



# Guiding steps towards living income in the supply chain

How to mainstream living income in your company's activities

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Community of Practice



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# About this guide

This is a guide for companies seeking to address poverty and economic viability with smallholder farmers<sup>1</sup> in their supply chains. By using this guide, companies will be able to integrate living incomes into their sourcing practices and sustainability programmes. It provides an explanation of the three main rationales for companies to address the challenge of a living income – that of addressing decent livelihoods as part of **basic human rights**, of the opportunity to protect and build a positive **reputation** and of the need to ensure **security of supply**.

The guide is intended to provide resources and guidance to help practitioners adapt their explanation and case for working on a living income to the culture and needs of different departments and companies across the agricultural value chain (traders, brand manufacturers and retailers). The guide provides context on living incomes, followed by steps companies can take to Make the Case, Prepare for Action, Take Action and Monitor Results of efforts to include a living income of smallholder farmers in their sourcing and sustainability practices.

<sup>1</sup> The term 'smallholder farmers' often refers to farmers holding less than 2 ha of land. However, some countries also take into account the gross sales and/or the amount of livestock or assets used. Indeed, the definition of a smallholder farmer can vary according to the country and the context. [Lowder, Skoet and Raney \(2016\): The Number, Size, and Distribution of Farms, Smallholder Farms, and Family Farms Worldwide.](#)



# Make the case

## Setting the scene: from minimum wage to living income

The concept of “living income” applies the concept of a living wage to a farming household and is defined as the net household income needed for a farming household to afford a minimum decent standard of living.

The concept derives from the history of minimum and living wage legislation. The first minimum wage laws established the now commonly accepted principle that workers need some form of protection within the labour market. New Zealand passed the world’s first national minimum wage law in 1894, which covered all businesses and all industries across the entire country.<sup>2</sup> As a result, the UK passed its own set of minimum wage laws in 1909. The U.S. established a minimum wage law in 1938 called the Fair Labor Standards Act, which also marked the first time that employers were legally required to pay workers overtime for certain jobs.

These laws were passed in recognition of the fact that for some jobs, power and supply/demand imbalances created circumstances in which workers were paid wages well below the poverty line. The idea of a minimum wage – and other worker protections – has become the commonly accepted global norm with over 90 % of the 187 International Labour Organization member states having established one.

While these protections ensure workers (at least in the formal sector) obtain at least a minimum wage, many are still left in poverty. For this reason, the “living wage”<sup>3</sup> movement has grown. Advocates for the living wage argue that wages should allow workers to at least afford a minimum decent standard of living based on the local costs of living for themselves and their families.

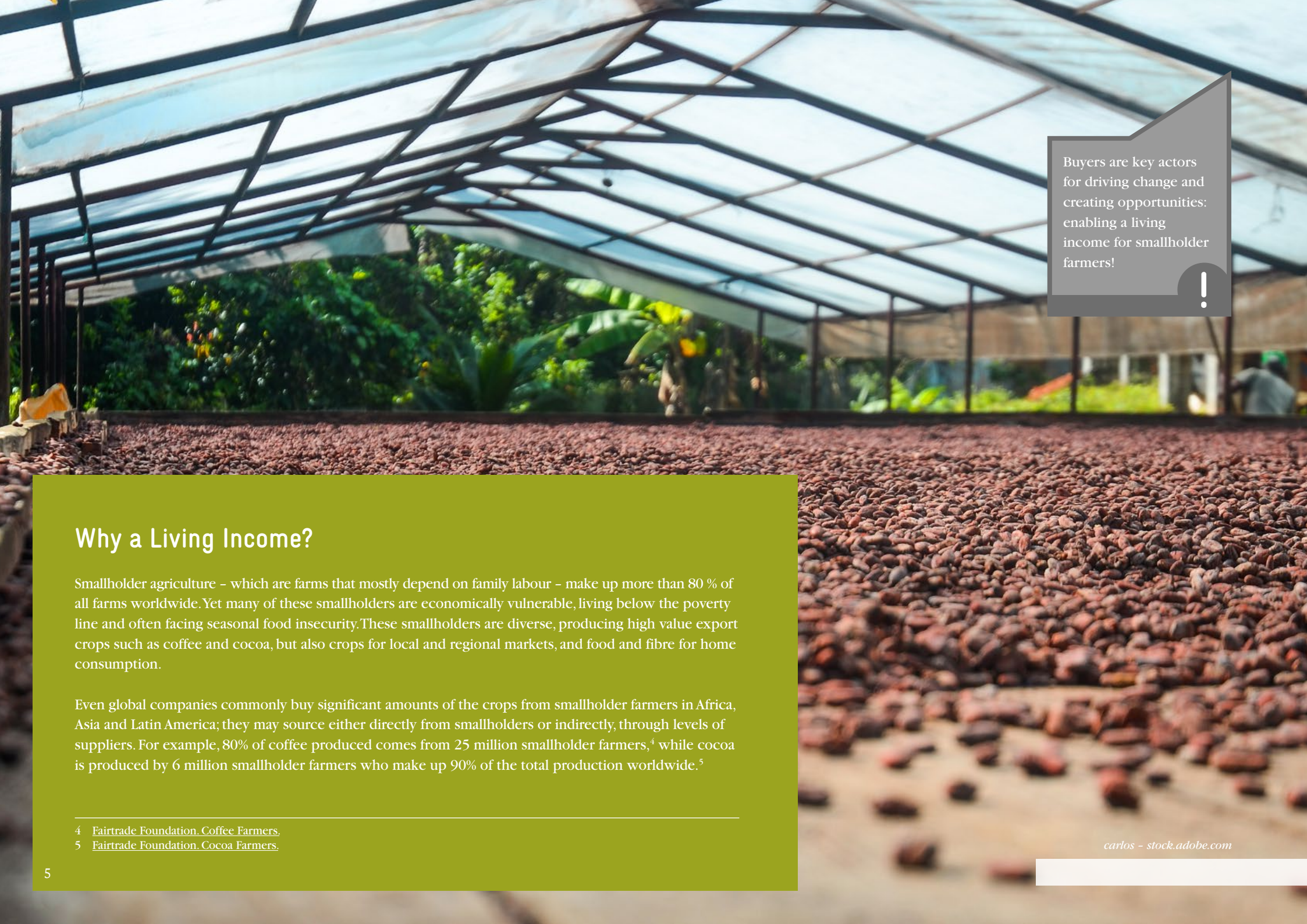
While minimum wage laws and now the living wage movement seek to address the question of fair remuneration based on real costs of living for employees, this does not cover the risks and vulnerabilities of self-employed people – particularly in developing countries. And this very much includes the farmers who are the foundation of the global food system as well as other agricultural raw materials.

