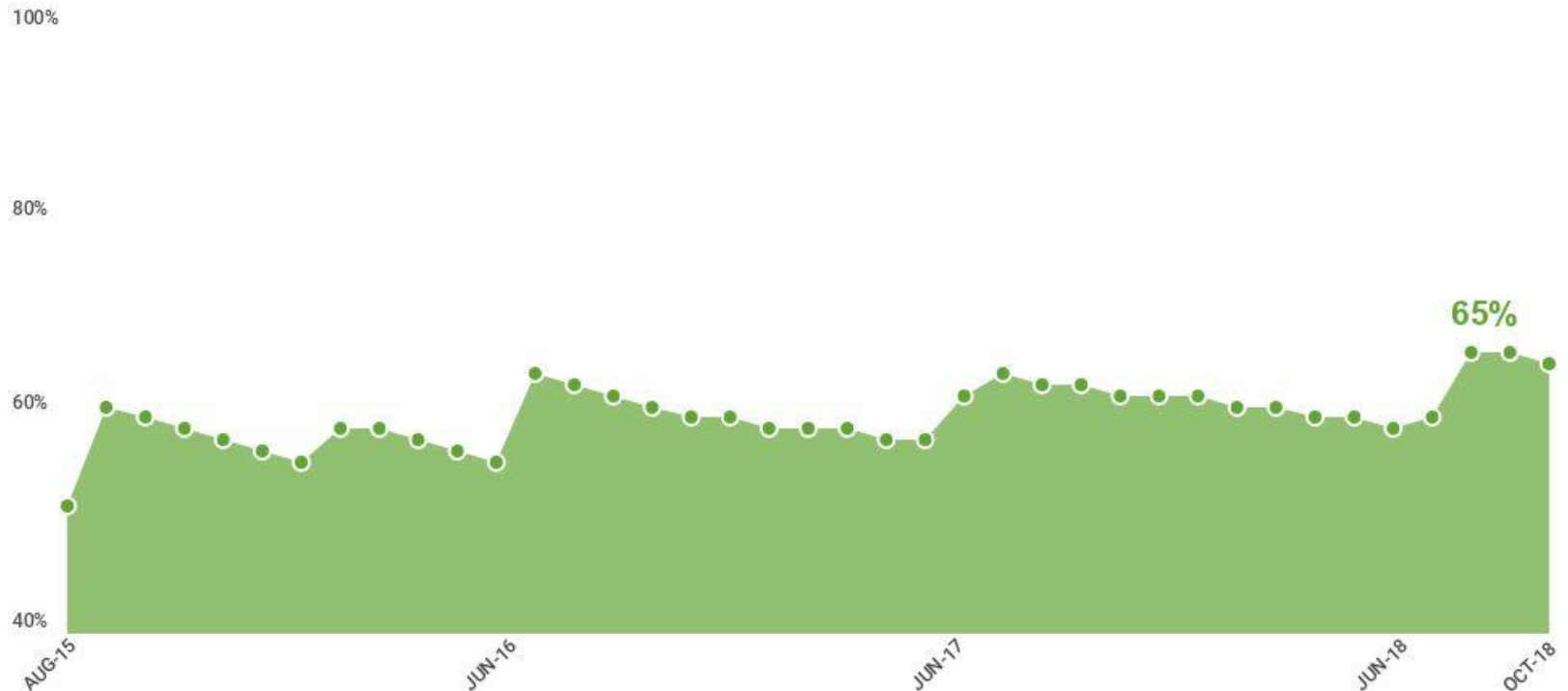


Richard & Martha Anker

House: cement floor, brick walls, zinc roof without leaks, adequate ventilation and lighting, potable water not far from house, pit latrine in good condition near house, 3 rooms/30 square metres of living space. 5 chairs, 4 beds, 4 mattresses, 1 bicycle and 1 radio.

PROGRESS: LIVING WAGE GAP CLOSED BY 25% BASED ON ACTION BY PRODUCERS/ COLLECTIVE BARGAINING AGREEMENTS

Progress toward closing gap to a living wage - % of gap closed



This graph shows hikes in take home pay for workers, followed by erosion from inflation. Source: Richard Anker, Martha Anker and Levison Chiwaula, [Wages Committee Report to Malawi Tea 2020](#), October 2018.

