Malawi Tea 2020

The Sustainable Procurement Practices

Rachel Wilshaw, Oxfam and Will Battle, IDH
An international confederation of 20 organisations networked together in 94 countries, as part of a global movement for change. Led from Nairobi from 2018 on
The women and men who grow our food get a fair share of the value in the value chain, supported by transformed business models and stronger regulation.

Women have more seats at the negotiating table and their contribution – both paid and unpaid - is recognised.
Decline in share of value going to workers vs owners of capital

Figure 4: Labour income as a share of GDP in countries of different income levels, 1988–2011

Trends in food supply chains – banana example

Trend in consumer prices – supermarkets in the UK, France, Italy and Germany

Trend in the cost of living in banana producing countries

Banana Consumer retail prices in Europe

Consumer Price Index in Banana producing countries

Oxfam Germany research published 2016
Initiatives working on living wage around the world

- World Banana Forum
- Global Living Wage Coalition
- Living Wage Foundation (UK)
- Action Collaboration Transformation - garment brands and industry
- Malawi Tea 2020
The challenge
Achieve a world first in the black tea value chain, by designing a mechanism that enables the additional cost of a living wage in the Malawi tea industry to be shared fairly and sustainably across stakeholders, and which can win the support of all stakeholders.
We have come a long way...

- From October 2015 engagement with buyers on sustainable procurement practices
- October 2016 the APM gave us the go ahead to explore mechanisms
- Appointed Accenture Development Partnerships
- Significant financial and time investment by Oxfam and IDH
- Continual in depth engagement with all stakeholders
- Appointment of Will Battle to ensure robust consultation in the final stages
How far have we got?

**Glass half full**

1. Wages raised since Malawi 2020 began, despite drought and high inflation.
2. Buyers have actively participated. No company has walked away.
3. Model enables buyers to calculate their contribution.

**Glass half empty**

1. No nearer Anker benchmark than a year ago. Only 1% above the 2015 baseline.
2. Wages still below the extreme poverty line.
3. Producers have borne the cost of raising wages, buyers have also contributed, but it’s not visible/ can’t be verified. More is needed to achieve our goal by 2020.
Macadamia and other products
TAML workers produce
57% of Malawi tea plucked by workers supplying MOU signatory companies

The ‘square peg in a round hole’ puzzle
If we are successful, the reward is that we:

- Increase motivation and productivity of the workforce and encourage investment.
- Make a tangible contribution to the Sustainable Development Goals.
- Achieve a world first in the tea industry, and wider.
- And raise wages in a country challenged by poverty and climate change. Instead associate Malawi tea with innovation and social responsibility.
For Oxfam to welcome this publicly

Find a solution that is:

• Fair to workers, fair to producers and fair to buyers in the Malawi tea supply chain.
• Incentivises investment by producers in quality tea and higher wages.
• Increased wage visibly flows through to workers.

Progress is happening..

What Oxfam needs of buyers and retailers:

• Use the mechanism to calculate your contribution for all tea sourced from Malawi from now until 2020.
• Commit to continue to source in range of current volumes of tea from Malawi, and make clear your commitment beyond 2020.
• Communicate these on your website (or public report).

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MALAWI TEA 2020
REVITALISATION PROGRAMME TOWARDS LIVING WAGE
www.malawitea2020.com
Sustainable Procurement Practices

OUTLINE:

1. Concept of the Price Discovery Model
2. Context
3. Use of model
4. Other Sustainable Procurement Practices

Will Battle, consulting for IDH
Objective
To support price discovery for Malawi tea in order to bridge the Living Wage (LW) gap for Malawi tea industry workers. The model ultimately shows the quantum of LW gap bridged based on buyers’ willingness to pay.

How is the tea price discovered?
A fair & sustainable price range is determined based on negotiation within a framework provided by a Mombasa market reference and a base price that still provides for a sustainable business model. The Mombasa reference will change weekly, the base price will be updated on an inflationary basis based upon key measures such as ESCOM, CBA wage, LW Gap ambition, etc.

How is the Living Wage gap bridged?
Any uplift provided by buyers over the suggested floor price reference plus any potential savings for producers eventuating from forward contracting and any favourable (early) payment terms, are capped at the LW annual target and diverted towards the LW payment.
CONTEXT: WHO WILL USE THE PRICE DISCOVERY MODEL?