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<sup>2</sup> Be Businessed. History of Minimum wage.

<sup>3</sup> The New York Times. What a living wage actually means. 05.06.2019.





Buyers are key actors for driving change and creating opportunities: enabling a living income for smallholder farmers!

## Why a Living Income?

Smallholder agriculture – which are farms that mostly depend on family labour – make up more than 80 % of all farms worldwide. Yet many of these smallholders are economically vulnerable, living below the poverty line and often facing seasonal food insecurity. These smallholders are diverse, producing high value export crops such as coffee and cocoa, but also crops for local and regional markets, and food and fibre for home consumption.

Even global companies commonly buy significant amounts of the crops from smallholder farmers in Africa, Asia and Latin America; they may source either directly from smallholders or indirectly, through levels of suppliers. For example, 80% of coffee produced comes from 25 million smallholder farmers,<sup>4</sup> while cocoa is produced by 6 million smallholder farmers who make up 90% of the total production worldwide.<sup>5</sup>

<sup>4</sup> Fairtrade Foundation. Coffee Farmers.

<sup>5</sup> Fairtrade Foundation. Cocoa Farmers.

## LIVING INCOME TODAY

Increasing transparency and shorter supply chains have led to an increasing awareness of poverty and economic insecurity at the bottom of agricultural supply chains. There has been an acceleration of the adoption of sustainability schemes and standards in formal value chains, along with associated research to study their impact on farmer livelihoods.<sup>6</sup> For many companies, the adoption of a voluntary sustainability standard and reaching a goal of % total certified purchases have been the centrepiece of CSR and sustainability strategies over the past decade. Increasing productivity as the pathway to improved financial viability has been a focus for many companies in their strategy for addressing Sustainable Development Goal 1 to eliminate all forms of poverty.

Recently, however, more companies and development organisations are looking to move their work with smallholders beyond reducing poverty and reaching SDG 1 to a goal of professionalised, thriving farmers. Some are adopting the aspirational goal of a living income, which enables farmers to consistently invest in their farms and family and where returns attract the next generation of youth.

Civil society and government action on living incomes has also accelerated over recent years, with movements and initiatives being started in a number of tropical commodity sectors. Companies are increasingly expected to develop income strategies and be a part of the solution.

Because commodities, farming systems and country context differ, there is no single answer on roles and responsibilities. Governments, industry, civil society and farmers themselves all have roles to play to address barriers and improve incomes.

### COMPANIES THAT TRADE WITH SMALL-SCALE PRODUCERS (EVEN THROUGH LONG SUPPLY CHAINS) ARE ASKING THESE QUESTIONS:

- Do companies have a responsibility to understand whether the farmers who supply their raw materials are struggling economically?
- When and why might companies have a responsibility to support farmers to make at least a minimum decent standard of living?
- What is needed to reach a living income?
- When and why might farmers need additional market/contracting protections (such as the minimum wage that protects employees)?

### FARMERS ARE PARTICULARLY VULNERABLE TO PERSISTENT POVERTY WHEN:

- There are no affordable and effective services available to help farmers invest in improving their farming practices (quality, productivity, etc.).
- There are weak enabling conditions at the country level—land tenure, road quality, government sector management and enforcement.
- Commodities have “high barriers to exit” either from sunk capital or a lack of alternatives that cause farmers to “hang in” even when prices are below the cost of production.
- A farmer who has invested in all the suggested farm improvements, achieved good productivity and has a sufficient farm size to fully employ the household labour is still facing prices too low to afford a decent standard of living.
- Farmers who take on debt to invest in their farms face the risk that the investment will not provide a good return because of elements outside their control, such as weather, pests, disease or falling prices. They may end up indebted and more vulnerable to falling into extreme poverty.

In many formal sectors, farmers have the potential to increase incomes through improved productivity, better quality, access to premium markets, diversified income sources and more. Companies can play an important role in bringing services and support to facilitate and de-risk these improvements. Yet in some farming systems, these may not be enough. If farmers who have followed all the recommended practices still cannot make a decent return, or if volatility creates too much risk for farmers to invest, then innovations in pricing mechanisms may be needed to help farmers achieve a decent standard of living.

This toolkit is designed to support people in raising these key questions inside their companies.

- What does a goal of living incomes mean for our company and our supply chain partners?
- What role can we play?
- What are the market system changes that would be needed?

<sup>6</sup> ISEAL Alliance. Evidensia. Increasing Evidence of Impact of Sustainability Standards.

## THE BUSINESS CASE – WHY CONSIDER A LIVING INCOME COMMITMENT?

### THE CONSEQUENCES FOR FARMERS

For many farmers, the inability to earn a living income from agriculture represents the non-fulfilment of basic rights and has led them to under-invest in their farms and/or decrease production to focus on other activities, making it harder to escape the poverty trap. In some families, young people are forced to leave farming altogether to find other forms of work.

Source: *Farmer Income Lab*



### THE CURRENT SITUATION

Many agricultural value chains rely on smallholder farmers. However, many smallholder farmers who produce food for global supply chains live in poverty. 63% of the world's extreme poor work in agriculture. Industry has both leverage and a responsibility to address farmer poverty.

