

Living Income Webinar Series

Living Income Reference Prices – Calculation and private sector insights

27 August 2020



Supported by the



Federal Ministry
for Economic Cooperation
and Development

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Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH



Today's webinar facilitators



Sheila Senathirajah
Senior Manager,
Innovations
ISEAL Alliance

Moderator



Tim Loos,
Advisor for Sustainable
Supply Chains and
Standards
GIZ

- **Introduction** to the Living Income Community of Practice and the concept of living income.
- **Main discussion session**
- **Updates** from the Living Income Community of Practice.

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The Living Income Community of Practice

Living Income Community of Practice is an alliance of partners dedicated to the vision of thriving, economically stable, rural communities linked to global food and agricultural supply chains.



For more information and to join the community visit:

www.living-income.com

Contact: livingincome@isealalliance.org

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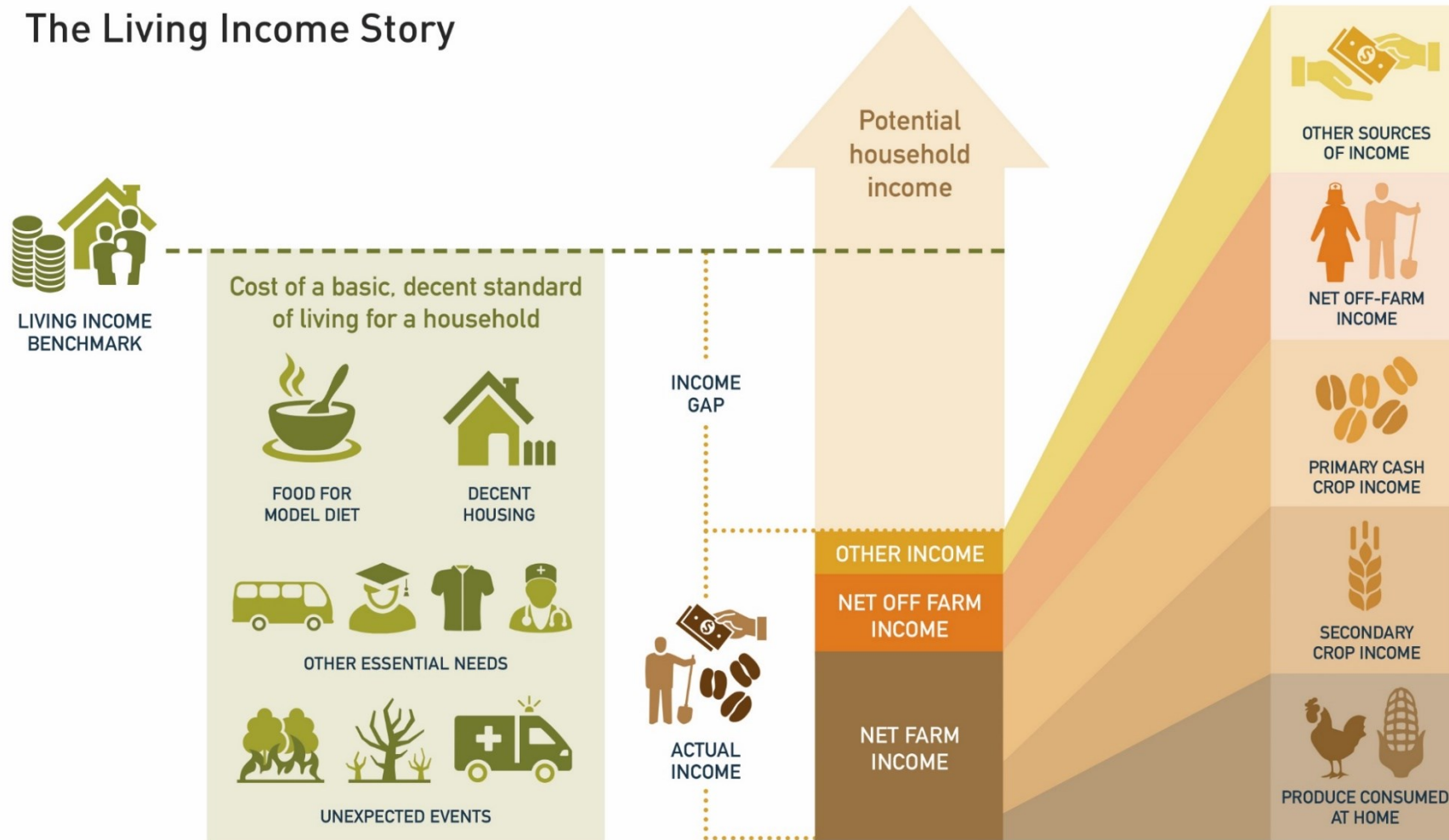


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The Living Income Community of Practice

The Living Income Story



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Main Discussion Agenda

- Presentation on calculating living income reference prices
- Experience sharing - Tony's Chocolonely
- Experience sharing - INA/REWE tree crops project
- Q&A and discussion

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Today's guest speakers

Moderator



Tim Loos
Advisor for Sustainable
Supply Chains and
Standards
GIZ



Ywe Franken
Serious Farmer
Accelerator
Tony's Choclonely



Martin Kuntze-Fechner
Junior Advisor
Projectcoordination
LivingIncome & Treecrops
GIZ



Bettina von Reden
Head of Policy and
Development Cooperation /
Project Partnerships at
Trans Fair e.V.
Fairtrade Germany

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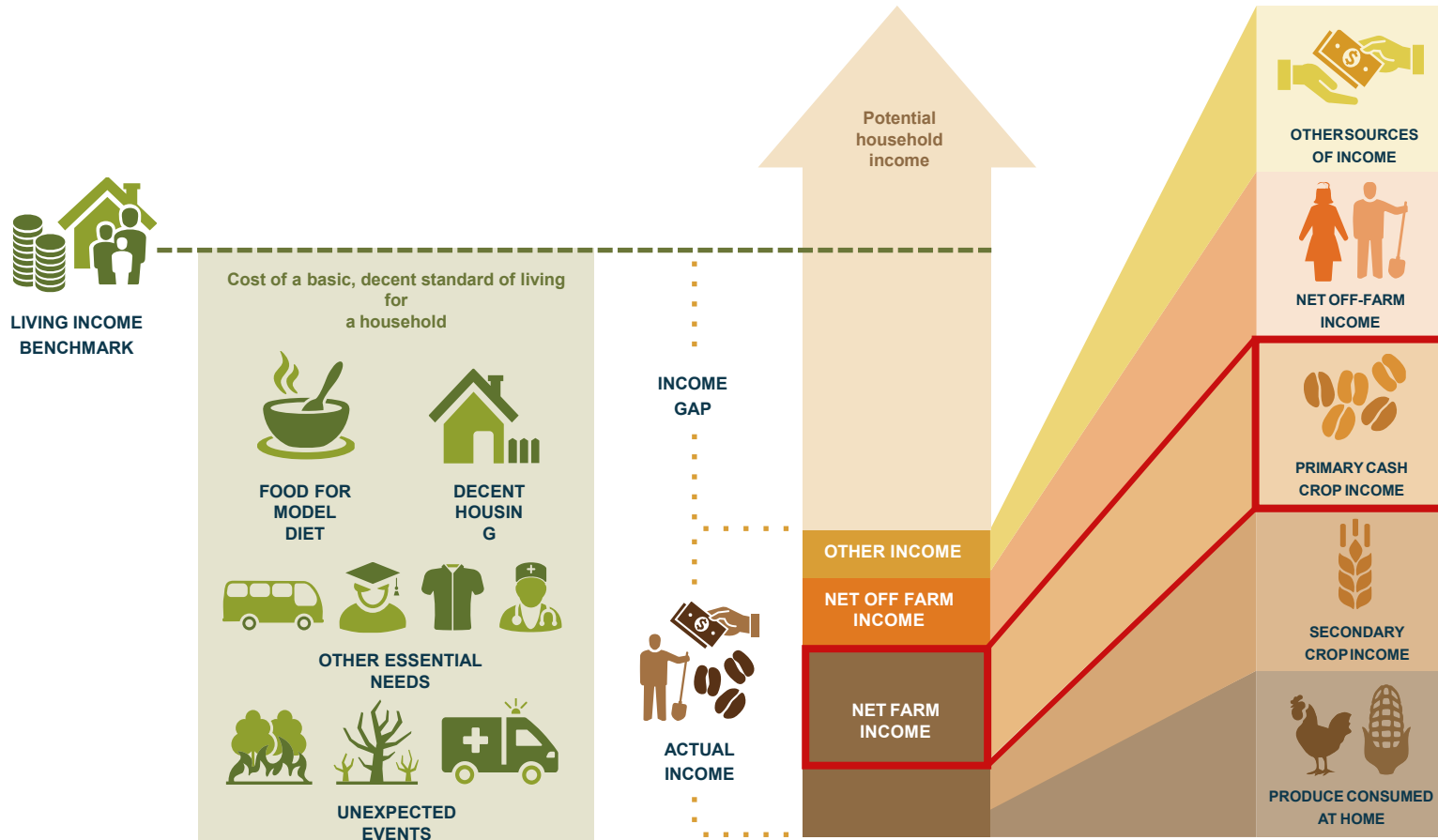
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Working towards a living income: Calculating living income reference prices

