



**IRBC Floriculture**

# **Living Wage Supply Chain project - Flower sector**

Potential solutions on how to close living wage gaps in the floricultural sector - Case Study Kenya

# EXECUTIVE SUMMARY

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In March 2021 the IRBC Agreement for Floriculture (Dutch: IMVO Convenant Sierteelt sector) started living wage pilots with farms in Ethiopia, Kenya, and Uganda to determine the living wage gaps in certain regions. In this follow-up project, the supply chain of Albert Heijn, Dutch Flower Group, The Floral Connection and Nini Flowers (Herburg roses) has been the focus in the development of next steps. Therefore, this study has been executed in Kenya, region Lake Naivasha.

The overall objective is to design scenarios aimed at closing calculated living wage gaps on floriculture farms through chain-wide stakeholder collaboration and to test some approaches which are identified as more accessible. In this project, no formal commitment was made by the parties involved to close the living wage gap identified.

Firstly, the study investigated the current situation in Kenya to understand the external factors influencing wages, the involvement of different parties and mapping key opportunities and limitations. Secondly, common procurement practices in the (flower) trade have been identified to get insight into the effectiveness of potential solutions on closing living wage gaps: what would work and what does not? Finally, a framework was developed explaining the steps that can be taken in a supply chain to start working on closing living wage gaps and what would be needed from which supply chain partner.

## **The African flower sector**

The growing demand for cut flowers is especially beneficial for businesses in Ethiopia and Kenya. The Netherlands, the centre of the European flower trade, has shifted its emphasis in recent years from flower production to flower trading. Africa is now one of the top exporters of flowers as a result. Furthermore, its proximity to Europe makes it the ideal logistics centre for cut flowers. In addition to the USA and the EU, Japan and China are also significant buyers of roses from Ethiopia and Kenya.

Zooming in on Kenya, floriculture is one of the continent's most lucrative industries. Kenya is the biggest exporter of flowers from the continent, followed by Ethiopia and South Africa. In Kenya, the floriculture export industry generated in 2020 over \$735 million, which was approximately 0.73% contribution to the national GDP. In this industry, one of the most popular flower exports is the rose. Kenya is the lead exporter of rose cut flowers to the European Union (EU) with a market share of about 38%. (Chatham House, The Royal Institute of International Affairs, 2020)

## **The supply chains**

Flower trade can go through several channels. Most of the exported flowers from Kenya are sold at Dutch auctions (over 50%), the rest is sold directly based on (mostly) yearly contracts with traders and retailers. (THURSD, 2023) Supply chains in which produce is sold via auctions are arranged differently. The auction offers the possibility of clock sales but also contract sales in the short and longer term.

The supply chain involved in this project exists of direct trade relationships between the producer, trader and retailer. One of the advantages is the traceability of products and resources. The direct links between producers and buyers make it possible to have more open communication and cooperation.

## Procurement practices

Broadly speaking, there are 2 types of trade agreements:

1. Transactional trade agreement: annual contract, focus on price/quality/timeliness. (Estimated 99% of all trade agreements)
2. Relational trade agreement: commitment to cooperation for several years (usually 3 years), minimum price often guaranteed and open cost calculation. Even if there is a long-term commitment: every year there is a negotiation on conditions (price, volume)

The commitment from buyers to support a decent remuneration is sincere but the reality of transactional trade-agreements cannot be changed overnight.

Producers cannot take the risk to increase wages on a structural way due to:

- Risks of disruption of the local market
- Legislation prevents companies to adjusting wages downwards, therefore annual contracts with their clients gives them too much uncertainty to be able to increase wages structurally above CBA wages .
- Uncertainty of continuous trade relationship with buyer due to transactional, yearly contracts
- A potentially negative effect on their competitive position in the sector and between countries

## Deep dive - the general wage situation in Kenya

Looking at the current set up of wages in the Kenyan flower sector, several factors stand out:

- Minimum wages in agriculture are set by government and are very low (below the living wage benchmarks). The government is not likely to increase as that would not be beneficial for the sector as buyers might move from Kenya to countries with cheaper labour like Ethiopia (where there is no governmental minimum wage).
- There is a Collective Bargaining Agreement (CBA) in the flower sector, but not all producers respect that. The CBA, including benefits and bonuses, is higher than the minimum wage, but not all farms follow this.
- Farms that pay according to the agreed CBA's are more favourable towards workers. The more the farms respect the CBA, the more there is a level playing field and less disruption in the sector.
- Looking at the political situation, corruption is still a structural issue in Kenya. This is relevant to consider, as it can influence potential closing the living wage gap solutions.
- There is a high unemployment rate, and many young people are looking for jobs. Therefore, the farms have no problem getting (sometimes even over-) skilled workers.
- Farms that cultivate roses often have a bonus system for workers which is linked to productivity per m<sup>2</sup>. These premiums can be seen by workers on their payslips but depend on productivity.