Source: *World Bank*



### THE CONSEQUENCES FOR BUYERS

These dynamics present significant risks to the continuity and availability of essential raw materials that are produced largely by smallholder farmers. In addition, these issues create risks to brand reputation, non-compliance with upcoming regulations on human rights due diligence and risks to businesses' licence to operate.

Source: *Oxfam*

### UNDERSTAND THE MAIN ARGUMENTS FOR ADOPTING A LIVING INCOME STRATEGY.

There are three principal lines of reasoning for companies to consider if they are planning to add living income to their supply chain sustainability and human rights approaches. The line of reasoning that is most compelling may depend on the commodity context, your company culture and who you are talking to.

- 1) It is a moral or legal imperative to ensure smallholder producer partners can afford a decent standard of living (**Human Rights argument**).
- 2) It is wise for a company to protect and promote its image with stakeholders and/or consumers in the face of growing advocacy pressure and consumer expectations (**Reputation argument**).
- 3) It is necessary for farming to be economically viable so that farmers, particularly the next generation of farmers, continue to produce quality products that meet company specifications and consumer preferences (**Supply Security argument**).



Figure 1; Source: Sustainable Food Lab (2019)

**You may need to emphasise different arguments when communicating with different stakeholders.** When looking to integrate income into your company's sustainability strategy, different arguments may resonate more with particular people, depending on where they sit within your company and how your company culture views the topic of poverty. It also depends on the commodity context – the amount of existing press and NGO pressure, the risks to supply, etc. It can be useful to combine the arguments and tailor them to your particular audience. Each argument emphasises a different set of benefits that come with adopting and implementing a living income strategy. When communicating within the company, you may highlight different aspects to bring a variety of stakeholders on board. For instance, a human rights based argument may be more appealing to the government relations department interested in legal compliance and in being seen as an ethical leader; a supply security argument may be more appealing to the procurement department that needs to ensure there is a quality crop coming from particular origins; a reputational risk argument may be more appealing to marketing and communications departments focused on building positive brand recognition and on mitigating the risk of investors' or consumers' negative perceptions that your company is an "exploiter" of its smallholder farmer partners.

This toolkit provides guidance on most common arguments of "why working towards living income". You can use the accompanying slides to tailor your approach to your particular company's drivers and/or to different corporate departments. See the examples at the end of this section showing how companies are presenting their livelihood goals/targets to gain ideas of how this type of strategy could fit into your current sustainability strategy.





## LIVING INCOME AS PART OF A HUMAN RIGHTS POLICY

For some companies, the livelihood of workers and producers is seen as a **salient issue** within their operations – for example, in cases where forced labour occurs within a large sourcing area or where extreme poverty is prevalent. Producers are increasingly included as part of a company’s sphere of responsibility, and therefore are expected to support a decent standard of living.

This framing focuses on a risk to people (producers) rather than a risk to the business. It can be framed in the context of a company’s commitment to human rights in its supply chain, its compliance with national human rights legislation or its contribution to international goals such as the UN Guiding Principles or the Sustainable Development Goals. When deciding where and how to take action, a company can take into account the gravity of the problem, the number of producers affected and the remedability or ability of the company to fix the problem. Many companies, such as

Mars, Nestlé and Unilever, cite human rights in their company’s livelihood goals.

### EXAMPLES OF NATIONAL AND EU MANDATORY SCHEMES ON BUSINESS & HUMAN RIGHTS:

- Dutch Child Labor Due Diligence Law (2019)
- Australian Modern Slavery Act (MSA) (2018)
- New South Wales MSA (2018)
- French Duty of Vigilance law (2017)
- EU Regulation 2017/821 on conflict minerals
- UK Modern Slavery Act (2015)
- EU Directive 2014/95 on non-financial reporting (2014)
- US California Transparency in Supply Chains Act (2010)
- US Dodd Frank Act (2010)

A DECENT STANDARD OF LIVING IS A HUMAN RIGHT AND WE ARE ACCOUNTABLE FOR OUR PRODUCER PARTNERS.

The United Nations Universal Declaration of Human Rights recognises that a decent standard of living is a human right.

*“Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.”*

*Universal Declaration of Human Rights, Article 25*

### THE THREE PILLARS OF THE UN GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS

#### PROTECT

States have a duty to protect people against human rights abuses by third parties, including business. They are expected to prevent, investigate, punish and redress abuses through appropriate policies, legislation, regulation and adjudication.

#### RESPECT

Business has a responsibility to respect human rights. It should address adverse human rights impacts that may result from its own activities and its business relationships.

#### REMEDY

Affected people must be able to access remedy. Both states and business have roles to play in ensuring access to remedy when negative impacts occur.



#### A company’s responsibility to respect human rights encompasses:

- Its own operations, including joint ventures and other forms of partnerships.
- Its business relationships with public and private entities in its value chain, including suppliers, labor contractors, distributors and business customers.

*Figure 2; Source: CEO Guide to Human Rights. World Business Council on Sustainable Development (2019)*

The UN Protect, Respect and Remedy Framework, introduced by Dr. John Ruggie, and more recently the UN Guiding Principles on Business and Human Rights, link human rights with company accountability for their actions. When companies employ people as hourly or salaried workers, this responsibility is generally adhered to through a company or government led minimum wage or, more ambitiously, a “living wage”. When it comes to independent producers and a wage is no longer appropriate, other methods must be used, such as a “living income”.

## LIVING INCOME FOR COMPANY REPUTATION

**As companies are increasingly able to gain visibility into their supply chains, consumers and supply chain partners expect more transparency and expect to find that companies are treating their producer partners fairly. Moreover, they are holding the companies responsible for problems occurring in their supply chains.**

Companies have moved beyond a triple bottom line and are now reporting on all business activities. Honest communication of a company's actions affects its ability to operate and thrive in an ever-competitive atmosphere, where news reports cover the perceived exploitation of farmers and consumers vote with their wallets.

