

I'll try to explain shortly the Living Income / Fair Price approach.

There are many factors that decide whether the farmer will be able to earn a Living Income. One of them is the payment of a Fair Price to the producer. The price the farmer receives also decides whether he will be able to purchase necessary inputs and tools, and will be able to invest in future production growth.

In the Living Income / Fair Price approach no premiums and market prices are involved. It is a combination of production costs and the need for a Living Income. Fair Price is defined as the price the producer must receive in order to earn at least a Living Income, when working full time on a certain crop. I come back to the issue of several crops later. The Fair Price is calculated on basis of the need for a Living Income and real production costs. The underlying idea is that everyone who works full time should be able to have at least a Living Income. The total of all his earnings must be at least the amount of the Living Income.

The methodology consists of first calculating Living Income, then actual production and transport costs. Based on these benchmarks, a Fair Price is then calculated. The Fair Price for any commodity is calculated as if the farmer grows this crop only and spends all his working time doing so. The price he receives for this product should enable him to earn a Living Income.

Usually the farmer is not dependant on one crop only though. Most of the time he grows a mix of crops. In that case for each crop a proper fair price can be calculated. The income he receives from this product when receiving a fair price, is proportionally related to the time used for this crop. Should he receive a fair price for each product, his total income will be equivalent to a Living Income. So his income per work unit, when added up, should be at least the Living Income.

Auto consumption is calculated as if the products were sold, and costs for the cooperation are part of the production costs. Off-farm activities are included as additional income.

Of course collection of all relevant data remains a big problem, but wherever possible we will use the results of Living Income calculations already made.

As we learned from the calculation of Living Wages during preceding discussions, there are large differences between regions: food habits are different, prices are different, family sizes and family structures vary, women are allowed or not allowed to work, yields differ from one region to another etc. Therefore as in the case of Living Income, Fair Prices are different from region to region. Besides they vary according to the means of production used. A small farmer who does not have the means to invest in tools and improved seeds, will need a higher Fair Price than a farmer with a higher productivity. When the small farmer is given assistance so that he can attain higher yields though, Fair Prices will go down.

If for some reason or other, a fair price cannot be paid for let's say coffee or tea or cocoa, it is advisable for the farmer to look for alternative crops because this crop cannot provide him with a Living Income, or to leave agriculture altogether.

The calculation of fair prices for crops and then comparison with actual prices can help to take good decisions. The calculation of this fair price is in the interest of farmer and purchaser alike, to evaluate whether production of this crop is sustainable at long term.

This approach has been developed and tested with a case in Burkina Faso for maize, sorghum and millet. Due to lack of funds not all data one would like to have could be recovered, but it shows that even with less data one can get a good idea of what a fair price should be. A description of the case can be found on the homepage of InfoBridge ([www.infobridge.org](http://www.infobridge.org))

The methodology still needs further development and refinement by application to more concrete cases. Should any of you be interested in applying this methodology to a concrete case, I'll be happy to advise.

Finally, I am working on a book about Fair Prices, so I'll be happy to learn about your experiences when working on Fair Prices.

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