Methodology and LIRP-calculator

The Living Income Story and its link to reference prices



Net income = Benchmark

Crop revenue – Costs = Benchmark

Price * Yield – Costs = Benchmark

$$LI \text{ Reference Price} = \frac{LI \text{ Benchmark} + Costs}{Yield}$$

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Calculation approaches

$$LI \text{ Reference Price} = \frac{LI \text{ Benchmark} + Costs}{Yield}$$



Primary cash crop contributes X % to household **income**

→ adjusting by income share

$$LIRP = \frac{\frac{inc \text{ main crop}}{total \text{ income}} * LIB + C}{Y}$$

Primary cash crop demands X % of household **labor**

→ adjusting by labor aspects

$$LIRP = \frac{\frac{deployed \text{ HH labor}}{available \text{ HH labor}} * LIB + C}{Y}$$

$$LIRP = \frac{LIB + C}{Y * \text{fully employed land size}}$$

Data requirements

$$LI\ Reference\ Price = \frac{LI\ Benchmark + Costs}{Yield}$$

	Approach 1	Approach 2	Approach 3
Principle	Consider income share of focus product	Consider labor share invested in focus product	Consider fully employed land size with focus product

Data requirements

Similarities	<ul style="list-style-type: none"> • Benchmark • Yield levels • Production costs 		
Differences	<ul style="list-style-type: none"> • Total HH income • Income derived from focus product 	<ul style="list-style-type: none"> • HH labor capacity • Labor input into focus product 	<ul style="list-style-type: none"> • HH labor capacity • Land size that would fully absorb HH labor • Assumptions on other crops produced (labor demand)

How to feed the equations?

Benchmark

- Anker Living Income benchmark
- Best alternative benchmark

Yield & Cost of production

- Production system

Primary /
secondary
data

Prevailing production system

- “Business as usual” using average data on yields and costs

Best prevailing production system

- “Best business as usual” using average data of the most profitable farmer cluster

Model
data

Model production system

- “Good agricultural practices” using validated information of potential yields and costs

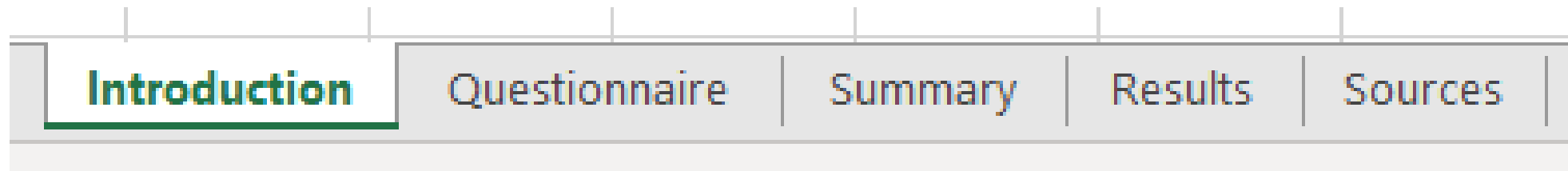


Living Income Reference Price calculator

LIRP calculator (v0.2)

General information

- Excel-based tool to calculate reference prices for a given agricultural commodity (crop) in relation to different benchmarks, incl. Living Income
- Currently focuses on calculation approach 2 (labor share)
$$LIRP = \frac{\frac{\text{deployed household labor}}{\text{available household labor}} * LI \text{ Benchmark} + \text{Costs}}{\text{Yield}}$$
- Gross margin calculations for three production scenarios
- Data input in “questionnaire” sheet
- Provides results table and figure on reference prices and price gaps



LIRP calculator - questionnaire

Questionnaire							
General Information	Questions						
	1	Please select country	Ethiopia				
	2	Region / locality	Nono Sale				
	3	Commodity of interest	Semi-garden coffee				
4	National currency (e.g. USD, EUR, etc.) and exchange rate to 1 USD		ETB	23	1 USD		
Sample Information	Questions		Unit	Production scenario			
				Prevailing	Best quartile	Good agricultural practice	
	5	Please enter total number of farmers (sample size)	N	158	40		
	6	Please enter average household size	N	5	5		
	7	Please enter average number of adult household members	N	3	3		
8	Please enter total household labor capacity of an average household. ¹		workforce	1,65	1,65		
9	Please enter total number of working days per year for one worker. ²		days / year	250	250		
Revenue	10	Please define reference land size (e.g. ha, total).	ha	1	1	1	
	11	Please insert average yield per year per defined land area.	kg	194,00	412,00		
	12	Please insert average price paid per kilo.	ETB / kg	22,00	22,00		
Production costs	Inputs	13	Please enter the costs for production element per defined land area.				
		a	- Fertilizer, pesticides, etc.	ETB	194,00	352,00	
		n	- etc.	ETB			
			Sum of input costs	ETB	194,00	352,00	0,00
	Hired labor	14	Please specify modalities and costs for hired labor				
		a	- Number of workers hired for focus commodity	N			
		b	- Number of days workers were employed	days			
		c	- Daily wage paid to one worker	ETB / day			
	Sum of hired labor costs	ETB	337,00	641,00	0,00		
Family labor	15	Please insert average household working days for activities per defined land area.					
	a	- land preparation, planting	days	81,00	102,00		
	n	- etc.	days				
	Sum of family labor	days	81,00	102,00	0,00		
Benchmark		Please select World Bank country classification applicable for this country ²	ETB / p / day	Low income country	1,9	29.459,88	
		Please insert the national poverty line per person per year of the region ³	ETB / p / yr	3.781,00		18.905,00	
		Please insert the statutory minimum wage per workforce for this region. ⁴	ETB / p / day	420,00		8.316,00	
		Please insert the Living Income benchmark per household per month of this region. ⁵	ETB / HH / m	4.858,00		58.296,00	
Notes	1	To determine the household workforce, please refer to Chapter 13 in Anker and Anker (2017); if not available, household size multiplied by 0.3 may be used as a first proxy					
	2	250 working days may be used as a rule of thumb for rural smallholder households					
	3	Please indicate here the poverty line per year and household. You can find the data on the World Bank website. Multiply the daily line by the size of the household and by 365.					
	4	Please obtain the data from official sources of the country e.g. the Statistical Office					
	5	Please obtain the data from official sources of the country e.g. the Statistical Office or the Ministry of Labour					
	6	Please refer to official Living Income benchmarks or proxies determined by the calculation method of Martha and Richard Anker.					