Poverty of smallholder producers and its effects (malnutrition, child labour, migration, etc.) are increasingly showing up in global news, raising awareness among consumers who want to feel good about the choices they make. This type of pressure can be aimed at whole sectors (such as the current "price crisis" in the coffee sector or child labour in the cocoa sector), which can require singular action coupled with sector level multi-stakeholder working groups. Advocates may single out particular companies, such as Mighty Earth's 2019 campaign against Cargill as "The Worst Company in the World". In addition, advocacy groups are also making it easier to compare companies so that informed consumer choices can be made. Oxfam's "Behind the Brands", for example, puts pressure on companies by influencing consumers to take a stand and vote with their wallets. The perception that wealthy companies are exploiting poor farmers in order to increase profits is not taken too kindly and is watched by end consumers, advocacy organisations and buyers within the supply chain.

### AN EXAMPLE FROM THE VANILLA SECTOR



© giz/Friederike Martin

Gaining positive impact from powerful farm stories of happy farmers growing great quality.

*The Livelihoods Fund for Family Farming (L3F) "We focus on agriculture and smallholder farmers who represent a major part of the companies' supply."*

Experiencing negative backlash when allegations of farmer exploitation at the hands of wealthy companies come to light.



© giz/Friederike Martin

*In spite of Madagascar's lushness, hunger is never far away for many of the island's 25 million people. Nearly one in two children are stunted, meaning they are likely to grow up either physically or mentally disadvantaged.*

## THE BUSINESS CASE - WHY CONSIDER A LIVING INCOME COMMITMENT?

Where smallholder producer partners are doing well, companies can use farmer livelihoods as a way to promote their products. Adopting a living income strategy supports farmers in making a decent standard of living, which can be highlighted as part of your company's dedication to supporting farmer livelihoods - to represent yourself as a global leader. Positive results allow you to showcase prospering farming families making high-quality ingredients that consumers feel good about buying.

The website Behind the Brands (shown on the screen to the right) is one of many websites on which civil society organisations monitor company behaviour and inform consumers.

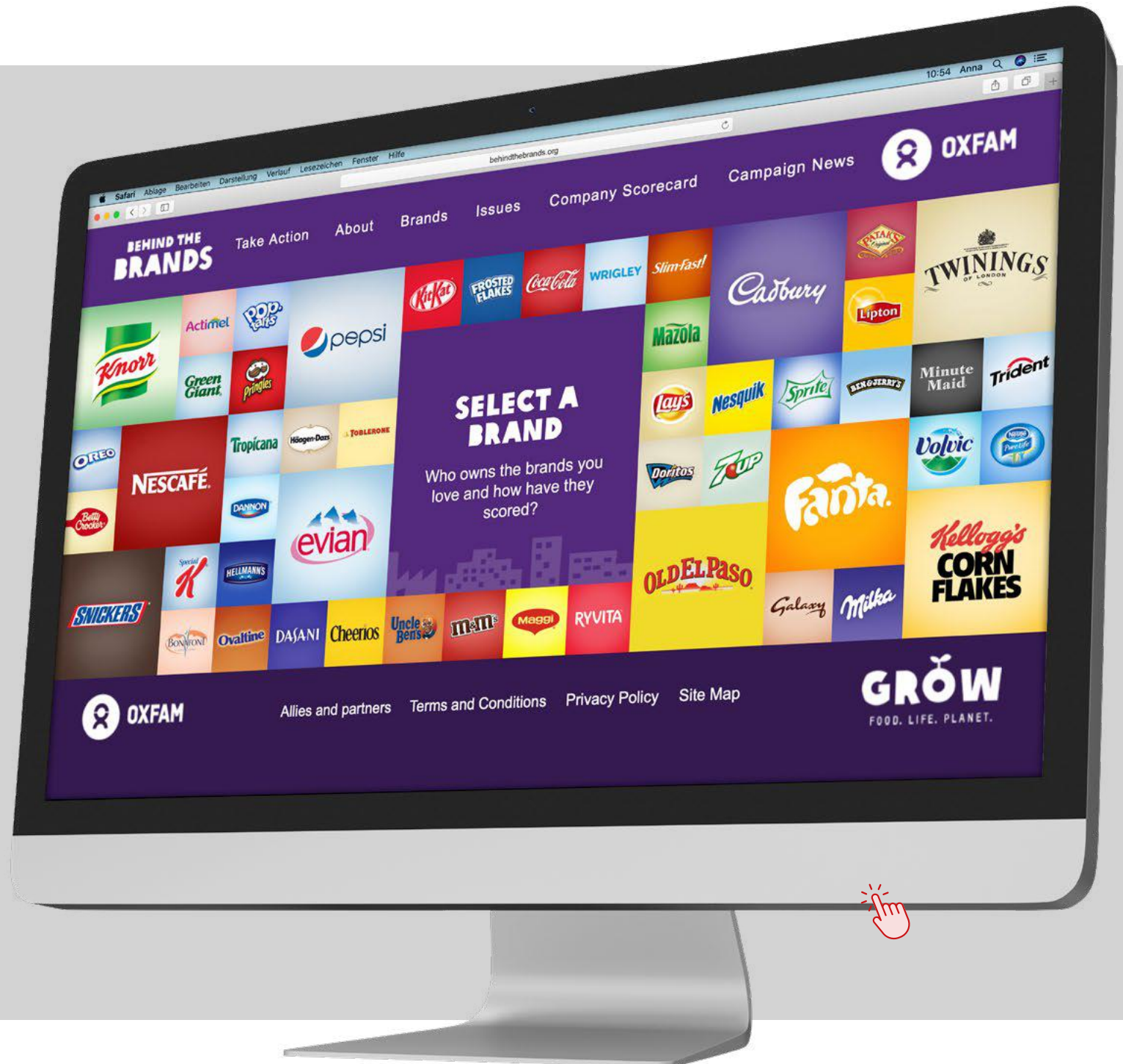


Figure 3; Source: Oxfam's Behind the Brands

## LIVING INCOME FOR SUPPLY SECURITY

IF FARMERS CANNOT INVEST IN THEIR FARMS, WE MAY NOT BE ABLE TO SOURCE THE QUALITY INGREDIENTS OUR CUSTOMERS EXPECT IN THE FUTURE

**For companies that count on farmers to continue producing quality crops, especially from diverse origins, lack of farm-level investment is a threat to both quantity and quality of supply.**

Supply security risks present themselves differently across sectors. As farmers realise that their crop of choice is not providing for their families, they (and their children) may choose other ways of making a living, either leaving the company's priority crop production, growing less of it with poorer quality or leaving agriculture altogether. In other instances, low prices and lack of farmer investment leave supply increasingly vulnerable to climate change, deforestation or natural disaster.

