



Operationalizing Living Income: Workshop report

June 15, 2016
London



Introduction

On June 15, 2016, ISEAL, GIZ and the Sustainable Food Lab hosted a workshop on the topic of living income in smallholder agricultural value chains. To access an online version of this report and additional information on this topic of living income, please check regularly the webpages that [ISEAL](#) and the [Sustainable Food Lab](#) have created to keep you up to date with the latest developments. For information about the Global Living Wage Coalition [please check this link](#).

The workshop started with a recap [\[slides\]](#) of the journey of this community of practice. We also had initial vibrant group discussions about [participants'](#) motivations for joining this workshop. The text box below summarises some of those key points.

Review the workshop agenda [here](#).

A proposal for next steps

We are offering a webinar on the 11th of July (2:30- 3:30PM BST) to recap on the key messages that we heard in this workshop and continue the dialogue. [Click here to register](#)

As a follow-up to what was expressed in the workshop, GIZ, ISEAL and the Sustainable Food Lab propose the following activities. Please note that these specific activities were not expressly agreed upon during the workshop.

Proposed activities:

1. Participants of the June 15 meeting suggested the development of a **generic farm economic model accompanied by metrics and guidance for measuring and reporting on actual farm and household income**. Many felt that this resource would allow users to share data and start from the same understanding of the current situation.
2. For the philosophical questions that remain around the topic of living income, participants suggested the creation of **a series of white papers to discuss thorny issues** such as, "What should be done for the farmers who, given their farm size or other constraints, will likely never achieve a living income from the focus crop?".
3. Others felt that an **impact evaluation of a company initiative to address living income at origin** could provide the community lessons on what works, why, and to what impact in a specific context.
4. The last of the most voted on proposed activities was the idea to create **guidance for how to use/adapt the living wage methodology** developed by the Ankers in the context of living income.

[Please fill out this survey](#) to indicate your interest and ability to participate in the activities proposed above. We need your feedback in order to determine the most useful way forward for this community of practice. Thank you!

Calculating household income, understanding the income gap and testing farm economic models

Key messages:

All presentations made it clear that there is significant complexity when it comes to:

1. Actual incomes—gathering data, calculating incomes, transparency in reporting; and,
2. Understanding solutions to closing the gap between current incomes and the living income.

Despite these challenges, there is enough information available to have a sense of the potential gap between actual incomes and a reference benchmark such as a poverty line or a living income benchmark.

Living Income

Living income represents how much income an average family in a particular place would require to afford a 'decent' standard of living. The discussion highlighted the importance of defining household sizes and decency.

In terms of decency, the Ankers' methodology uses a model diet meeting FAO and WHO nutritional requirements and local food preferences. For housing, it meets common principles of adequate housing (Intl Conventions on Economic, Social, and Cultural Rights; ILO recommendations, WHO, UN-Habitat).

Defining a place is also essential for any living income benchmark. There is not a single solution for setting the boundaries of a place. A place can be as general as a country, but a living income benchmark done at the national level may mean very little. Differentiating between rural and urban areas is useful for calculating living income benchmarks although it may not be enough. To decide the boundaries of a place consider 1) how important is it for you to have information from very specific areas? 2) How different or similar the cost of living are between places?, 3) What is the budget available to do the study?

Actual Income

With **actual incomes** the conversation focused on:

- If we want to co-create solutions to raising producer incomes we need to start from a common understanding of the current situation. This requires data we agree on. Therefore, **we need to be transparent in how we measure and report on current farmer incomes**. The following questions raised during the presentations show how diverse approaches for measuring current farmer income can be. *“What types of costs are included in the cost of production? Does it include the most basic ones such as cost of hired labour and inputs or also depreciation of material? Should we account for the opportunity cost of household labour? If so how? Should we account for investments made by the producer every year? If so how?”*
- There are also **choices in terms of how to present the data**. There are limitations in using and showing only averages, as this may not be very representative. The variation in yields and net income from coffee in a sub-set of producers from the Kenya coffee study was a clear example of this. There are also limitations associated with looking at household and farm income data for one year only. Where possible, one should make use of existing data to benchmark or confirm their own findings. One source for such data is the [Sustainability Impacts Learning Platform](#).