Questionnaire sections

- General information
- Sample information
- Revenue
- Cost of production
 - Inputs
 - Hired labor
 - Family labor
- Benchmarks

LIRP calculator – questionnaire sections (i)

General information

Example data for
semi garden coffee
in SW Ethiopia

Questionnaire					
General Information	Questions				
	1	Please select country	Ethiopia		
	2	Region / locality	Nono Sale		
	3	Commodity of interest	Semi-garden coffee		
	4	National currency (e.g. USD, EUR, etc.) and exchange rate to 1 USD	ETB	23	1 USD

Benchmarks

Adjusted benchmark
ETB /hh /year

Benchmark	Please select World Bank country classification applicable for this country ²	ETB / p / day	Low income country	1,9	29.459,88
	Please Insert the national poverty line per person per year of the region ³	ETB / p / yr	3.781,00		18.905,00
	Please insert the statutory minimum wage per workforce for this region. ⁴	ETB / p / day	420,00		8.316,00
	Please insert the Living Income benchmark per household per month of this region. ⁵	ETB / HH /mth	4.858,00		58.296,00

LIRP calculator – questionnaire sections (ii)

Sample information

	Questions		Unit	Production scenario		
				Prevailing	Best quartile	Good agricultural practice
Sample information	5	Please enter total number of farmers (sample size)	N	200	50	
	6	Please enter average household size	N	5	5	
	7	Please enter average number of adult household members	N	3	3	
	8	Please enter total household labor capacity of an average household. ¹	workforce	1,65	1,65	
	9	Please enter total number of working days per year for one worker. ²	days / year	250	250	

Most profitable farmer cluster { Best 10 %
 Best 20 %
 Best 25 %
 Best 33 %

Average data of farmers

GAP model data

- Household labor capacity
 - LI/LW benchmark reports, Anker and Anker (2017), national data
 - Ethiopia: 1.65 full time labor equivalents
- Working days per year
 - National specifications
 - 250 WD/year as proxy

LIRP calculator – questionnaire sections (iii)

Gross margin data

- Revenue

Standardized
per hectare

Revenue	10	Please define reference land size (e.g. ha, total).	ha	1	1	1
	11	Please insert average yield per year per defined land area.	kg	194,00	412,00	
	12	Please insert average price paid per kilo.	ETB / kg	22,00	22,00	

- Costs

Production costs	Inputs	13	Please enter the costs for production element per defined land area.				
		a	- Fertilizer, pesticides, etc.	ETB	194,00	352,00	
		n	- etc	ETB			
			Sum of input costs	ETB	194,00	352,00	0,00
	Hired labor	14	Please specify modalities and costs for hired labor				
		a	- Number of workers hired for focus commodity	N			
		b	- Number of days workers were employed	days			
		c	- Daily wage payed to one worker	ETB / day			
			Sum of hired labor costs	ETB	337,00	641,00	0,00
Family labor		15	Please insert average household working days for activities per defined land area.				
		a	- land preparation, planting	days	81,00	102,00	
		n	- etc.	days			
			Sum of family labor	days	81,00	102,00	0,00

LIRP calculator – results (i)

Results table

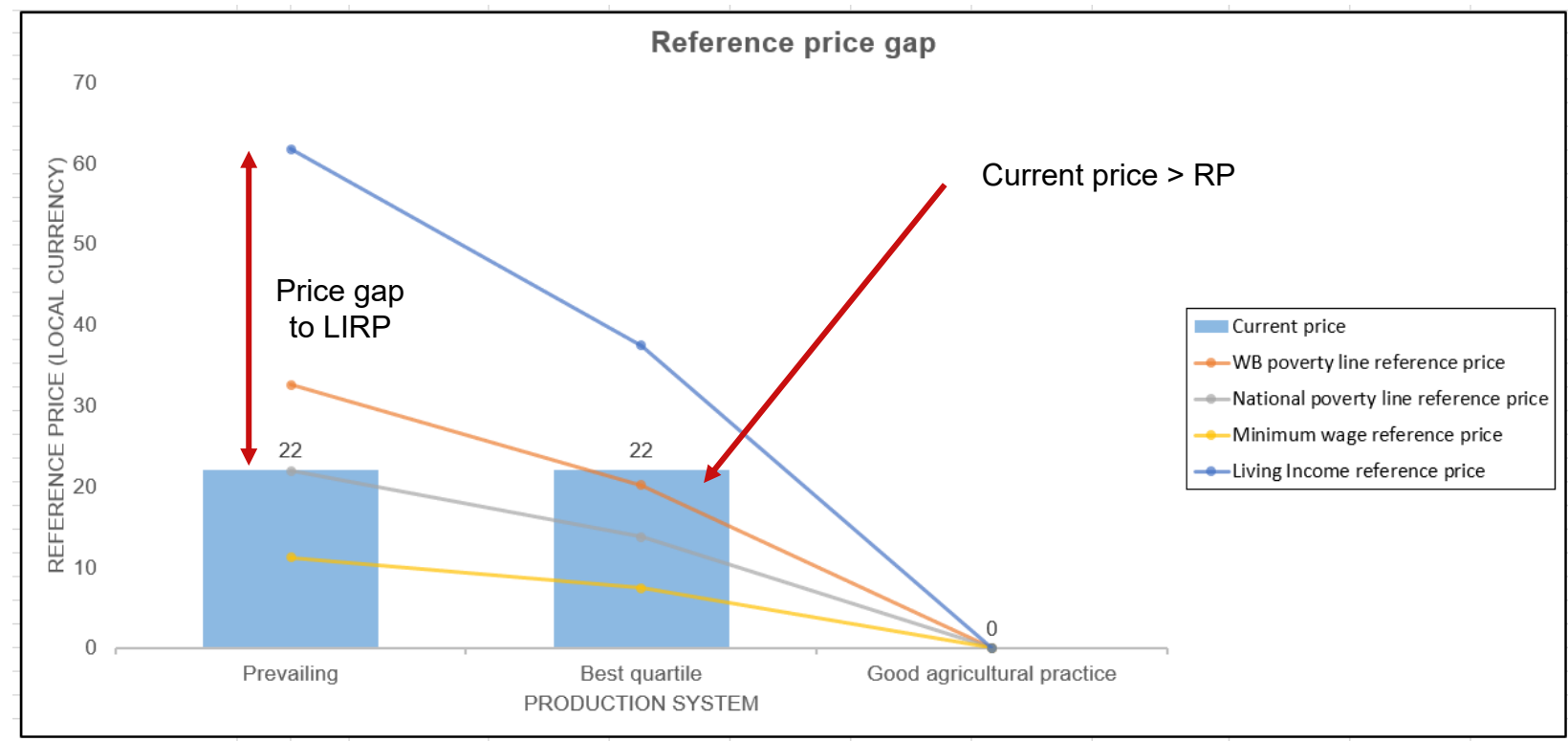
Reference price for
respective benchmark

Price gap in %

Results											
Production system		Prevailing			Best quartile			Good agricultural practice			Benchmark
Reference price for	Unit	Current price	Reference Price	%-difference	Current Price	Reference Price	%-difference	Current Price	Reference Price	%-difference	Household with a laborforce of 1,65
World Bank Poverty Line	ETB / kg	22,00	32,56	48%	22,00	20,09	-9%	0,00	#DIV/0!	#DIV/0!	29.459,88
National Poverty Line	ETB / kg	22,00	21,87	-1%	22,00	13,76	-37%	0,00	#DIV/0!	#DIV/0!	18.905,00
National Minimum Wage	ETB / kg	22,00	11,15	-49%	22,00	7,40	-66%	0,00	#DIV/0!	#DIV/0!	8.316,00
Living Income	ETB / kg	22,00	61,74	181%	22,00	37,40	70%	0,00	#DIV/0!	#DIV/0!	58.296,00
Notes: The benchmarks refer to the values for an average sized household with the respective labor force. Laborforce is estimated using 0.3 labor equivalents per household member											

LIRP calculator – results (ii)

Results figure



LIRP calculator (v0.2)

Using the tool: how it promotes your work



- Refine pricing strategies adjusted to specific project context
- Understand the linkages between farm based interventions (GAP) and pricing strategies within a holistic living income approach

Let us collaborate to test and further develop the tool to make it practical and powerful



- The current beta version is now available for testing
- Questions, suggestion and comments are most welcome!

LIRP calculator (v0.2)

The way forward

- Add option to base calculations on approach 1 (income share)
- Add features like auto-fill based on country selection
 - Currency
 - Benchmarks
 - Etc.
- Add "guidance-sheets" for e.g.
 - Disaggregated figures for production costs
 - Family labor input

Poll Question (Single choice)

How relevant do you think implementing living income reference price is in addressing farmer livelihood?

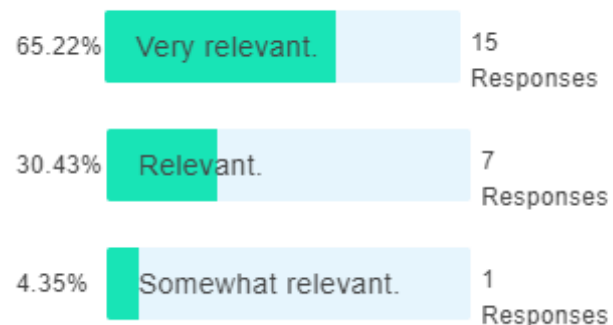
1. **Very relevant.** Should be prioritized as examples are already available.
2. **Relevant.** However more clarity needed on available methods and how companies can start.
3. **Somewhat relevant.** But implications not well understood yet. Too complex at this stage .
4. **Not relevant.** Other 'income increasing' strategies have greater impact and should take priority.

1 of 1.