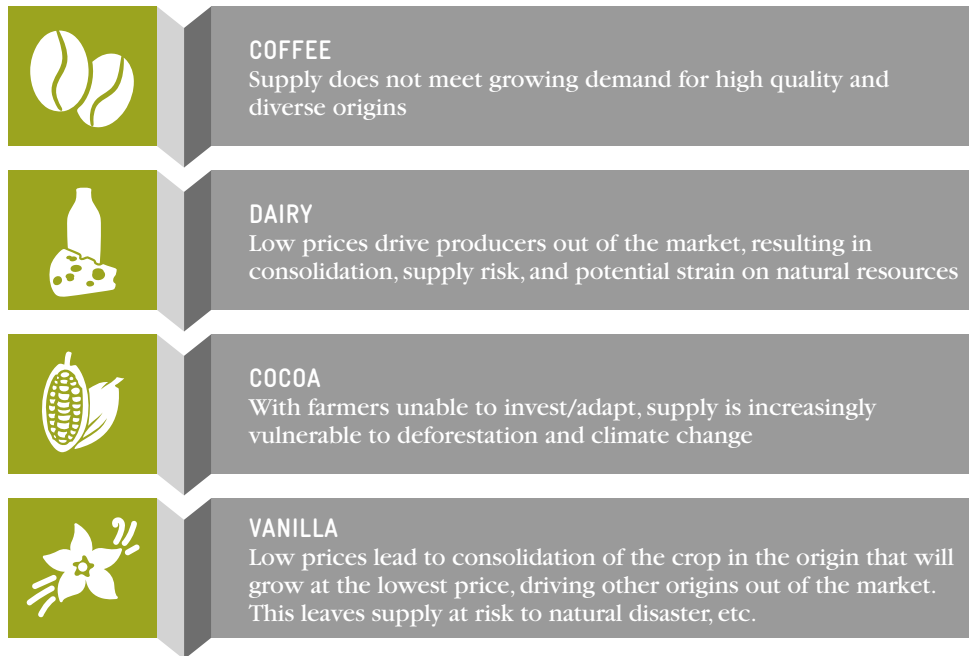


Figure 4; Source: Sustainable Food Lab

## THE CASE OF COFFEE IN HONDURAS

Honduras is the largest producer of coffee in Central America and, like many other countries in the region, it is unmistakably feeling the effects of climate change. In practice, this means that comprehensive adaptation measures are needed simply to maintain productivity and quality levels. At a time when more investment is needed, coffee prices are at a historic low. Farmers struggling to cover the costs of production drop out of coffee, and some of the coffee varieties consumers love are disappearing.