- Ideally, we will have some generally accepted indicators, metrics, and models for getting to actual incomes. This peer-reviewed approach will lend credibility to the process.

The workshop also showed the usefulness of modelling and how this can be done with various levels of rigor depending on time and budget available. The Food Lab presented a simple and useful exercise done by using existing data from reports. And we heard about more complex models such as the one presented briefly by CIMIS, which uses regression analysis instead of averages. Participants agreed that standardized guidance on how to approach the farm economic model would be useful. Such guidance could, for instance, address questions such as how to define realistic scenarios or how to take shocks or market price fluctuations into consideration.

It is also important to remember that a farm economic model is a theoretical exercise and that even though organisations may use this to plan future interventions with a particular goal in mind (e.g. increasing revenue from focus crop), there is no guarantee that the scenarios would work as projected.

Closing the Gap

The cases presented showed the gap between actual incomes and living income and the modelling approaches got us thinking about solutions to get farmers closer to a **living income**. Participants acknowledged that:

- Solutions must be systemic. There's no "silver bullet" and thus approaches to close the gap between actual income and living income will need to be layered. For example, if we only focus on increasing productivity as the solution to get farmers to a living income, we will fail because a large shift in productivity will drive prices down.
- There are a number of moral dilemmas – what do you do when you see these farmers are never going to get to a living income? What is a corporation's role (as opposed to governments)? There is no one answer to this but where we can add insight to the question is through better segmentation of farmers. We need to understand the differences in farming systems: What types of interventions work best for certain types of groups? What farmers will never be able to achieve a living income through the focus crop?
- It is important to remember that farmers make their own choices for how/whether to invest in agriculture. In that vein, UTZ mentioned how their new standard encourages farmers to investigate their own cost/benefit analysis, which may lead to diversification.

Presentations - Understanding the Gap: Living income and farm economics models.

This section of the report offers a brief overview of the main points made by the presenters. Please click on the title of the presentation to access a copy of the slides.

1. ISEAL and Coffee in Kenya [\[slides\]](#)

Please note that the data used in this exercise differs from the information presented by COSA in its baseline (pre-certification) report. For this workshop we only analysed and presented information from a sub-set of the data for both treatment and control groups. Kristin Komives, Director of ISEAL Impacts programme, used data from a recent baseline study to present information on actual household income and do scenario modelling. Farm

size was the key farm characteristic used to select the sub-sample of farmers to be included in the farm economic model. Instead of looking at the whole portfolio of treatment and control farmers, the exercise focused on those producers with a total farm size between 0.5 and 1.5 ha because that represented the situation of the majority of the farmers. For most of these farmers, coffee only represented a quarter of a hectare. The analysis showed that revenue that these farmers obtained from coffee is only around 13% of the household income. However, the study findings revealed that the cash farmers received from coffee comes at a time of the year that is critical for their livelihoods, allowing farmers to pay for school fees. In the first modelling scenario, we doubled the quantity sold and the costs of production. That led to a situation of average revenue from coffee of \$385. The second modelling scenario assumed that prices increased by 50%, which led to average coffee revenue of \$319. When comparing the three scenarios (the actual information and the two scenarios) with various poverty lines, one could clearly see that even when doubling the amount sold or price received, Kenyan coffee farmers would still be below the living income. This example reflects the situation of many smallholders with small landholding dedicated to a cash crop. Increasing revenue from coffee could play an important role in improving the living conditions of these farmers, but coffee production alone will not get them to a living income.

2. Fairtrade International [\[slides\]](#)

Fairtrade International plans to use the concept of living income and is now gathering robust income data in several supply chains in order to understand the starting point from which to improve. Joost Hammelink from Fairtrade showed us the farm economic model that Fairtrade uses and shared some preliminary data from their 4000+ cocoa farmer study wrapping up now in Cote d'Ivoire.