23 of 38 Attendees responded

How relevant do you think implementing living income reference price is in addressing farmer livelihood?

Multiple choice with single answer



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Talking Living Income

Ywe

Serious Farmer Accelerator

unequally divided





**TRACEABLE
COCOA BEANS**



**A HIGHER
PRICE**



**STRONG
FARMERS**



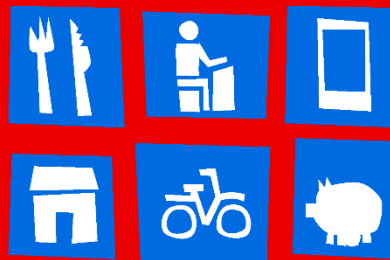
**THE
LONG-TERM**



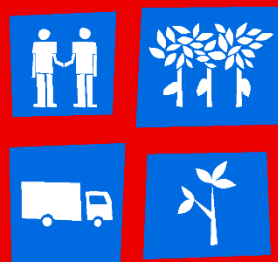
**IMPROVED
PRODUCTIVITY
AND LESS DEPENDENCY
ON COCOA**



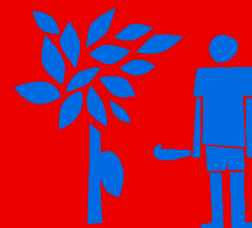
household size



cost of living



cost of farming



productive
farm size
x 800 kg



25% other income

Living Income
Reference Price



farmgate
price



Fairtrade
premium



additional
premium



Tony's premium (current cropyear 2019-2020)

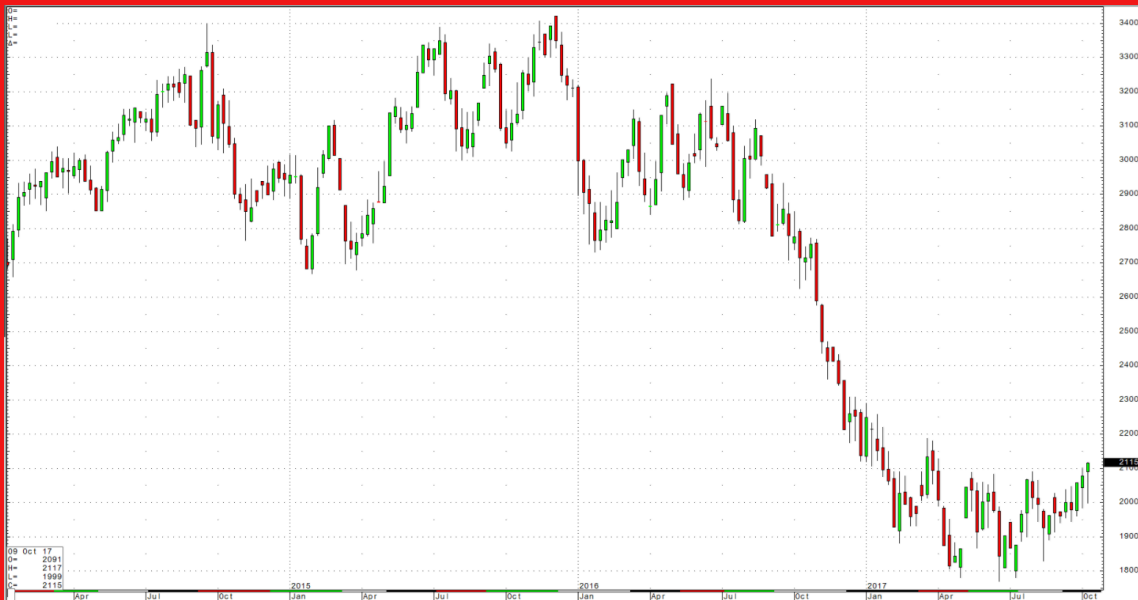
	18/19	19/20
Côte d'Ivoire	\$200 + \$320/ton	\$240 + \$235 + \$350/ton
Ghana	\$200 + \$260/ton	\$240 + \$335/ton

Total premium

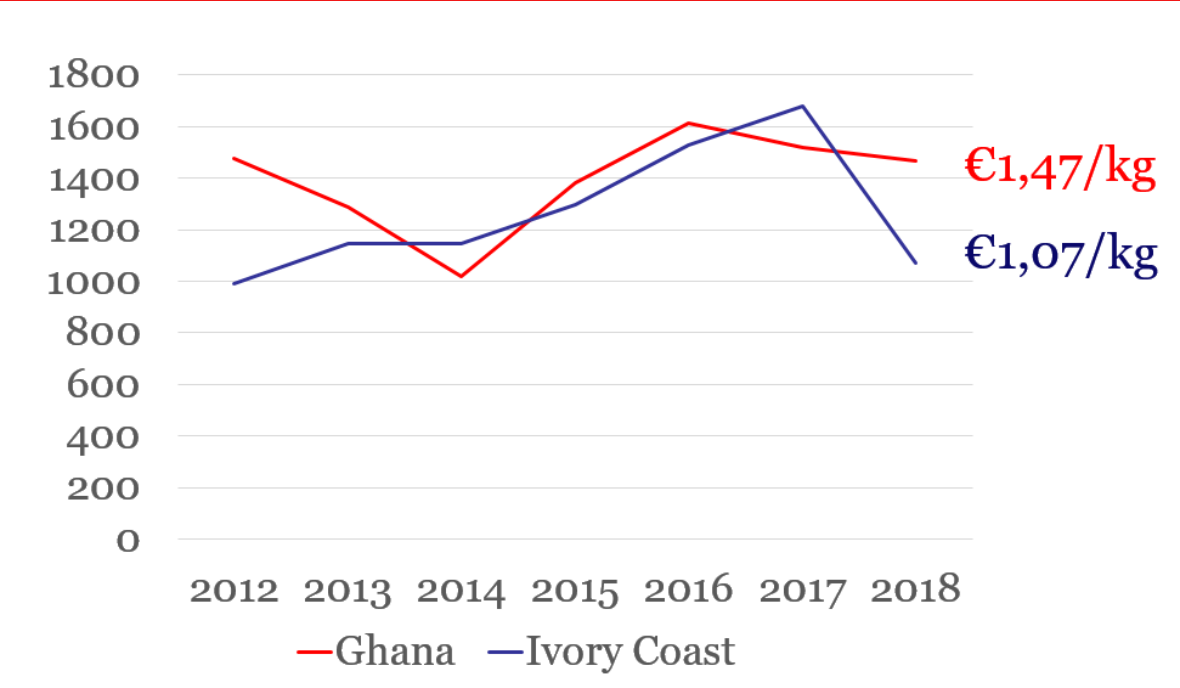
	18/19	19/20
volume	5450 mT	6925 mT
Total premium	€2,6 mln	€5,4 mln
Additional premium	€1,5 mln	€2,4 mln

variables	Ivory Coast	Ghana
family size	8	6
living cost	\$ 2.49	\$ 2.16
operational costs (per farm)	\$ 2,216	\$ 1,065
other income	\$ 1,745	\$ 1,183
(nett) productive farm size (hectares)	4.4	2.74
productivity target (kg/ha)	800	800
living income reference price (\$/kg)	\$ 2.20	\$ 2.10

international cocoa market price

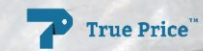


Farm gate prices



The True Cost of Cocoa

Tony's Choclonely
2018 progress report. V3.2



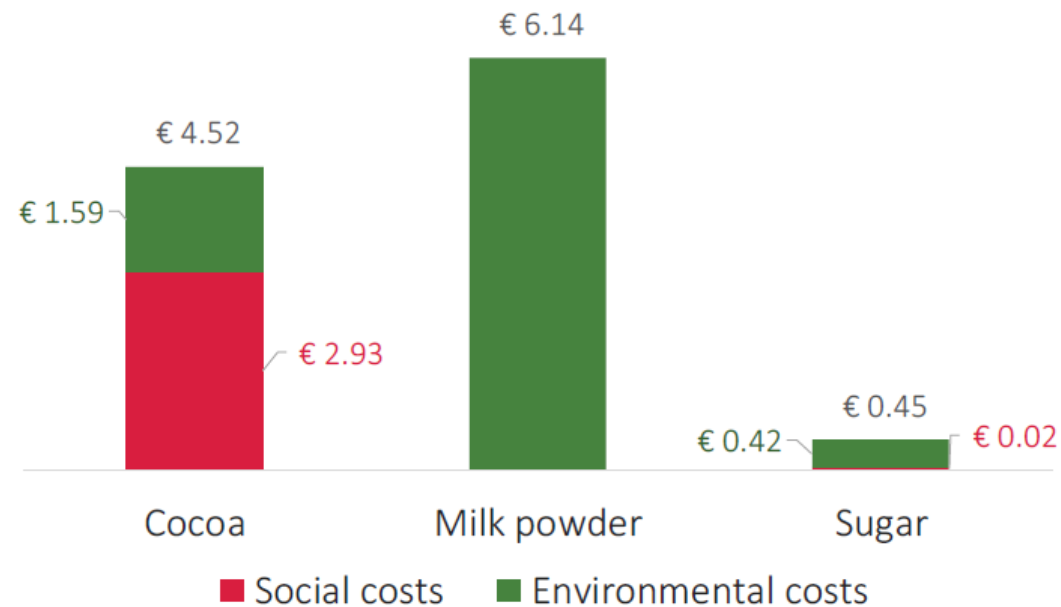
Prepared for:



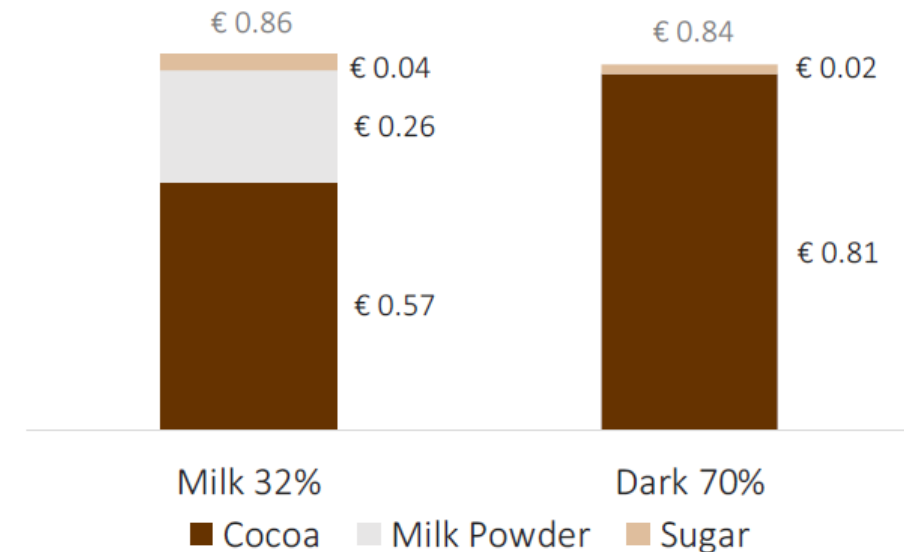
True Price

Exploratory results; input of milk and sugar are estimates

Social and environmental costs of key ingredients (EUR/kg ingredient)



Cost of externalities for chocolate bar ingredients (EUR/bar of 180 grams)



Challenges

- Tony's not buying all volumes

- Coop financial needs

Tony's Open Chain



who's
next?

To actually change the cocoa industry, the current 7.000 metric ton of cocoa beans is not a sufficient volume to change the system. Therefore, Tony's Open Chain needs more allies. Will you as a chocolate company join in?

Join Tony's Open Chain



Coop premium



- Costs for services requested:
 - Up-to-date coop register and GPS mapped farms
 - Service delivery to farmers (labour groups/ input distribution)
 - Logistics and warehousing
 - Child labour monitoring and remediation
- Current coop revenues are not sufficient
 - Bareme revenues
 - Membership fees
 - Certification premium (that should go largely to farmers)