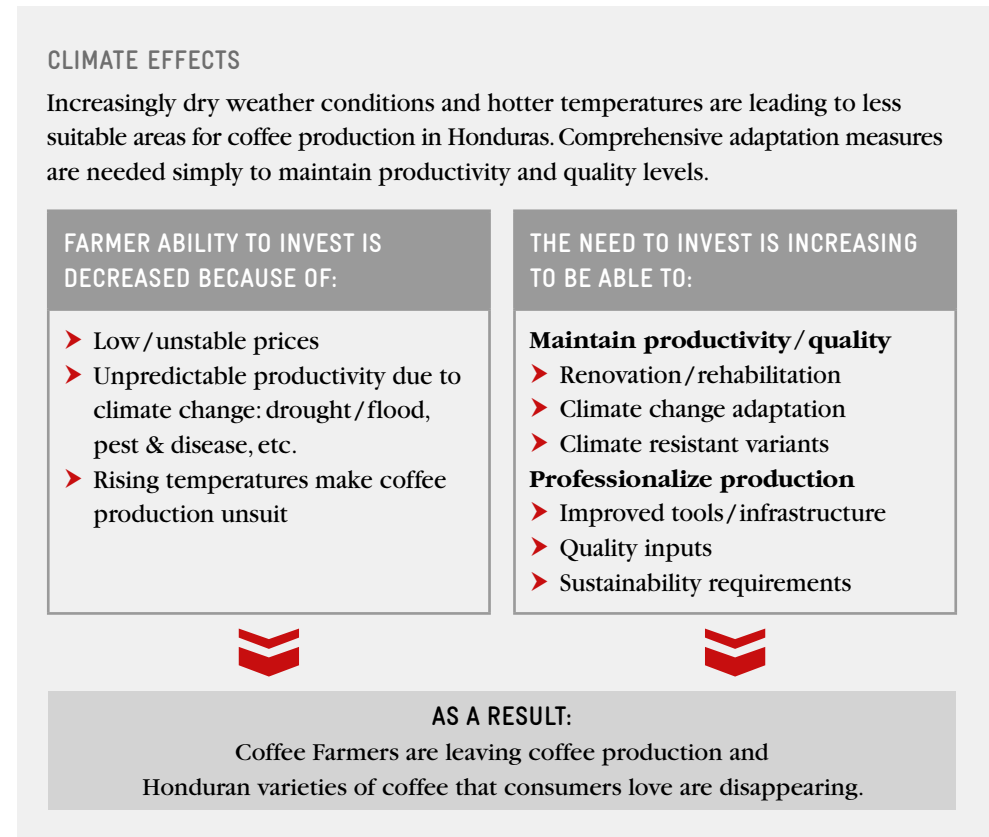


Figure 5; Source: Sustainable Food Lab

## PROFESSIONAL, SECURE SUPPLY CHAINS REQUIRE PRODUCERS WHO CAN INVEST IN THEIR FARMS

Supply chains are made up of a diverse set of smallholder farmers. Farmers can be focused on one crop or can be diversified and earning money from several cash crops, and may differ in their family make-up, farm size and professionalisation. In order to earn a living income, farmers must generally reach a good productivity level, produce on land that is viable in size and receive a price that at a minimum covers the cost of production with a return for family labour. These farmers have the elements in place to invest in their farms and continue to thrive. Those that do not meet these criteria and do not earn a living income will either hang in - with low productivity and quality reinforcing the cycle of poverty and susceptibility to shock - or drop out when prices are too low and standards too high to make agriculture a viable livelihood strategy.



## PROFESSIONAL, SECURE SUPPLY CHAINS REQUIRE PRODUCERS THAT CAN INVEST IN PRODUCTIVITY AND QUALITY

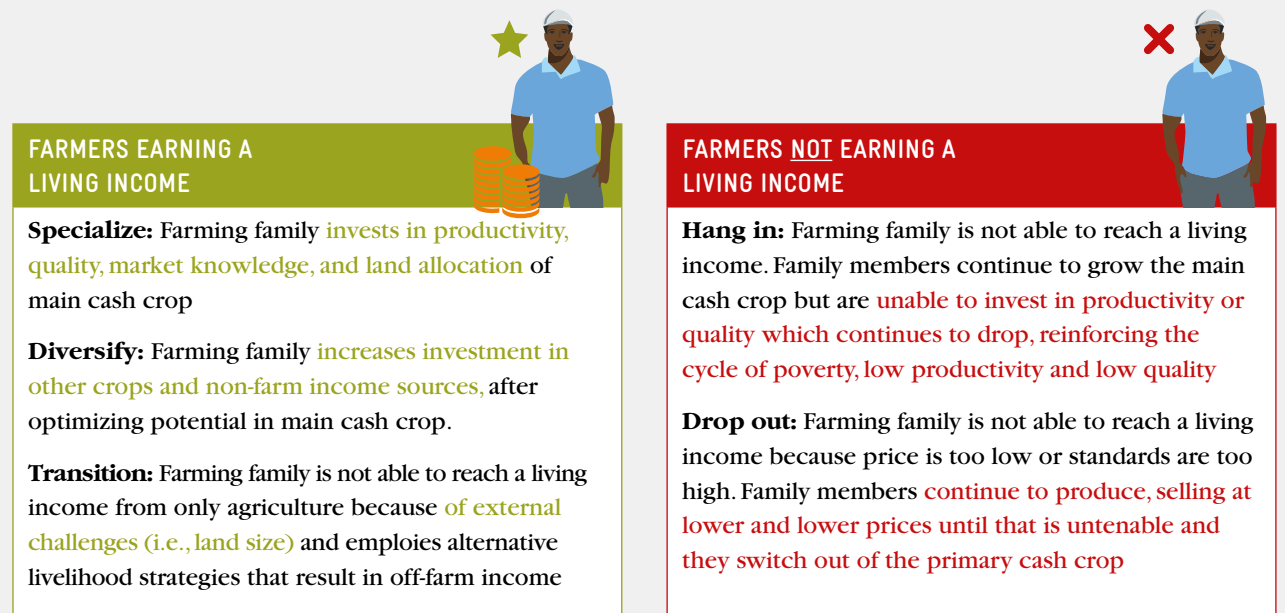


Figure 6; Source: Sustainable Food Lab

### YOUR COMPANY MAY BE MORE INCLINED TOWARDS A SUPPLY RISK ARGUMENT IF:

- 1) Your company and its customers are dedicated to sourcing from a particular origin due to quality/flavour profile or because you have processing capacity in the country.
- 2) Your company is committed to and invested in a certain producer organisation/region.
- 3) Your company is in the situation where one origin dominates and is vulnerable to shock.
- 4) Your company operates in a sector with aging tree stocks that need to be renovated or rehabilitated to maintain and eventually increase productivity/quality.
- 5) Your company operates in a sector that is threatened by climate change and needs to help farmers adapt.

SPOTLIGHT

Examples of corporate goals relating to farmer livelihoods



Source: Unilever



Source: Mars



Source: Nestlé



Source: The Body Shop

# Steps to integrate living income into your business

Agricultural supply chains are complex. Depending on the position along the value chain and on the sourcing strategy, companies may source raw materials from farmers, traders or manufacturers.

Many companies typically have procurement relationships with multiple tiers of suppliers. The topic of poverty is a complex one to address in multi-tiered supply chains. This sector will lead companies through the steps to **PREPARE FOR ACTION, TAKE ACTION** and **MONITOR RESULTS** of a living income strategy.



# Prepare for Action

## Steps

1 2 3 4 5 6 7 8

- Step 1 - Build understanding
- Step 2 - Materiality
- Step 3 - Traceability and hotspot analysis
- Step 4 - Communicate expectations on living incomes and engage suppliers
- Step 5 - Define living income benchmarks and measure gaps





# Build understanding

Step

1

1 2 3 4 5 6 7 8

**This toolkit and the resources cited throughout are designed to build your company's understanding of the concept of a living income and the need to address poverty in your supply chain.**

The toolkit builds on definitions, methodologies and case studies of the Living Income Community of Practice. You are invited to explore the community and its foundational documents at: [www.living-income.com](http://www.living-income.com)



The Living Income Community of Practice defines **living income as the net income a household needs to earn to enable all members of the household to afford a decent standard of living. Elements of a decent standard of living include: food, water, housing, education, health care, transport, clothing and other essential needs including provision for unexpected events.**<sup>7</sup> These elements are defined according to the methodology developed by experts Richard and Martha Anker and used by the Global Living Wage Coalition in the definition of living wage benchmarks for employed workers.<sup>8</sup> This is commonly known as the 'Anker Methodology'. Living income is defined as "the net annual income required for a household in a particular place to afford a decent standard of living for all members of that household".