3. Sustainable Food Lab and Ben & Jerry's approach [\[slides\]](#)

Emily Shipman from the Sustainable Food Lab presented a model that showed how an investment in cocoa farmer productivity might get producers closer to a living income. The model was developed as part of the design process for Ben & Jerry's Producer Development Initiative which aims to promote a "dignified life for farmers". The key metrics for tracking on this is whether farmers are achieving a living income.

The model presented used existing data to show that an initial (2 year) investment in increased productivity through fertilizer and pruning would boost productivity from 450 kg/ha to 850 kg/ha. After this boost producers would be in a better place to begin a renovation plan. We modelled a 10% annual renovation rate and a 24% annual renovation rate. At 10%, farmers see an initial decline in yield and then bounce back to increasing yields that (assuming prices remains stable and they are able to sell all their cocoa) allow them to reach a living income in 12 years. At a rate of 25% annually, farmers reach living income in 8 years.

This model was based on existing data and a lot of assumptions that need to be tested before implementing such a plan.

- It is assumed price remains stable over the 12 years that it takes to get to a living income. If this program is undertaken with a large number of farmers, a huge boost in productivity like this would drive prices down.

- Costs of production for the model are based on data for low-investing farmers. Actual data for the costs of production for the target group of farmers will be gathered and calculated prior to implementing a productivity program.

4. Tony's Choclonely [\[slides\]](#)

Arjen Boekhold from Tony's Choclonely presented the company's approach of applying the living income concept to cacao purchase price calculations. Tony's Choclonely is a Dutch company with the vision of 100% slave free chocolate. They build their foundation for cooperation with cocoa producers on five principles, including the payment of a fair price for producers. A fair price relates to ensuring a living income above poverty level together with rewarding quality. In 2014/2015 for the first time Tony's Choclonely paid farmers a premium to close the gap between farm gate price and a living income. The premium amounted to 25% on top of the farm gate price (average premium of around 375 euro per 1,000 kilograms of cocoa). The calculation takes into account equally the responsibility of farmers to professionalize their farms and work towards increasing their income through improving productivity and quality.

Exploring opportunities for and responsibilities of different actors

The following bullet points outline the messages heard during the workshop and do not necessarily represent the views of the organisers and all participants present in the room.

Questions and issues for companies

Due diligence on living income. Different supply chains and regions may need different interventions

- Companies can often be held responsible for income *and* livelihoods yet have no control over whether income is spent to improve livelihoods. How can NGOs and others support companies in addressing this issue? What is the role of the government to work together with companies?
- Although many quickly look to companies to address this issue, there is still a question around what leverage a company can have. The case is clearer where the crop the company buys makes up the vast majority of household incomes. Where it does not, however, what is a company to do? How can they work on the issue of income where income from the focus crop is only 20% of household income, for example?
- And what can be done about producers who will never reach a living income through sales of the focus crop because their farm size is too small or their household size too large?
- [Oxfam Novib slides on role of private sector](#)

Interventions

- One can use living income and actual incomes to determine pricing strategies, as showed by Tony Choclonely in their presentation. We also heard from one company that experienced how producers in a particular region asked them to keep prices competitive against cheaper products.
- If income is the means to an end—the end being stable livelihoods for producer

households—should organisations tailor interventions around these livelihood goals instead of income? Is this sufficient? Income seemed for some both harder to impact and harder to measure than any of these livelihood impacts. There might be an opportunity to connect the topic of living income with SDGs.

Monitoring and evaluation

- Key is agreeing on a methodology for measuring incomes and testing it. The question is how robust and substantial does it need to be to get buy in?
- There is also a potential for companies to gather benchmark data in the pre-competitive stage
- Data collection is expensive and time-consuming. How can we use existing research to gain an understanding of the current income situation for farmers?