STEP 4: ENTER YOUR WILLINGNESS TO PAY

Quality band of Malawi tea	SC	Good Main Grade	Plain Main Grade	Off Grade
Enter order quantity (Kg)	10,000	1,000	10,000	500
Incoterm	FOB Beira	Ex-works Blantyre	CFR EU	CFR EU
Involvement of broker or Marketing Agent	Yes	Yes	Yes	Yes
Living wage gap calculation				
Green leaf required to produce the qty (Kg)	46,500	4,650	46,500	2,325
Person-days required to produce the qty	2,133.2	213.3	2,133.2	106.7
LW gap in scope for selected order qty (USD)	768	77	768	38
Pricing Mechanism				
Average Mombasa auction price (USD/Kg)	2.77	2.77	2.77	1.61
Differential in value for Malawi Tea (USD/Kg)	0.415	0.615	0.745	0.445
Guided Maximum: Mombasa Basket Auction Ref.Price	2.36	2.16	2.03	1.17
Operating Cost of production (USD/ Kg)	1.54	1.54	1.54	1.54
Adjustment factor to cost of production	20%	15%	10%	-23%
Guided Minimum: Adjusted cost of production	1.85	1.77	1.69	1.19
Enter Ex-factory willingness to pay (USD/Kg)	1.95	1.80	1.65	1.00
On-cost of tea (USD/ Kg)	0.176	0.086	0.136	0.136
Cost of tea at the port of pickup (USD/Kg)	2.13	1.89	1.79	1.14
Contribution towards LW				
Select type of contract	Auction	Spot purchase	Long term contract	Spot purchase
Savings to producers due to forward contracts (USD/Kg)	0.00	0.00	0.02	0.00
Select the payment term	Ex-works Blantyre	Ex-works Blantyre	Ex-works Blantyre	Ex-works Blantyre
Finance cost savings due to Payment terms (USD/Kg)	0.03	0.00	0.04	0.02
Surplus value created by Producers (USD/ Kg)	0.028	0.000	0.060	0.024
Surplus value created by Buyers (USD/ Kg)	0.102	0.029	-0.044	-0.165

Based on your assessment of the quality of tea, market conditions, type of contract and negotiations and the guided minimum & maximum price range provided by the model – enter the **willingness to pay for the selected quality band of Malawi tea at the factory gate**

- Please enter values in USD/ Kg
- This amount does not include the transportation cost and brokerage/ agent fee

COMPANY COMMITMENTS

- July-December 2018 Oxfam engaged with buyers on their commitments for 2018/19 against their obligations under the MOU.
- We assessed 9 brands: Unilever, Tata Global Beverages, Twinings, Typhoo, Taylors, Jacob Douwe Egberts, Mother Parkers, Ostfriesische Tee Gesellschaft (OTG), Ringtons, and 2 retailers: Tesco and M&S.
 - All the companies agreed to make a contribution, covering 100% of Malawi tea, guided by the sustainable procurement model, that enabled the living wage gap to be closed by 20% this year. Some companies' commitments were partial (eg excluded tea sourced via the auction).
 - All the companies agreed to provide evidence of this contribution for verification by an independent party.
 - Most of the companies committed to provide at least a 1-year contract for all their Malawi producers.
 - Asked if companies would commit to minimum volumes (equivalent to the average of the last 3 years), all companies said they had no intention of moving sourcing away from Malawi but they could not make explicit volume commitments in advance due to a range of factors.

BUT THEN THE MARKET CHANGED

- We were pleased with buyer commitments and willingness to start to build into contracts. Something of a breakthrough at this end of the supply chain...but not the end of the story...
- Since the engagement with buyers, the market has changed – for the worse for producers.
- Prices significantly down in Malawi due to a glut in Kenya. Plenty of tea available at low prices, so producers are very concerned about price competitiveness.
- Some buyers and producers are more able to build progress towards living wage into contracts than others, so some parts of the value chain have enough value, others do not.
- We are discussing ways to verify at the end of the season what happened in practice.

SYSTEMIC BARRIERS DUE TO UNSUSTAINABLE ECONOMICS - SOLUTIONS

1. Action by government - raise lowest tax threshold, increase the minimum wage
2. Carrots for buyers and producers – enabling environment
3. Supermarkets: incentivise buyers, incorporate in supplier contracts, avoid price promotions where workers in poverty
4. Certifiers: incorporate timebound progress towards benchmarks & provide a producer premium/sufficient value
5. Engaged investors which understand issues supporting initiatives like this – contribution to SDGs.
6. Business models which better share value with workers and smallholders

FURTHER READING