Living Income Project – Tree Crops Ghana



Low incomes -causes and consequences-



Fluctuating market prices



Low diversification



Low productivity



Economically non-viable
farms/cooperatives



Child labour

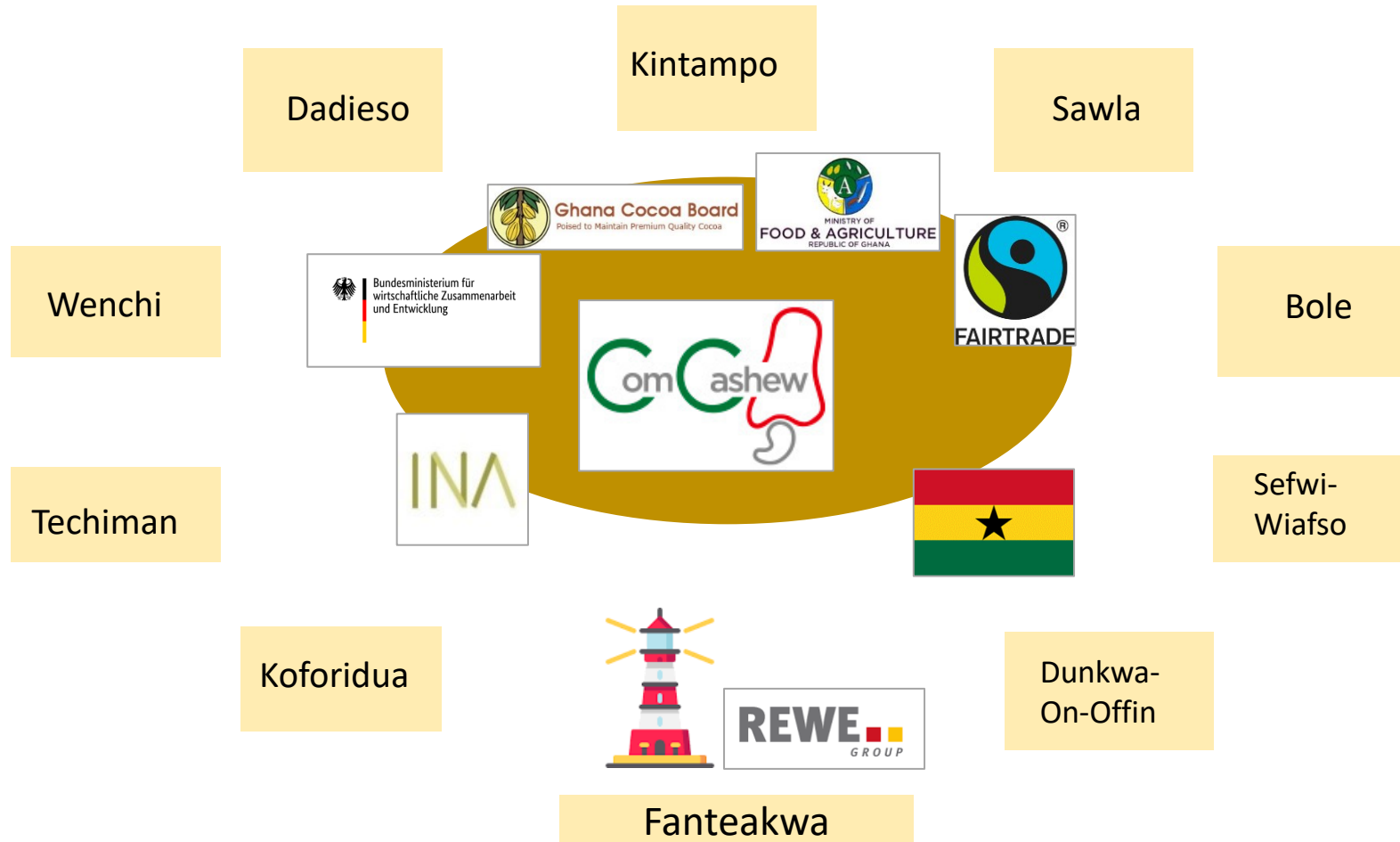


Forced labour

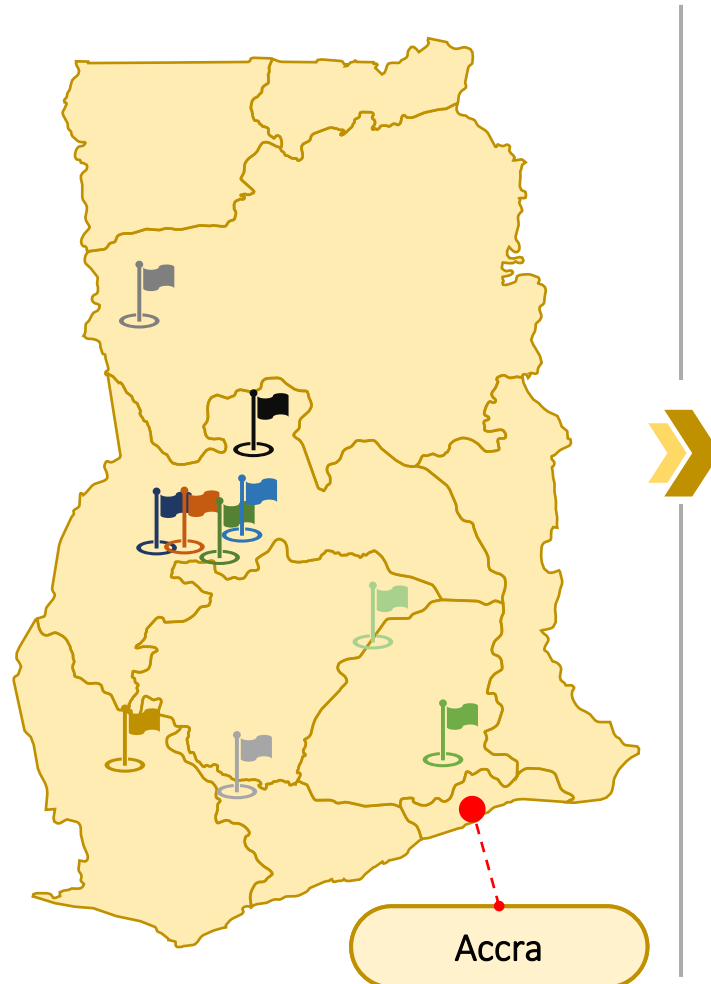


Deforestation

Overview of project structure West Africa



Participating cooperatives in Ghana



Cocoa cooperatives

 **Fanteakwa**

 **Dadieso**

 **Dunkwa-on Offin**

 **Sefwi-Wiawso**

Cashew cooperatives

 **Gbankuluso**

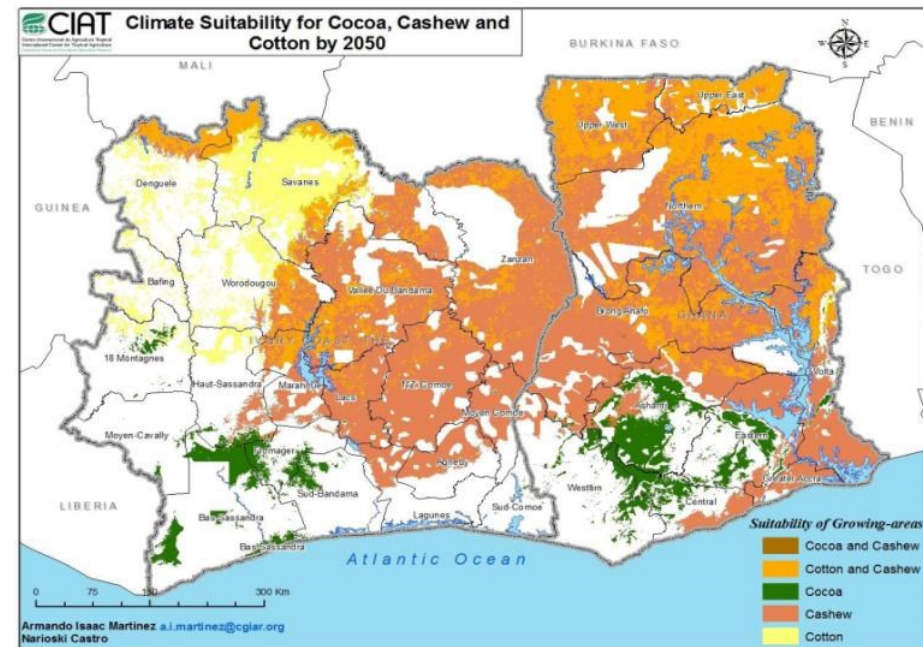
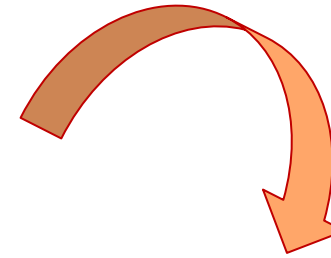
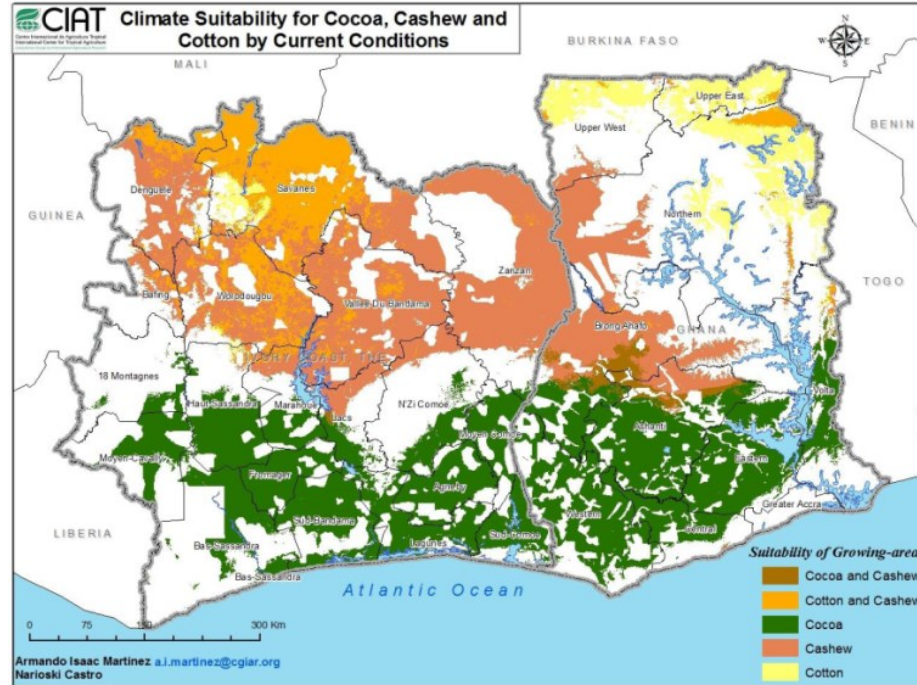
 **Techiman**

 **Agosa**

 **Wenchi**

 **Kintampo**

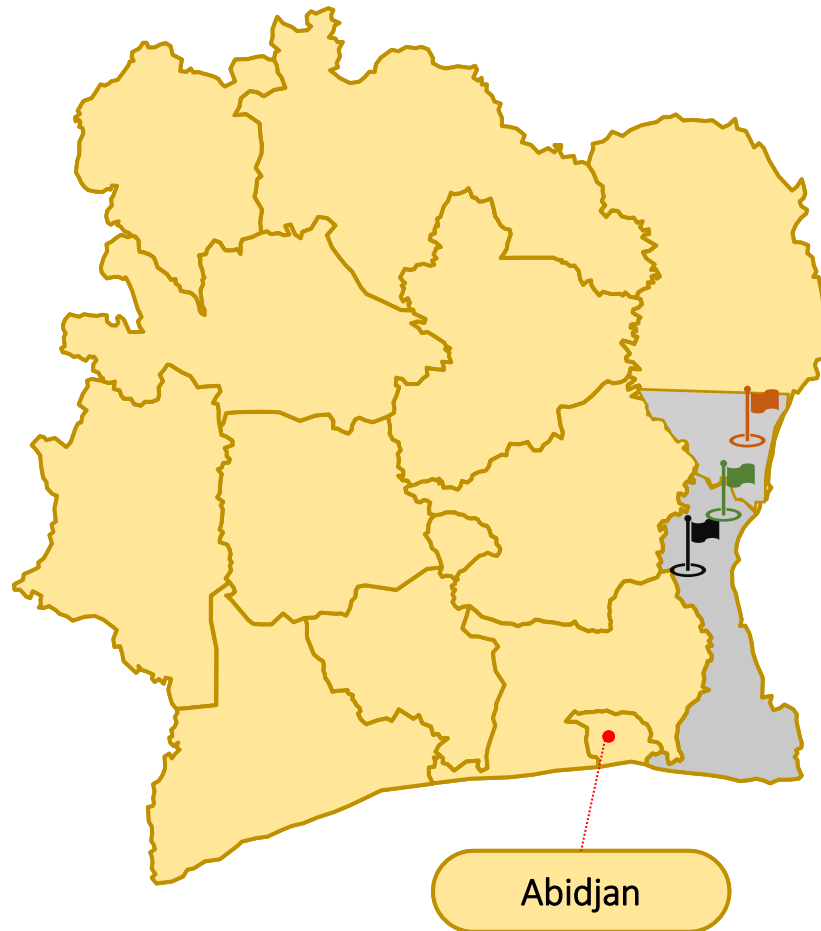
 **Sawla**



Source: Report of a study commissioned by the BMGF and conducted in 2011 by the International Center for Tropical Agriculture (CIAT) and the Agro Eco - Louis Bolk Institute of Ghana.