Questions and issues for governments

- Example of pricing in partnership with the producer groups– in Brazil, governments been involved in minimum pricing
- There is growing interest and commitment of governments in consumer countries on living wage and living income for producers in developing countries. For example, the topic of sustainable global supply chains and for better application of labour, social and environmental standards is reflected within the SDG and has been up taken by the G7.
- The topic of living income is to a certain degree linked to other sectors such as infrastructure, education etc. where governments and the public sector play a key role.
- Hence, governments in producing countries equally need to be included into the on-going discussion on living income and how to close the gap. They can play a key role in providing basic services and infrastructure and creating an enabling environment (including rules and regulations) for producers.
- The questions of what happens with producers who will never reach a living income (e.g. Their farm size is too small or their household size too large) is further closely linked to sector and political strategies.
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Questions and issues for implementers and producers

- During the session it was recognised that producers do have a role and need to be brought into the discussions on living income. They need to be empowered and engaged.
- It was highlighted that producers should be able to collect and make use of their own data. Various actors have a role in supporting producers on that journey.
- One way of getting them involved is developing software and other tools to help them gather and use their own data.
- Living income can be seen as an entry point into intra-household dynamics (i.e. who makes the decisions).

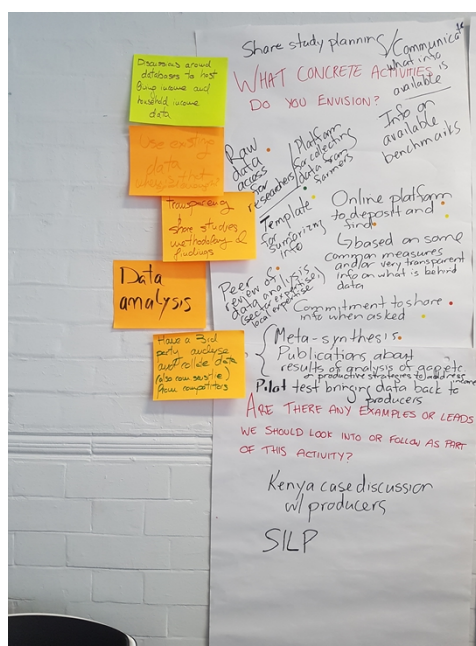
Questions and issues for standards systems

- Standards can have a role facilitating the inclusion of producers in the conversations of living income.
- They can also play an advocacy role, advocating for actions that will help improve farmer incomes.
- They could also work together to find solutions for specific barriers to improving farmer income.

- Standard systems are in a good position to pull together research related to living income, farm revenue and household income and help identify the gaps.
- Standards have a great expertise in Best Management Practices (BMP) that lead to improvements in farming conditions. Standards could pull together best practices from different systems, learn from each other, and disseminate this information, with the objective of improving revenues from focus crops and household incomes.
- Standards systems are more successful when certain conditions are in place. There is scope for standards to identify what those conditions are and then see whether they or other actors can play a role in addressing those conditions.

Next Steps

The asterisks next to activities, below, represent votes from participants indicating their desire to see this activity go forward. The most popular and feasible activities are described above in proposed next steps. You may vote on your interest in these activities in our survey, [here](#)



Success	Activities	Leads/examples	Concerns
Methodology			
Companies have an understanding of how they might use living income benchmark and “close the gap”	Develop case stories with few crops (more complex systems). What works to move needle/when? Success factors *	Farm economic model used in workshop or GIZ methodology	Concern that it won’t be relevant to farmers themselves (solution may be to involve NGOs, implementers, coops, producers)
Consensus around how to measure actual farm and household income so that those who want to can compare data, use each others data, and start from the same understanding of “the problem”	Common farm economic model with indicators and guidance for household income *****	SFL/COSA/ISEAL work on indicators	Make sure farmers understand why we’re doing this
A group able to co-learn/ co-mentor on what success looks like around income. Honesty about failures and successes	Platform for sharing challenges and successes around measuring AND solutions		Don’t want something took consensus based (will take forever)
Increased credibility – resource to	Make living income benchmark methodology public (300+ page Anker manual) *** FAQ sheet * Guidance on technical		Must be backed up with science, be clear about limitations (connect to

