



Guidelines for third-party schemes

Verification of the distribution of voluntary contributions

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For recommendations on how to further improve these guidelines, please reach out to us at academy@impactbuying. Your insights are greatly valued.



1. Introduction to Voluntary Contributions

In a world where economic disparities persist, the pursuit of social responsibility has taken centre stage, bolstered by upcoming due diligence legislations worldwide. Companies are increasingly acknowledging their role in addressing issues like income disparities, specifically regarding living wage gaps. To fulfill the corporate responsibility of upholding fundamental human rights in supply chains, it is important to recognize the risks associated with low wages and take action to mitigate or remedy them, which includes continued progress towards living wages.

Working on addressing living wage gaps ideally requires a long-term cooperation between buyers and producers, and other key players in the supply chain. 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 voluntary financial contributions from buyers to alleviate living wage gaps that might exist among workers of their producing partners. This will only happen at scale when buyers can trust that when given a financial contribution, it is truly received by workers. With a confirmation from an independent auditor that a voluntary financial contribution was truly distributed to workers, companies would have a reassurance they are looking for.

Based on the insights gained from previous studies on possible solutions for closing living wage gaps—part of the first phase in developing these guidelines—the concept of voluntary contributions was introduced. Voluntary contributions, paid to a supplier/trader/producer with the aim of ultimately benefiting the workers of producing sites, serve as a temporary solution to initiate the living wage journey. Meanwhile, structural changes need to be implemented, particularly at the country or governmental level, to systematically raise wages through social dialogue and collective bargaining. While this falls outside your sphere of influence as an individual buyer, voluntary contributions do not.

Objective of guidelines

The consultation phase that was used to collect input for the development of these guidelines, showed that supply chains, and especially buying organizations, really need third-party schemes to offer voluntary contribution verification. This request was highlighted several times by participants in the consultation because implementing the verification of voluntary contributions by third-party schemes is seen as a scalable way to trust that voluntary contributions made by buying organizations end up at the workers of their producing partners.

The primary objective of these verification guidelines is to provide third-party standards' owners with tools to verify if a financial contribution was correctly distributed to workers. The verification guidelines are set up in a way that allow third-party standard owners to effectively combine the verification of voluntary contribution distribution with audits against their existing standards.

The goal of the third-party verification on the correct distribution of voluntary contributions is:

“A verification that voluntary contributions, made by buyer organizations with the aim of improving workers' incomes, are transferred to the intended beneficiaries as per agreement between buyer(s) and first-tier supplier(s). Additionally, it verifies that the workers' preferences regarding the receipt of voluntary



contributions were taken into account; in the form of cash/vouchers, in-kind benefits or a combination of both”.

Examples of voluntary contributions

The following examples also represent the mechanism of voluntary contributions that are verified by auditors, with the first three fully regulated by third party standard owners.

Type	Description	Means of Distribution
Fairtrade (FT) Premium	Up to 30% of the FT premium is equitably disbursed among all workers in accordance with time worked. Workers have the option to distribute additional 20% of the FT premium in cash, so that a maximum of 50% of premium can be received in cash or vouchers.	Fairtrade premium committee
Fairtrade Living Wage Differential	Additional contributions towards closing living wage gaps can be made through payments on top of the contribution up to 50% of the Fairtrade Premium. These payments are referred to as a “living wage differential.”	Additional contribution via employer or Fairtrade premium committee
Rainforest Alliance Sustainability Differential	Buyers may agree to make additional payments earmarked for wages if workers receive less than a living wage. Amount is negotiated with the company.	Contribution via the employer
Buyer / retailer direct living wage Payment	Buyers negotiate directly with a supplier to make additional payments earmarked for worker’s wages.	Contribution via the employer

Voluntary contribution as temporary measure

Relying solely on voluntary contributions in addressing living wage gaps is limited because they are not a steady income source for workers and fall short of being considered actual wages. While voluntary contributions can serve as an initial step toward addressing living wage gaps, it is essential for buying organizations to simultaneously work on long-term solutions for more sustainable outcomes for the workers. Central topic with voluntary contributions, even in the case it is only a one off voluntary contribution, is that the supplier that receives the voluntary contribution can demonstrate that the workers received their share of the contribution and had their say in how they want to receive their contributions via social dialogue.



