Summary of Session 1: Living Income Reference Price: What is it and how do you calculate it?

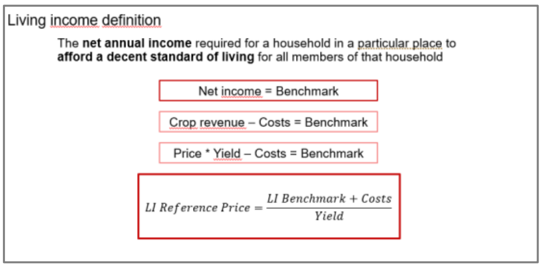
Moderator: Tim Loos (GIZ)

Session narrative & objective:

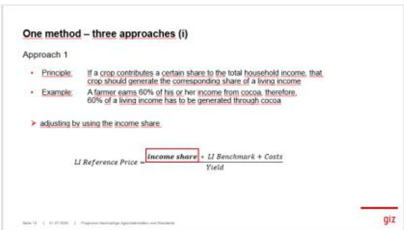
Sustainable prices, particularly at farm gate, are one of the fundamental levers of change for the living income movement. This session discussed approaches to calculate a sustainable and fair price which covers the costs of sustainable production and allows achieving living incomes. Within this session the key objective was to

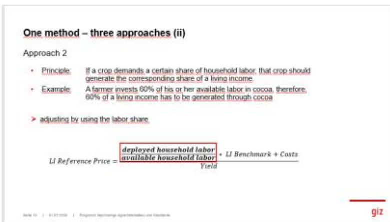
- Introduce emerging consensus points about calculating living income reference prices
- Discuss different key assumptions in reference price calculations
- Review current work in progress

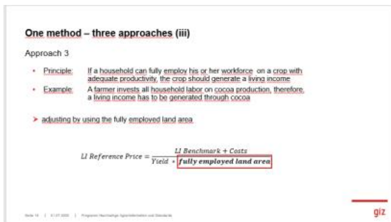
The session opened with the moderator, **Tim Loos (GIZ),** providing a background on the need for increased incomes from cash crops. He explained that a **Living Income Reference Price (LIRP)** has been created as a means to understand a fair price that will provide farmers with a living income from a sustainably produced crop. The underlying logic of calculating a LIRP is derived from the Living income definition as seen below.



In calculating net farm income, it is important to pay attention to the fact that actual income for a smallholder household is derived from different income sources. As such some corrective measure must be taken into the calculations to make the price "fair". He presented 3 adjustment approaches for this: a) by using the labour share, b) by using the fully employed land area and c) adjusting by using the fully employed land area







A debate was then opened to discuss assumptions around yield levels and costs with regards to production systems.

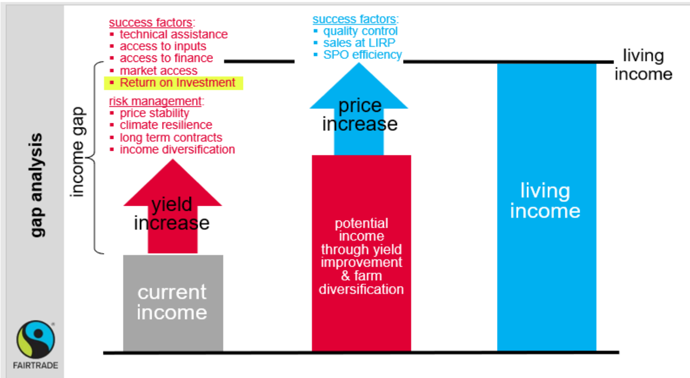
The first panellist, **Friedel Hütz-Adams (**Südwind Institute**)** discussed that in order to get the right price, we ***need better information***. The following points were presented.

- Current available data varies from organization to organization, even in regard to farm size, productivity and labour days per hectare. He presented data among just 3 sources for Ghana and Cote d'Iviore that showed how they vary significantly

- There is a need to find the cost per hectare, which will help in determining a LIRP. The figures are not public but are important to find the real price. We shouldn't be piloting references prices without better data to understand the real reference price.

The second panellist, **Carla Veldhuyzen (**Fairtrade International) then opened with discussing the ***need for a*** *LIRP*. The following points were presented.

- A fair price for work is a basic human right.
- Farmers are ultimately responsible for optimizing their farm yields, but they need to receive the right training, support and services.
- Even if farmers have the ability to invest, they lack the incentive because they are unsure of future prices. For example, a farmer who needs to invest in new trees might not want to invest given the high cost and uncertain future price.



- Diversification is key to foster resilience and manage supply but cannot be used as an excuse to elude responsibility for buyers paying a fair price (that allows productive, full-time farmers to earn a living income)

The session concluded with some **key take home messages.**

- Price aspect is essential for any strategy, but not sufficient as a single measure
- Current calculations may not be realistic due to availability and quality of data. But with the current data, we achieve a certain approximation which shows the need for higher prices
- Any price increase will lead to farmers having more in his/her pocket!

(A FEW) DISCUSSION POINTS:

Q: Question concerning approach 1: I do not understand how the fact that cocoa only contributes, say, 60 % to the total income, would or should change the LIRP. Shouldn't the price be the same, irrelevant of what share of the income comes from cocoa or am I misunderstanding something?

The argument for correcting the benchmark is that cocoa can only be made "responsible" for the share of total household income generated through cocoa. In order to have a proper idea on a price relevant for all/most farmers, the average contribution to household income is chosen. If you have further question, you can also reach out to us after the webinar.

Q: Diversification of income is a good option especially for those that have a small farm size? How does/will Fairtrade look into this further or do they have other strategies that address this concern for small farm sizes?

This is indeed problematic. In many cases land is a limiting factor for smallholder farmers. However, it can be debated whether any focus crop cultivated on the limited land area has to cover a living income. I.e. spare labour can be used for other income activities, thus generating their contribution to living income. Every stakeholder - farmers, buyers/traders/companies, civil society and government - has its responsibilities. In the given case, it may be the responsibility of the government to create an enabling environment for other (off-farm) income opportunities.

Carla's response: We distinguish between two types of income diversification. The first is farm diversification, which basically aims at improving the resilience through reducing the dependency on a single crop. However, this approach is not going to solve the problem of closing the income gap in case of small farms, because diversification will reduce the income from cocoa which would be compensated with other farm income, resulting in a similar farm income level. The second diversification approach is with off-farm income generating activities. This would be appropriate for smaller farms, since household members will have time that is not occupied in farm work available for other activities. However, we don’t see the creation of alternative income generating opportunities as our responsibility and believe this is primarily a role for the local government.

Q: How can we define which one of the 3 approaches for LI reference price that we need to select?

Frankly speaking, most often it will be determined by the available data. Each method has different data requirements and assumptions. In general, Method 2 and 3 are based on labour input and will yield very similar LIRPs if the assumptions on yield, costs, etc. are similar. Method 1 is based on income shares.

Q: In a recent (so far unpublished) study of living income in the rice sector, we (Oxfam) have assumed a low and high end range for the living income gap based on assuming an equivalent increase in non-rice income (low end) and no absolute increase in non-rice income (high end).