Furthermore, on the farms cultivating roses, most workers are women that, on average, have three to four children, and about half of them are single parents or mothers with absent fathers. The other group of workers are men and young adults without a family.

## The living wage gap

The 2022 remuneration earned by workers on the roses farm in this project is compared with the living wage benchmark of Lake Naivasha from 2021. The living wage benchmark in 2021 is 29,702 Ksh per month, meaning that a workers should earn around 270 USD per month.

For the calculation of the current remuneration, the IDH Salary Matrix is used. Based on this exercise, two learnings have been formulated:

- Filling in the Salary Matrix is time consuming and requires proper guidance for the producers. The payroll data needs to be structured well, which can be a complex task
- Some in-kind benefits that producers provide are not accepted towards a living wage. This can lead to resistance, as these in-kind benefits can still be appreciated by workers

The 2021 IMVO Living Wage measurement pilots, in which 18 farms in Africa have filled in the Salary Matrix, demonstrated that farms respecting the CBA tend to have an average living wage gap of roughly 40%. The gap is bigger for producers that pay their workers a minimum wage instead of the wages agreed on in the CBA.

### **Certification to enable working towards a living wage**

Buyers rely on certification and auditing and do not have the skills nor the staff to invest a lot of time on individual cases.

All producers that supply to Western customers have a kind of certification: MPS, Global GAP, SMETA, Fairtrade etc. Buyers are used to working with auditing/certification schemes to manage supply chain issues on scale.

IDH has already invested in tools for verification of calculation of living wage gaps for existing 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> party auditing like KFC, MPS-ECAS, Fairtrade and Rainforest Alliance. These consist of (1) Guidelines for Auditing that establish the minimum procedures for auditing wage data and living wage gaps, (2) a Base Report to capture audit findings and (3) auditor trainings which align with the Guidelines for Auditing and Base Report and provide them with a practical understanding of how the Salary Matrix work. Using these tools, audits can be done in 2-4 hours. This is tested in multiple pilots with ISEAL and ETSA.

### **Translation of the living wage gap to price per trade unit**

The IDH Salary Matrix calculates the living wage gap per job category, but also provides an average living wage gap. Furthermore, the total number of trade units of the facility is given.

The GIZ Living Wage Costing Tool can then be used by the producer to calculate the living wage gap per trade unit. This calculation can be done when combining the Salary Matrix outcome of the living wage gap and the total number of trade units that is produced by a facility.

When for each buyer the relative share of the volume of flowers (in percentage or total) that they bought from the producer is known, the total amount and the fair share per buyer needed to close the gap can be calculated, taking into account the taxes that apply and the producer's salary house.

Ultimately, it is up to the trade partners and the producers to determine the level of the contribution and what is possible regarding raising wages, offering bonuses or in-kind benefits.

### **Determining how to close the living wage gap**

Social dialogue is a precondition in determining the strategy of closing the Living Wage Gap. While this is seen as a precondition, social dialogue is not common in all flower farms in Kenya.

Important to consider as well is that the preference for bonuses or in-kind benefits differ per worker. Worker representatives should consult workers about their preference of the form of payment towards closing living wage gaps. Furthermore, the project showed that it is crucial to track that the bonus is truly spent on all workers and in which form.

As social dialogue is a precondition in determining the strategy and ensuring workers are included in the decision-making process, social dialogue practices and its implementation should be verified during a (living wage) audit.

### Translating the learnings into a solution

To start closing the estimated living wage gap, structurally raising wages might be the first thing that comes to mind. However, when combining the opportunities and barriers (see figure 1) from the different supply chain levels, structurally raising wages is challenging.

✔ Opportunities	✘ Barriers	Based on the learnings, the interviews with stakeholders and round table discussions with the project partner, the concept of a one-off client contribution was set up.
 <p>Opportunity to work towards Living Wage within transactional agreements</p>	<p>Volume and buying uncertainty for producers, traders and retailers</p> <p>Short transactional agreements are standard and therefore financial client commitments or bonuses are difficult</p>	
 <p>Existing tools for the verification of LW gap measurements can be used for verifying social dialogue and distribution of client contribution</p>	<p>Many existing social audit schemes have not yet included LW</p>	
 <p>Components of verification of LW gap measurements can be added to the basket of standards</p>	<p>There is a chance of disruption of a sector or a region when raising wages</p>	
 <p>Traders can play an important role in allowing retailers to choose "LW certified suppliers or non-certified"</p>	<p>When 1 retailer works with 1 supplier with limited volume, the impact for workers is limited.</p> <p>transparency on LW via the auction might be challenging</p>	

Social dialogue is a prerequisite to pay the one-off client contribution, as it should be distributed according to the wishes of the workers.