2. Preliminary Conditions for Auditors

General knowledge on living wage

A foundational understanding of living wage concepts is crucial for all auditors that want to start with the verification of voluntary contribution. Providing training and capacity building for internal staff or external auditors on living wages is essential¹.

Here are some valuable online resources related to the concept of living wage:

[Anker Research Institute](#)

[Global Living Wage Coalition](#)

[Salary Matrix E-Learning Site](#)

[IDH Roadmap on Living Wages](#)

Auditor competence

All third-party verification professionals who have experience with verifications are fitted to conduct living wage audits. Experience with social verifications and preferably with living wage verification will make it easier for auditors but is not a pre-requisite.

3. Introduction to the Guidelines

This document is divided into 4 sections to guide the auditor - of a scheme who has decided to offer the verification of voluntary contributions by using these guidelines, the described workflow and process - through the process of a voluntary contribution verification.

Section 1: Guidelines for preparation in advance of a voluntary contribution distribution verification

Section 2: Guidelines for conducting a voluntary contribution distribution verification

Section 3: Guidelines for closure post a voluntary contribution distribution verification

Section 4: Self -assessment template

These guidelines are designed to support uniformity in the way is conducted, independent of the third party-standard owner.

Scope of the guidelines for verifying the distribution of voluntary contribution

¹ More information on training opportunities for auditors can be found on the website of IDH [Verifying calculations of living wage gaps - IDH - the Sustainable Trade Initiative \(idhsustainabletrade.com\)](#) or can be requested via academy@impactbuying.com.



These guidelines are designed for auditors who perform audits on the distribution of voluntary contributions and are tailored to two types of third-party schemes:

Standard owners that already have living wages in their standards:

Several third-party standard owners have incorporated living wage requirements in their standards. The way they deal with the topic of living wage differs per standard. Also the verification that the voluntary contribution was distributed according their standard is included, depending per standard to what extent and how. These guidelines and toolboxes add extra options for the verification of voluntary contributions for these standards.

Standard owners who want to add verification of voluntary contributions to their existing standard and verification services:

Third-party standard owners can implement this “add-on” module to serve the growing need for transparency of the correct distribution of voluntary contributions. Regardless of the scope of their existing verification standards—whether product safety, human rights, and/or environmental compliance—adding a voluntary contribution distribution verification module in combination with their existing verifications can enhance the efficiency of the verification process for both buying organizations and their certified suppliers.

For both types of third party standard owners these guidelines include:

- Self-assessment template on voluntary contributions for auditees/producers
- Criteria for the verification of correct distribution of voluntary contributions
- Verification guidelines for auditors with a focus on the correct distribution voluntary contributions
- IDH voluntary contribution distribution report

Verification options:

The voluntary contribution distribution verification can be conducted and added to the existing third-party schemes as:

- An add-on and/or be integrated into regular business-as-usual verifications on product safety, human rights, environmental compliance.
- As a standalone verification focused solely on verifying the voluntary contribution distribution and generating the corresponding voluntary contribution distribution verification report.

If the third-party scheme has detailed protocols that guide verification bodies and auditors on how to assess and verify voluntary contributions, then the scheme protocols take precedence. In such cases, adopting the voluntary contribution distribution report template could be sufficient to report verification results that can be shared with all stakeholders (according to the process of the third-party scheme who adopted these guidelines). The voluntary contribution distribution report also provides the minimum number of worker interviews required in case the scheme does not specify a sample size for interviewing workers.