- Multi-national producers and packers
- Family businesses
- Private label packers
- Mainstream brands
- Retailers
- For private, blended, and auction sales
- All applied for Malawi origin tea across multiple consuming countries
Total annual Living wage gap to be bridged across Malawi tea industry is 7,204 Million Mk ($9.94m)

Out of this, 4,106 Million Mk ($5.66m) is within the scope of this program as the coalition buyers represent 57% of the Malawi tea purchase
### USE OF MODEL IN PRICE DISCOVERY: STEP 1

<table>
<thead>
<tr>
<th>Min/max framework for negotiation through referencing cost of production and market price</th>
<th>Ex: Exchange rate (MK/USD) 725</th>
<th>Nominal profit margin for producers 15%</th>
<th>% LW Gap Target for the year 30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality band of Malawi Tea</td>
<td>SE</td>
<td>Good Main Grade</td>
<td>Plain Main Grade</td>
</tr>
<tr>
<td>Enter order quantity (Kg)</td>
<td>10,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Incoterm</td>
<td>FOB Blantyre</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Involvement of broker or marketing agent</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Living wage gap calculation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Green leaf required to produce the quantity (Kg)</td>
<td>46,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Person-days required to produce the quantity</td>
<td>2,133.2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>LW gap in price for selected order quantity (USD)</td>
<td>768</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Pricing Mechanism</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Mombasa auction price (USD/Kg)</td>
<td>2.77</td>
<td>2.77</td>
<td>2.77</td>
</tr>
<tr>
<td>Differential in value for Malawi Tea (USD/Kg)</td>
<td>0.98</td>
<td>0.65</td>
<td>0.50</td>
</tr>
<tr>
<td>Guided Maximum: Mombasa Basket Auction Ref.Price</td>
<td>2.37</td>
<td>2.04</td>
<td>1.80</td>
</tr>
<tr>
<td>Operating Cost of production (USD/Kg)</td>
<td>1.61</td>
<td>1.61</td>
<td>1.61</td>
</tr>
<tr>
<td>Adjustment factor to cost of production</td>
<td>20%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Guided Minimum: Adjusted cost of production</td>
<td>1.93</td>
<td>1.85</td>
<td>1.77</td>
</tr>
<tr>
<td>Enter Exc: Factory willingness to pay (USD/Kg)</td>
<td>2.00</td>
<td>1.88</td>
<td>1.79</td>
</tr>
<tr>
<td>On-cost of tea (USD/Kg)</td>
<td>0.177</td>
<td>0.087</td>
<td>0.137</td>
</tr>
<tr>
<td>Cost of tea at the port of pickup (USD/Kg)</td>
<td>2.18</td>
<td>1.97</td>
<td>1.93</td>
</tr>
<tr>
<td>Contribution towards LW</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sell type of contract</td>
<td>Auction</td>
<td>Spot purchase</td>
<td>Long term contract</td>
</tr>
<tr>
<td>Savings to producers due to forward contracts (USD/Kg)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Select the payment term</td>
<td>Ex-works Blantyre</td>
<td>Ex-works Blantyre</td>
<td>Ex-works Blantyre</td>
</tr>
<tr>
<td>Finance cost savings due to Payment terms (USD/Kg)</td>
<td>0.03</td>
<td>0.00</td>
<td>0.04</td>
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<tr>
<td>Surplus value created by Producers (USD/Kg)</td>
<td>0.029</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Net Surplus created in Malawi Tea Value chain (USD)</td>
<td>0.068</td>
<td>0.000</td>
<td>0.000</td>
</tr>
</tbody>
</table>

**Total LW gap bridged as per annual target (%):** 100%

**Net Producer's contribution to LW (USD):** 268

**Net Buyer's contribution to LW (USD):** 479

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**REVITALISATION PROGRAMME TOWARDS LIVING WAGE**

www.malawitea2020.com
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

**Min/max framework for negotiation through referencing cost of production and market price**

<table>
<thead>
<tr>
<th>Quality band of Malawi tea</th>
<th>4C</th>
<th>O</th>
<th>Plain Main Grade</th>
<th>Off Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter order quantity (Kg)</td>
<td>10,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Pricing Mechanism**

- Average Mombasa auction price (USD/Kg): 2.77
- Differential in value for Malawi Tea (USD/Kg): 0.080
- Guided Maximum: Mombasa Basket Auction Ref.Price
  - Ex-works Blantyre: 2.37
  - CFR EU: 1.89
- Operating Cost of production (USD/Kg): 1.61
- Adjustment factor to cost of production: 20%
- Guided Minimum: Adjusted cost of production
  - Ex-works Blantyre: 1.93
- Enter Ex-factory willingness to pay (USD/Kg):
  - 2.00

**Contribution towards LW**

- Surplus value created by Producers (USD/Kg): 0.029
- Surplus value created by Buyers (USD/Kg): 0.068

**Net Surplus created in Malawi Tea Value chain (USD):** 958

**Total LW gap bridged as per annual target (%):** 100%

**Net Producer’s contribution to LW (USD):** 268

**Net Buyer’s contribution to LW (USD):** 479
2 MARKET SCENARIOS IN ACTION

Mombasa Bull Market
$3.00/kg

Mombasa Bear Market
$2.20/kg
OTHER ENGAGEMENTS

• Engagement annually between all participant buyers and all TAML producers (tasting and quality feedback).

• Tasting and market direction support for TRF to better enable optimal development of plant material.
• Buyer and Producer participation is also based upon willingness for annual audit to verify that the guidelines of the LoI are being upheld.

• Independent and trusted central-source shall collate and verify. All data is to be regarded as confidential.
THANK YOU