Why this solution? It enables retailers to make a step to support producers and their workers towards living wages. Furthermore, it allows workers to have extra cash or an in-kind benefit that

they would prefer and otherwise not have. Finally, it has the least chances to create spill-over effects (if an individual producer would raise wages).

When working on closing living wage gaps in supply chains, the one-off client contribution is one of the solutions/approaches to start with. Other options do also exist and can be beneficial for the end goal of reducing gaps in some supply chains. In this project, the partners expressed concerns about potential negative effects, limited leverage, and barriers leading to the solution of one-off client contributions.

### **Framework of action based on identified living wage gaps - 5 steps**

To effectively implement the suggested solution, active collaboration with all supply chain partners is needed, with shared responsibility. Communication throughout the supply chain is key to establishing the amount of the one-off contribution, the share to be paid by each supply chain partner and the evidence to be provided.

**Living Wage Floriculture Kenya**

**Framework of Action 5 steps**

The Framework of Action is based on the learnings of the Living Wage Supply Chain Project implemented under the IRBC Agreement Floriculture. Looking for ways to close the Living Wage gap, two factors lead to the solution of the one-off client contribution:



**Combining the need for a flexible contract, with the drive to work on Living Wage, leads to the one-off client contribution as the solution**



**1**

**Define**

The Living Wage gap per trade unit and the presence of social dialogue at the facility.

**Output**

- ▲ Filled out Salary Matrix
- ▲ IDH Living Wage add-on Base Report
- ▲ Living Wage Gap per trade unit

**2**

**Acknowledge**

The need to work towards Living Wage with supply chain partners, while acknowledging that it is unrealistic for a producer to structurally raise wages with one year commitments



**3**

**3 Scenarios\***



**Agree**

On the share of the one-off client contribution per supply chain partner.

Decide on the means of payment to workers by using social dialogue principles

**Output**

- ▲ Standard transactional trade agreement
- ▲ Addendum with agreement on one-off client contribution, means of payment and evidence to be provided (SMART Implementation Plan)



\* See 3 scenarios below

4

### Execute

Payment of one-off client contribution by buyer and producer as agreed in addendum, following the steps of the SMART implementation plan



5

### Assure

That the payment of the one-off client contribution is executed accurately.

Components of verification of living wage gap measurements can be added to the basket of standards

#### Output

- ▲ Evidence of distribution of the one-off client contribution and social dialogue
- ▲ Confirmation by existing tools or IDH Base Report



## 3 Scenarios



**x% bonus +  
x% in-kind**

Workers receive the one-off client contribution in cash and as in-kind benefit



**Completely  
in-kind**

Workers receive the one-off client contribution as an in-kind benefit



**Completely  
cash**

Workers receive the one-off client contribution in cash

**Proven Positive Impact**



## Pre-requisite to start

To start the journey towards one-off client contribution, the following prerequisites are in play:

- The starting point is willingness of supply chain partners to cooperate actively in working on closing the living wage gaps
- The producer needs to have filled in the Salary Matrix and to have it verified by an accredited auditor, resulting in a positive verification and a Base Report
- The producers need to have calculated the living wage gap per trade unit with the GIZ tool
- The producer needs to have social dialogue in place to understand the needs of their workers

With this information, the supply chain partners should calculate the living wage gap per trade unit for the buying volume . over the total volume of the facility. The cost per trade unit can be used to calculate the amount of th one-off contribution per buyer, based on their share of the volume. Part of the agreement for the amount of the one-off contribution to be made, the workers need to indicate how they want the one-off contribution to be paid out. As it has been found that workers can have different preferences regarding the way of spending such contribution. This is a crucial part of the solution and brings us to three different scenarios:

1. Partially cash bonuses and partially in-kind
2. Completely in-kind
3. Completely cash bonuses

As soon as there is agreement on the amount of the one-off contribution, the share per supply chain partner, the means of payment to the workers and the provided evidence, an addendum can be added to the standard transactional agreement and the payments can be made.