On-site, remote or hybrid verification

The execution of the voluntary contribution distribution can be conducted on-site, remotely, or through a hybrid option. On-site assessments are highly preferred for direct communication with workers.



It is recognized however that on-site verifications are not always feasible and therefore a remote or hybrid assessments are allowed. By requesting the auditee to fill out the self-assessment template in advance to a remote or hybrid assessment, the auditor has access to the necessary information to base the verification on. During a remote or hybrid assessment, documents are assessed and discussions with management and human resources representatives are conducted using online tools to share and collect evidence, adhering to relevant verification requirements and regulations. Remote worker interviews are only advised to be conducted when anonymity, confidentiality and privacy of information can be guaranteed through interviews and worker voice tools, to avoid compromising the safety of interviewees. If workers are in possession of a mobile phone, calls outside of working hours to ensure privacy can be a viable option. In that case the production company's employer can provide the auditor with a complete phone list of all workers with unique identification numbers, indicating as well the work areas and lowest-paid workers, from which the auditor selects numbers to call.

The hybrid assessment combines elements of both remote and on-site verification. Data verification, human resources representatives, and management interviews occur online, while face-to-face interviews with workers are conducted on-site. This approach offers enhanced reliability, enabling a more thorough examination of documented evidence compared to solely remote or on-site methods.

Self-assessment template on voluntary contributions for auditees/producers

For production companies that have not yet undergone a voluntary contribution distribution verification, a self-assessment template (Template 1) should be provided to assist them in preparing for the verification process of voluntary contributions. The advantage of using the self-assessment is that it allows major issues to be identified and addressed prior to the auditor's verification.

Audit time and costs

The audit time and therefore the costs will differ per situation and are up to the individual verification bodies to decide. It is expected that the verification itself in case as an add-on or stand-alone will not take more than 4 hours to execute. We recommend third-party schemes and/or auditing bodies to conduct pilots to understand the time required for a standalone verification of voluntary contributions, including preparation, document review, on-site/remote/hybrid verification, and report delivery. The verification of voluntary contributions can be very well combined with the verification of the calculations of the living wage gap².

Cost allocation would depend on the agreements reached between the buying organizations and the first-tier suppliers.

² * The verification of living wage gaps and its audit process is explained in the [IDH Auditing Guidelines](#), recognized by ISEAL. The living wage gap verification can only be executed by trained auditors.



3.1 Guidelines for preparation in advance of a voluntary contribution verification

It is recommended for auditors to prepare to guarantee a smooth and efficient verification by collecting and reviewing the below information:

- Local legislation and valid bargaining agreements (CBAs) to better understand the conditions
- Number of locations of all sites when a facility has multiple locations or is part of a multi-site/group (to determine the number of visits through a sample size exercise)
- Completed self-assessment template on voluntary contributions (if applicable)
- Living wage benchmark of specific region, in order to understand what is available through public systems
- National legislation, which is of importance to understand any legal complications that may arise (depending on the country) and the way the taxes or deductions from pay are made.

Furthermore, the auditor may request already some information and documents or request the verification to have it available during the verification:

- Contractual agreement on voluntary contribution
- Data: Consent forms that prove social dialogue and indicate workers' preferences on how they prefer to receive voluntary contributions
- Salary Matrix verification IDH Base Report of the production location(s) in scope (if applicable)
- Confirmation that worker representative(s) and/or union(s) will be present during verification
- Voluntary contribution money transfer transaction(s) until the final recipient
- Payment documents or official records provided by the production company to workers, detailing the specified voluntary contribution amount and its nature.

3.2 Guidelines for conducting a voluntary contribution distribution verification

The voluntary contribution distribution verification process involves a straightforward assessment, including an analysis of the agreement and actual payment transactions made to the final beneficiaries, and/or the distribution of in-kind benefits. The assessment of worker involvement practices also plays a crucial role, ensuring that workers' preferences regarding the receipt of voluntary contributions are considered.