<p>those needing to hire</p> <p>More examples/case of living income and actual income approaches</p> <p>Data on access to finance and cost of it</p>	<p>expertise/ capacity needed to gather actual incomes</p> <p>Possible group discussion: what is the role of premium payments as a possible short-term strategy to help fill the living income gap?</p> <p>This group discussion as an entry on discussing gender issues related to household money management</p> <p>Understand and discuss role of mixed methods in calculating income</p>		<p>universities)</p> <p>How can we make living income benchmarks and farmer economic models more accessible for the sector whilst still taking into account the complexity/variability of the topic? E.g. not oversimplifying the model</p> <p>How do we shift the sector to a true long-term development outlook of 10+ years on the topic of Living income?</p> <p>How to ensure data quality in household surveys?</p> <p>Literature gap</p> <p>Gender difference in expenditure</p>
Success	Activities	Leads/examples	Concerns
Data gathering			
<p>Organisations are able to have useful info/data on household income/ actual income</p> <p>Platform for sharing data and producer organisations have access to data concerning their organisation</p>	<p>Develop common tools to collect data on actual incomes (GCP)</p> <p>Conduct impact evaluation of company intervention related to living income (Tony Chocolonely). Options for financing *****</p> <p>Conduct a pilot on the concept of fair price (Infobridge)</p> <p>Look at existing pilots and lessons learned</p> <p>Develop a manual for how to collect living income data (GIZ)</p>	<p>Vanilla sector in Madagascar (SFL, GIZ, IDH) *</p> <p>Surveys from studies</p>	<p>Better define fair price</p> <p>Risk of one size fits all in terms of methodologies</p> <p>Data availability at producer level</p> <p>Data collection burden on producers – we might be better off by looking at what we already have</p> <p>Financial literacy (of producers)</p> <p>How do we share information and empower farmers? Needs to be easy for them to understand</p>
Success	Activities	Leads/examples	Concerns
Data analysis			
<p>Reach sound conclusions about current situation, so as to enable an informed debate</p> <p>Knowing what information is already available, and being able to rely on living income or farmer</p>	<p>Share information about planned and upcoming studies / communicating what info is available</p> <p>Making public info on available benchmarks</p>	<p>Kenya Case discussion with producers in Kenya</p> <p>Sustainability Impacts Learning Platform (SILP)</p>	<p>Lack of good sector/ local expertise in analysis</p> <p>Anonymity, data privacy, data ownership – may block some efforts</p> <p>“Bad” uses of data and “bad”</p>

<p>income estimates that have been produced by others, so that we don't duplicate work</p> <p>Producers see value in the data collected and can use it **</p>	<p>Raw data access for researchers*/ Platform for collecting data from farmers *</p> <p>Agree template for summarising basic farm economics model information from studies, in the same format *</p> <p>Online platform to deposit and find information***</p> <p>Based on same common measures and/or very transparent info on what is behind data</p> <p>Peer review of data analysis and conclusions drawn (sector expertise, local expertise...)*</p> <p>Those commissioning studies make commitment to share info when asked**</p> <p>Meta-synthesis of existing studies*</p>	<p>Publications about results of analysis of gap etc. and productive strategies to address income</p> <p>Pilot test bringing data back to producers</p>	<p>interpretations (e.g. not representative)</p> <p>Too much data – want to be able to segregate in way that is useful</p> <p>Who is doing what?</p>
Success	Activities	Leads/examples	Concerns
Uses			
<p>Better understanding *</p> <p>Alignment *</p> <p>Action...</p> <p>Improved livelihoods*</p> <p>Security of supply (future generations of farmers)</p> <p>Be clearer about the outcomes **</p>	<p>Engaging government in providing countries re. Minimum wage vs. living wage</p> <p>Facilitate a discussion or series of white papers</p> <p>Set up action labs around findings to implement solutions</p> <p>General philosophical conversation on thorny issues/ moral dilemmas ****</p> <p>Collaborative advocacy ****</p> <p>Switching from poverty line to living income</p> <p>Current information on geography/ commodity specific incomes for farmer organisations to assist in price negotiations</p> <p>Identify knowledge gap in what we can do to improve income – what are the options?</p>	<p>Malawi 2020 *</p>	<p>Cynical use of data</p>