Diversification study in Côte d'Ivoire



Tanda Department

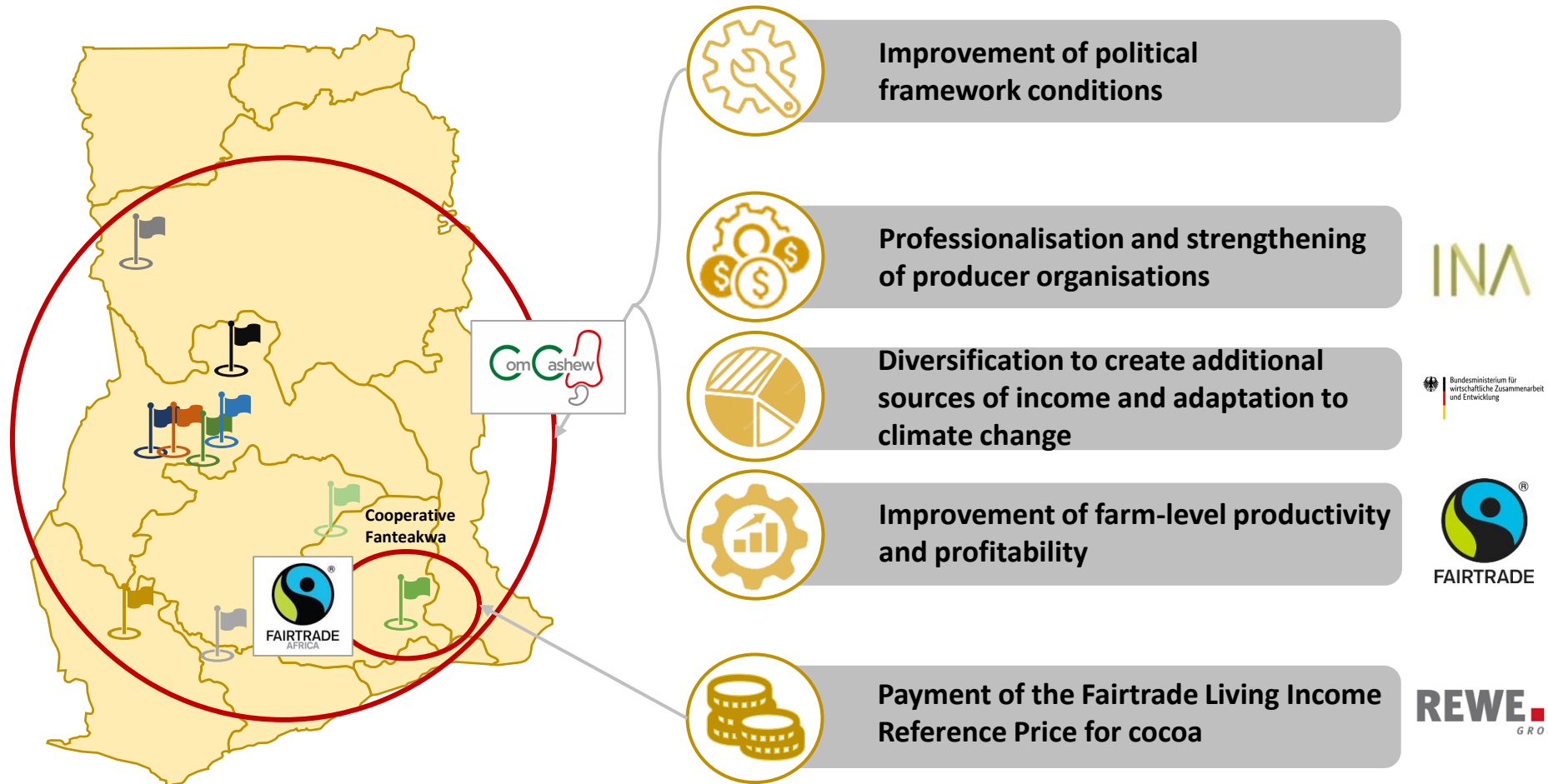


Agnibilékrou Department



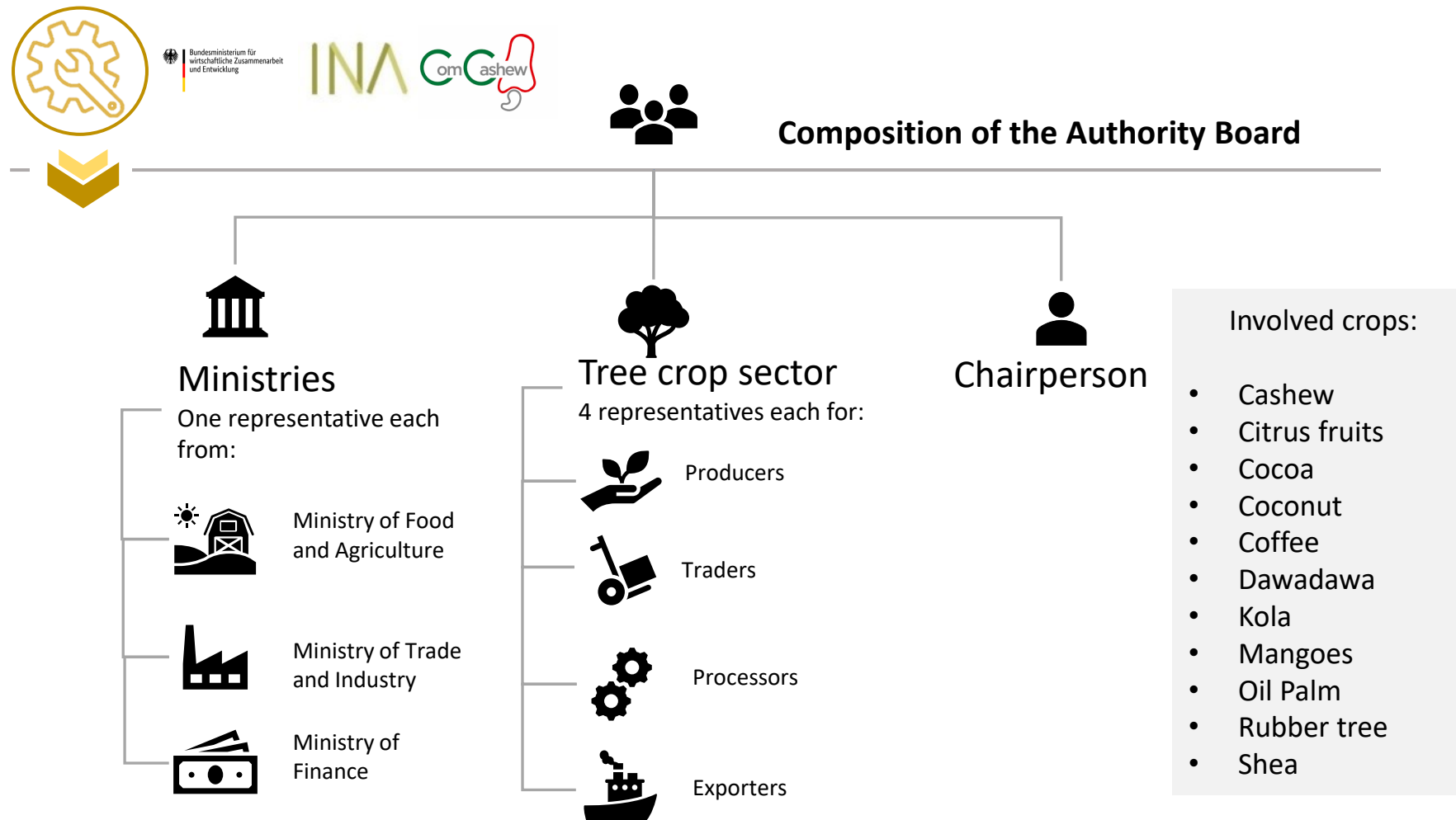
Abengourou Department

Various activities are intended to contribute to a living income





Tree Crops Development Authority established 2019



Improvement of farm-level productivity and profitability



Through Farmer Business Schools



- Adaptation of the training concept for „**Tree crop farmers**“
- Design of training manuals
- Creation of pedagogical curricula
- Training of master trainers
- Promotion of better agricultural practices