General instructions

- When performing the verification, make sure that all reviewed records and data reflect the correct period of which the agreement was made and all employees also understand the appropriate reference period.
- Discuss with representative(s) of the board and human resources the agreement made on the voluntary contribution. Assess whether workers' preferences were considered, examine all



relevant agreement documents, and verify the various monetary distributions of the voluntary contributions made.

- Evaluate the distribution plan: The auditee provides documents demonstrating the agreed-upon process for transferring the voluntary contribution to workers and provides distribution records detailing the execution of this process.
- Conduct interviews to crosscheck the information received with a sample size of a minimum of 5 workers and scale it proportional to the size of the facility if the auditor concludes that a minimum of 5 is not representative and/or does not adhere to sound social verification protocols in a given circumstance. Focus during the interviews on lowest-paid workers and if applicable interview worker representatives.
- Make sure that interviews are executed in multiple work areas.
- If a facility has multiple locations or is part of a multi-site/group, the verification will follow the sampling protocol and sample size of the third-party verification body for visiting the unique facilities/sites.
- At the end of the verification the outcome is shared with an elected workers representative or union representative.

Worker involvement verification (social dialogue)

Social dialogue can be effective for workers to indicate their preferences for ways of receiving voluntary contributions: cash, in-kind or a combination of both. Effective social dialogue at a facility involves negotiations and consultations with representatives from employers and workers, as well as the active participation of trade unions. It includes workplace cooperation and collective bargaining at various levels, such as company, sector, or cross-industry, and involves tripartite consultations with all relevant stakeholders when applicable.

The process of verifying worker involvement at a facility requires interviews with human resources representatives and management, document review, examining survey data, meeting minutes, consent forms, combination of checking notes from meetings with management, workers and worker representatives, involvement of worker representatives and unions, and anonymous interviews with a sample of workers with the objective of finding out whether workers' preferences have been taken into account on how voluntary contributions should be remunerated and as well finding out whether the voluntary contributions have reached the intended beneficiaries and are valuable for them.



The role of worker- or union representatives

At the end of the on-site verification, the auditor is advised to share the outcome of the voluntary contribution distribution verification with an elected worker representative and/or union representative. The name and signature of the consulted representative with whom the outcome is shared with will be on the front page of the verification report. If this requirement can somehow not be met and/or the trade union could not be consulted, the auditor must provide arguments why.

Dealing with multiple locations

If a facility has multiple locations or is part of a multi-site/group, the verification will adhere to the sampling protocol and sample size specified by the third-party verification body for visiting distinct facilities/sites: at least two locations or the square root of the total number of locations that are part of the multi-site/group must be audited, whichever is larger. In those sampled sites, the auditor will verify the correct distribution of the voluntary contribution. A single verification report will be provided per location.

Reporting deviations in the verification report

Throughout the verification, the auditor may encounter deviations. These guidelines does not interfere with the classification of deviations within individual schemes, but rather only identifies four types of findings per verification point:

Yes = The criteria are correctly fulfilled.

No = The criteria are not fulfilled correctly.

Partly = The criteria are partially fulfilled correctly.

Not applicable = The criteria is not applicable.

For all the elements where the auditor identified ‘no, partly, or not applicable’, he/she can give a short justification in the IDH verification report.

Guidelines for the verification process

The table below offers the verification criteria and guidelines on how an auditor can verify voluntary contributions on a location. These criteria and guidelines are also reflected in the IDH voluntary contribution distribution report.