A way to make sure all prerequisites are in place, to track information flows, to check the delivered evidence and to check the effectiveness of the one-off contribution is **certification**. Certification ensures that the process of the Framework of action is properly and efficiently executed. Upgrading the verification of the living wage gap measurements as an add-on on existing certification schemes is one of the options to further explore. . The structure could be a good addition to the FSI basket of standards.

The topics that are currently not yet included in the IDH audit structure for the verification of the living wage gap and the Salary matrix are:

1. The verification of social dialogue
2. The verification of the cost per trade unit calculation and the living wage gap
3. The option to include the fair share one-off contribution in the calculation of the living wage gap
4. The verification that the one-off contribution is distributed according to the selected scenario of the workers.

These topics could easily be added to the existing audit structure and in the Salary Matrix.

## Conclusion

Working on structurally closing living wage gaps ideally requires a long-term cooperation between the buyer and producer. The reality is that around 99% of the trade agreements are based on 1 year contracts, which is unlikely to change overnight. Therefore, it is of importance to look at what is possible instead of what is not. A start could be made with financial contributions from buyers

to the workers of its producers. But only when buyers can trust that when given a financial contribution, it is truly used for the workers. With a verified contribution to workers, companies are able to meet external and internal commitments and can report about the progress in line with the Corporate Sustainability Reporting Directive (CSRD) of the EU.

## Recommendations

Although the project has generated recommendations specific to the project partners, it also provided the following general recommendations.

Recommendations for buyers and / or traders:

- Adjust purchasing conditions and contracts to require evidence of suppliers calculating their living wage gap, based on tools and approaches recommended under the IDH living wage roadmap coalitions
- Develop guidelines for voluntary contributions, including using the IDH Salary Matrix and the GIZ Tool, with verification by recommended auditors.
- Encourage social dialogue practices among traders and producers.
- Establish clear letters of intent between buyers, traders, and producers.
- Launch projects to test one-off client contributions, potentially incorporating social certification schemes.
- Provide training to buyers on living wage concepts and their impact.
- Promote the use of open cost price calculations in negotiations.
- Share experiences from living wage projects with the sector and retail colleagues.
- Advocate for government, NGO, and trade union involvement in living wage initiatives.
- Emphasize the need for living wage verification in industry standards or via the FSI basket of standards.
- Raise awareness about the need for more living wage benchmarks and estimates to expand efforts in this area.

Recommendations for producers:

- Use recognized benchmarks for living wage and reliable tools like the IDH Salary Matrix and the GIZ Living wage costing tool
- Develop comprehensive policies explaining worker positions, living wage gaps by job category, cost breakdowns, and social dialogue practices.
- Create proactive action plans with timelines, activity breakdowns, costs, involved parties, and progress measurement through KPIs and monitoring.
- Engage independent trade unions early in the process for alignment, understanding, and verification support.
- Establish an internal living wage strategy outlining market position, plans, and necessary supply chain integration.
- Initiate pilot projects with traders and buyers to build a strong business case for living wage initiatives.
- Gain insights into collective bargaining activities in producer regions to support producers and align with relevant stakeholders.
- Advocate for government, NGO, and sector-led initiatives, trade union involvement, and collective bargaining in producer countries.
- Investigate opportunities for farm management improvements, such as worker productivity, using the [IDH Living Wage Action framework](#) as a guide.

Recommendations for voluntary standards:

- Modify criteria for calculating living wages, assessing enablers like social dialogue and transparency, and verifying one-off client contributions. This involves adapting audit protocols and auditor training.
- Follow IDH living wage roadmap and tools for verifying living wage calculations to become a [recommended living wage verifier](#). Recommended to create a level playing field by introducing the requirements as part of the FSI Basket of Standards benchmark.
- Promote the creation of a general add-on module for social compliance standards, allowing auditors to conduct living wage checks during annual audits until these criteria are incorporated into the standards themselves.
- Collaborate and share experiences with other auditing bodies and certification schemes working on living wages to enhance and refine current activities.

Recommendations for the auction:

- Be pro active supporter of the sector solution towards the roles of auctions, clients, and suppliers in implementing and guaranteeing living wages for flowers sold at auctions. Identify market-specific requirements and conditions, and opportunities and barriers for the auction.
- Develop an internal living wage strategy that outlines market positioning, plans, and necessary activities to integrate living wages into supply chains.
- Promote the establishment of living wage policies among flower supply chain partners, including buying conditions that support living wage initiatives and explore a "Living Wage gap certified" option via the auction clock.

# ANNEX

## Living wage and the SDGs