Diversification to create additional sources of income and adaptation to climate change



Through the promotion of
good agricultural practices



- **Mechanization:** Efficient tree cutting, improved weed and pest control
- **Diversification:** Regionally adapted diversified production systems (climate-smart agriculture, beekeeping, etc.)
- **Post-harvest management:** Improved fermentation, drying, storage of cocoa and cashew production
- **Improved plant material:** plants more resistant to disease and climate change, grafting of selected varieties



Professionalisation and strengthening of producer organisations

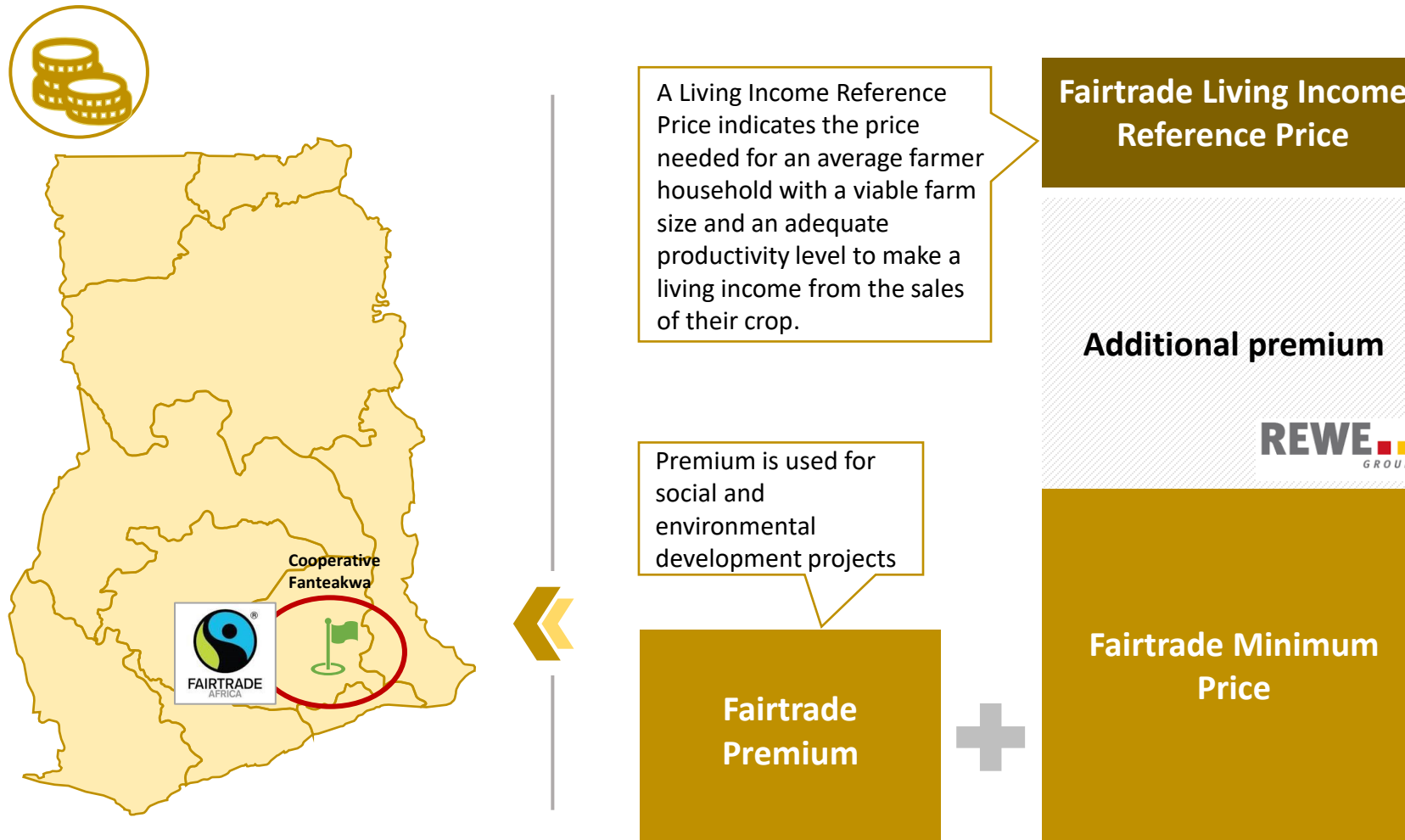


Organisational Strengthening and compliance with the Fairtrade standards at the cooperative Fanteakwa

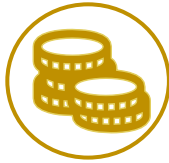
Services of Fairtrade Africa:

- Annual review and planning meeting
- Annual workshop on Fairtrade standards
- Individual coaching (support before and after certification)
- Strategic support, e. g. in the preparation and implementation of the annual general assembly of the cooperative, in the preparation of development plans for the Fairtrade premium, in the elaboration of the strategic plan, etc.
- Annual trainings on child labour, financial management and internal monitoring systems (IMS)

Payment of the Fairtrade Living Income Reference Price for cocoa



Ensuring traceability through a segregated supply chain



Lessons learnt and Outlook



- Close cooperation between BMZ and the Ministry of Food and Agriculture (MOFA) strengthens good political and inter-institutional framework conditions.
- **Inter-sectoral spill-over effects.** Close monitoring allows comparability of the different developments among the cooperatives involved and their members.
- Crop diversification - Does the combination of the two crops cocoa and cashew help to close the LI gap and adapt to climate change?
- Which additional crops could be integrated?
- How is horizontal and vertical up-scaling possible and reasonable?

Questions?



Take home messages

- Current calculations may not be realistic due to availability and quality of data. But with the current data, we achieve an approximation which shows the need for higher prices
- Price aspect is essential for any strategy, but only one measure in a holistic approach
- Consider inter-sectoral and cross-commodity learning and spillover effects

Upcoming Activities

Q2,2020

Q4,2020

BENCHMARKS

1. FAQ Doc: Benchmarks-May 2020
2. Table of available LI/LW ★
benchmarks/proxies (July)

Measurement

1. Guidance on AI measurement (COSA)-May 2020
2. Guidance on Gap Measurement (KIT)-Sept
3. Guidance on AI measurement in absence of 1° data (1 use case)-Due Oct
4. FAQ Doc: Actual Income Measurement-Due Oct

Strategies ★

1. Toolkit: LI in Supply chains (SFL/GIZ)- Aug

MEASURE MENT

**A Faster Way to
Benchmarks:
Reference Values**
(Presented by Ankers)
July 8 4pm CEST

**Measuring Income:
Review of guidance to
measure AI and Income gap**
(Moderated by ISEAL)
Oct (TBC)

STRATEGIES

**Financing Pathways
to Living Income**
(Moderated by IDH+SFL)
June 29th

**Pricing Strategies:
Supply Management
Considerations**
(Moderated by GIZ)
July 16th

**Pricing Strategies
LIRP - Calculation and
private sector insights**
(Moderated by GIZ)
Aug 27th

**(Evidensia) Impacts of
sustainability tools on
farmer livelihoods?**
(Moderated by ISEAL)
Oct 1st

**Measuring & Developing a LI
Strategy- (Cotton sector)**
(Moderated by ISEAL)
Oct (TBC)

SC ACTORS

(Company Focus) ★
**Integrating living income
into your business**
(Moderated by ISEAL)
Sept 22nd

(Producer Country Focus)
**Part I: Demystifying the
living income concept:**
(Moderated by GIZ)-French
Oct 7th

(Standard Systems Focus)
**Implementing LI
requirements in VSS**
(Moderated by ISEAL)
Oct 22nd

(Producer Country Focus)
**Part II: Get inspired & Part
III: Getting started**
(Moderated by GIZ)-French
Nov (TBC)

Survey: Company approaches (Aug 1-31st)

Stay informed!

Living income

www.living-income.com

Mailing list: <http://eepurl.com/gMKLgT>

Linkedin group: <https://www.linkedin.com/groups/13784101/>

Living wage

<https://www.globallivingwage.org/>

Questions? Email us at:

livingincome@isealalliance.org

Recommendation:

Podcast: [Selling sustainability short? The private governance of labour and the environment in the coffee sector](#)

TOOLS to support organisations in developing their strategies to closing the income gap.

ALIGN is a guidance tool for agri-food companies aiming to reduce complexity around the topic of living wage and living income.

Evidensia is an evidence platform that aims to make it easy for sustainability practitioners to work with evidence on the impacts of supply-chain sustainability approaches.

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Thank You!