Audit criteria voluntary contributions	Guidelines
The auditee demonstrates a good understanding of the content of the voluntary contribution agreement on voluntary contribution, distribution & period from their customer.	Please check all relevant documentation on agreements and the distribution of the voluntary contribution. Agreed amount of voluntary contributions, distribution of voluntary contributions (directly from buying organization to production location or via intermediary/ies), agreed voluntary contributions to workers per trade unit in agreed period, total voluntary contribution, check if the period of the voluntary



	contribution distribution reflects the period as per agreement. Crosscheck the information received via worker interviews.
The auditee demonstrates the effective implementation of social dialogue practices	Engage with HR and management regarding relevant social dialogue practices. Check if the worker representative(s) are part of the management or paid by the management. Explore how workers within the scope have communicated their preferences for receiving the voluntary contribution and ascertain whether these preferences have been considered via workers interviews.
The auditee demonstrates that the preference of workers on the distribution of the voluntary contributions by workers was respected	Verify through worker interviews if their preferences regarding the nature of voluntary contributions have been considered (cash, in-kind or a combination of both). Check with workers if they believe their employer listens to them regarding wage-related concerns.
The auditee demonstrates that the agreed voluntary contribution was transferred to the intended beneficiaries in the agreed currency/value	Please check if the voluntary contribution value was transferred to the intended beneficiaries in the agreed currency/value. Crosscheck the information received with worker interviews.
The auditee demonstrates that the agreed voluntary contributions were effectively distributed in the agreed period	Please check if the voluntary contribution was distributed according to the agreed period. Verify relevant distribution documents. Crosscheck the information received with worker interviews.
Nature of voluntary contribution	Please check if the nature (cash, in-kind benefit or a combination of both) of the voluntary contribution has been respected as per agreement and the workers' preferences have been taken into account. Crosscheck the information received with worker interviews.
Number of workers in scope	Please check that the voluntary contribution was distributed to the agreed # of workers considering the workers falling in the average and falling in the lowest-paid category. Crosscheck the information received with worker interviews.
Worker organizations	Please check if not by registered trade union, workers are represented by another type of workers organization (e.g. workers' council) and check if the representative(s) agree that the



	<p>voluntary contribution was distributed as per agreement.</p> <p>At the end of the verification the outcome is shared with an elected workers representative or union representative.</p>
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3.3 Guidelines for closure post a voluntary contribution distribution verification

General instructions

- Please indicate in the result overview section the number of criteria confirmed to be compliant, partly compliant, and not compliant. For the partly compliant and not compliant criteria, provide a brief explanation in the remarks section and sign it.
- Please indicate clearly in the voluntary contribution distribution report if the voluntary contribution distribution verification was executed as part of a full social compliance verification (add-on) or that the verification was executed as a standalone verification.
- Please indicate clearly in voluntary contribution distribution report how the audit has been conducted: on-site, remote or hybrid
- Please state the facility(ies) verified
- Please indicate the total number of average-earning and lowest-paid workers in scope
- Please register clearly in the voluntary contribution distribution report the number of workers to which the voluntary contribution was remunerated
- The auditor shall fill in the average voluntary contribution and the voluntary contribution of the lowest-paid workers (if applicable) in the verification report.

Finalizing the verification report

At the closing of the voluntary contribution distribution verification, the auditor lists the result of the voluntary contribution as follows:

Number of criteria confirmed compliant

Number of criteria confirmed partly compliant

Number of criteria confirmed not compliant

The result of the voluntary contribution verification should not be confused with the scheme's own verification result.

At the end of the verification, share the outcome with an elected worker representative or union representative. It is required to let this representative as well sign the voluntary contribution distribution report.

Follow-up frequency

As these guidelines do not want to interfere with the protocol of individual schemes, the follow-up frequency for verifying the voluntary contribution will follow the rules set by the scheme. It is also possible for the company to request the scheme for an earlier visit and/or a standalone verification that purely focusses on verifying the voluntary contribution and delivering the voluntary contribution verification report.