Living Income is no more than ensuring the realisation of the basic and fundamental human right to an adequate standard of living, which is enshrined in Article 25 of the Universal Declaration of Human Rights and Article 11 of the International Covenant on Economic, Social and Cultural Rights.

*Sources: Community of Practice, Universal Declaration of Human Rights, International Covenant on Economic, Social and Cultural Rights*

## THE LIVING INCOME COMMUNITY OF PRACTICE: AN ALLIANCE OF PARTNERS

The Living Income Community of Practice is an alliance of actors from various sectors (e.g. private sector, civil sector, academia). Its aim is to improve smallholders' income by combining the levers of the different actors. Within this collaboration, businesses can learn from the experiences of their alliance partners and make use of the methods and guidance offered by these in order to contribute to closing the income gap.

*Source: The Living Income Community of Practice*

<sup>7</sup> [The Living Income Community of Practice. Living income concept.](#)

<sup>8</sup> [Anker, R. and M. Anker. Living Wages Around the World: A Manual for Measurement.](#)

# Materiality

Step

# 2

1 2 3 4 5 6 7 8

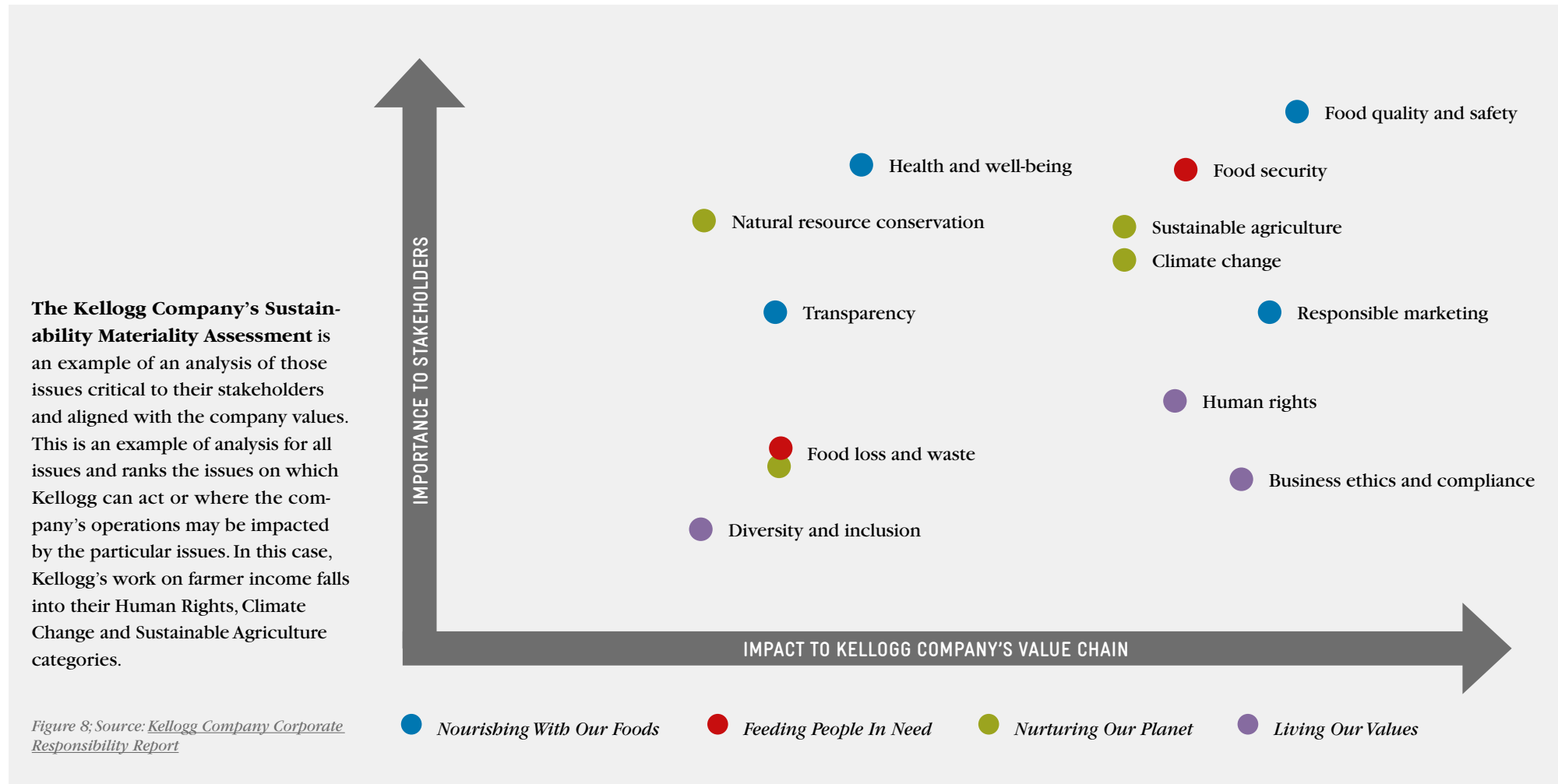
## MAP KEY RAW MATERIALS WITH HIGH RISK OF POVERTY

Similar to the process for any important issue of corporate responsibility, a critical step in addressing farmer poverty in your supply chain is to undertake a sustainability materiality analysis. Like an economic risk analysis, a sustainability materiality analysis is a structured process to consider the economic, social and environmental impacts of a business's operations and/or the 'material issues' most important to a business. This is typically done for strategy development but is also important for public reporting and, increasingly, for compliance with the regulations of investors and some governments on environmental, social and governance (ESG) risks. For example, the European Commission has a requirement for large companies to publish their policies on human rights, worker conditions and social responsibility.<sup>9</sup>

Companies determine criteria for materiality, with commonly used criteria being alignment with company values and mission and importance to the business's key stakeholders. For a living income strategy, the assessment should focus on the agricultural raw materials purchased by the company that are critical from a commercial spend and volume perspective, and then map the incidence and severity of poverty in the origins of these raw materials. Visually representing your materiality analysis along a matrix of criteria that will resonate internally with company executives is central to using the analysis for strategy development and resourcing.