4. Self-assessment Template

General Information	
<i>FACILITY DETAILS</i>	<i>COMPANY ANSWER</i>
Name of facility(ies):	
Address(es) of facility(ies):	

Voluntary contribution	
<i>Requirement</i>	<i>COMPANY ANSWER</i>
Agreed voluntary contribution to workers per trade unit - or other type of variable used for the calculation described in the contract - in agreed period:	
Total voluntary contribution in agreed period:	
Agreed voluntary contribution for lowest-paid workers (if applicable):	
Agreement on distribution of voluntary contribution (specify dates of money transfer, if direct money transfer, or intermediaries in-between):	
Agreed nature of voluntary contribution – specify if cash, in-kind benefit, or a combination of both and the proportion.	
<i>WORKER DETAILS</i>	



<p><i>Total number of average earning workers in scope of agreement of voluntary contribution:</i></p>	
<p><i>Total number of lowest-paid workers in scope of agreement of voluntary contribution (if applicable):</i></p>	

<h2 style="background-color: #006666; color: white; padding: 5px;">Social Dialogue</h2>	
<p>Requirement:</p>	<p>COMPANY ANSWER</p>
<p>Social dialogue practices: Describe the current and active social dialogue practices being implemented and practiced (describe any types of negotiations, consultations, exchanges between representatives of employers, employees, governments).</p>	
<p>Social dialogue practices: How have workers within the scope expressed their preferences regarding the receipt of the voluntary contribution, and were these preferences taken into account? Please provide specific details.</p>	
<p>Were the preferences regarding the nature of voluntary contributions gathered through the voluntary contribution questionnaire?</p>	
<p>Is there a registered trade union, and/or are workers represented by a different type of workers' organization (such as a workers' council)?</p>	



5. Glossary

First-tier supplier

A first-tier supplier is a company that directly supplies goods or services to the buying organization at the top of a supply chain. Buying organizations can have a direct contractual relationship with vendors or the actual producers. This depends on the complexity of the supply chain and the number of upstream suppliers involved.

Social dialogue

Social dialogue refers to the process of negotiation, consultation and exchange of information and views between employers, workers and their representatives (unions or other workers' organizations) and the government. It provides a platform for these key stakeholders to discuss and address issues of employment, workers' rights, working conditions and social and economic policy.

Social dialogue plays a crucial role in shaping labor and employment policies and in improving working conditions and promoting social justice.

What is a living wage?

Earning a living wage means the basic cost of living for a family is attainable by the adult wage earners each month. A living wage is paid when a worker receives remuneration that is sufficient to afford a decent standard of living for the worker and her or his family in their location and time. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs including provision for unexpected events.

What is a living wage gap?

The living wage gap is how far away workers are from earning a living wage. This means comparing a living wage benchmark (estimate) to the current remuneration in a production location. Identifying the living wage gap is a starting point for working on closing the living wage gap.

Rationale behind living wages

Poverty has a large impact on people's lives. Globally, 1.2 billion people are multidimensionally poor, of which 579 million people live in Sub-Saharan Africa. This is directly linked to people not earning living wages (UNDP; OPHI, 2022).

Not earning a living wage is linked to other social issues we find in supply chains. Some workers may be compelled to (ILRF, n.d.):

- Work excessive overtime hours or multiple jobs to make ends meet
- Work even when they are sick, because they cannot afford to take time off
- Put their children into work instead of school to contribute to the household
- Become bonded labourers
- Work in unsafe conditions, because they cannot afford to stay away
- Be denied their basic human rights to food, shelter, nutrition, health, housing and education and suffer social deprivations such as being unable to take part in cultural events
- Not fight for better wages, because they might lose their jobs if they demand their rights or join a union.

Calculation of the Living wage gap

IDH has developed Roadmap on Living Wages that is supported by many retailers, brands and producing organizations around the world. This Roadmap includes practical tools such as the Salary Matrix that allows



producers to calculate the difference between what they pay their workers (including in-kind benefits and bonuses) and what they should be paid to earn a recommended living wage. This difference is called the living wage gap or surplus.

Living wage auditor training

Auditors working for third-party standard owners, who will conduct the verification of the living wage gap calculation, need formal training and examination on their knowledge of executing living wage gap audits. For more information or to participate in the training, follow this link: [Opportunity to participate in living wage auditor training](#)



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