<sup>9</sup> EU Directive 2014/95/EU. Non-financial reporting.



Once the materiality analysis is complete, companies can identify poverty hotspots where both the company has significant leverage and where poverty is a hotspot for a key raw material. Mapping the incidence and severity of poverty in the supply chains of the company's key raw materials can be done through a combined process of literature review, internal data collection and supplier/stakeholder engagement (see Step 3).

The materiality analysis is an important step in winnowing down complexity to enable a company to draft a practical strategy to address poverty and help farmers achieve a living income.

# Traceability and hotspot analysis

Step

# 3

1 2 3 4 5 6 7 8

**Once a company has identified the focus raw materials (those that are material to the business from a commercial and impact perspective), the next step is to understand the specific origins of those ingredients and the hotspots of poverty in order to develop action plans.**

## WHERE DO RAW MATERIALS ORIGINATE?

Each company will have different levels of sourcing complexity, and the process of identifying the origins of raw materials will vary depending on a company's distance or proximity to ingredient origin. Retailers buying many thousands of finished goods will have relatively limited visibility of the origin of the raw materials used, while trading companies will know and manage those supply chains directly. This step in the strategy development process must be tailored to your company's position.

A good rule of thumb is to catalogue the existing level of traceability in each ingredient chain, or in the raw material chosen for a living income strategy. Procurement or category leads can assess the level of information available and then conduct a supplier assessment.

- Can Tier 1 suppliers provide origin information of those raw materials?
- Is that information only available at country level, or does it extend to sub-national or regional information?
- Can they provide lists of their suppliers?

- The higher the number of tiers between the buyers and the smallholder farmer, the bigger the challenge to achieve transparency. It is critical for a buyer to clarify its need for and commitment to traceability, strongly engage suppliers and consider the adoption of new technologies that might facilitate this process or restructure the supply chain in order to facilitate the tracking of raw materials.

While traceability to the regional and, ultimately, farm level can be important for the development of farmer support programmes and to communicate with customers, typically traceability to country of origin is sufficient for materiality, where the goal is to identify the risks and opportunities.

## BLOCKCHAIN TECHNOLOGY: TRANSPARENCY IN THE FOOD INDUSTRY

The use of blockchain technology has been tested by small-scale companies and is now making its way to bigger companies such as Walmart or Carrefour. Multiple agritech companies such as Agriledger are proposing to use the technology to increase transparency along food chains.

Sources: *Future of Ag* and *Oxfam*

## WHERE DO POVERTY HOTSPOTS EXIST IN YOUR SUPPLY CHAINS?

Understanding where poverty exists in key supply chains can be a daunting task, particularly if there are multiple and/or shifting origins for your raw materials. Three simultaneous actions should be taken:

- 1) **Supplier engagement**
- 2) **Desk research** on regional or country level poverty
- 3) **Internal data collection**, especially in the case of direct sourcing

**Supplier Engagement:** Tier 1 and 2 suppliers can be critical assets in understanding the economic status and unique challenges faced by farmers in their supply chains. This will be particularly true for those suppliers who purchase directly from farmers and may have origin staff with historical knowledge of the particular geography. Develop a simple questionnaire for the suppliers of focus ingredients to solicit contextual information and farmer data. Request a briefing from the supplier's sustainability experts who can speak about these issues in detail; these may be different individuals from those leading commercial relationships. Supplier requests for context and farmer data can be done at the same time as, or following, the information request on origin data outlined in Step 2 above, but will likely be delivered from different people on your suppliers' staff.

**Desk Research:** There are a number of easily accessible databases to develop a snapshot understanding of the economic situation in your source countries and regions. The [ALIGN hotspot TOOL](#) is being developed to collate the information on farmer incomes and poverty levels in one easily accessible site. The World Bank Poverty and Equity portal provides robust and easily searchable poverty levels at a national and regional level.<sup>10</sup>

**Internal Data Collection:** If you source raw materials directly, you should have internal data already compiled on some of the data variables for hotspot mapping. These may be found in procurement documents, sustainability partnerships or in your company's risk assessment department.



Figure 9

Outlined below are the data categories most critical to developing a poverty hotspot map for ingredients and publicly available data sources to start mapping one or all of the methods above.

The data collected from suppliers, desk research and internally should provide sufficient information to visualise the level of poverty in key sourcing regions. Adding an overlay of these geographic hotspots to a materiality matrix can be one way to visualise the depth and breadth of the poverty issues in key supply chains, allowing prioritisation of action.

<sup>10</sup> [World Bank. Poverty and Equity data portal.](#)

CONTEXTUAL FACTORS	SOURCE
<ul style="list-style-type: none"> <li>Country and subnational region of origin of raw materials</li> </ul>	<ul style="list-style-type: none"> <li>Supplier</li> </ul>
<ul style="list-style-type: none"> <li>Country level poverty profile</li> </ul>	<ul style="list-style-type: none"> <li>World Bank</li> </ul>
<ul style="list-style-type: none"> <li>National or subnational poverty lines for origin countries</li> </ul>	<ul style="list-style-type: none"> <li>Government statistics office</li> </ul>
<ul style="list-style-type: none"> <li>Prevalence of media stories on poverty, hunger, child labour or slavery at origin</li> </ul>	<ul style="list-style-type: none"> <li>Internet search</li> </ul>
<ul style="list-style-type: none"> <li>Level of political conflict in your specific sourcing region</li> </ul>	<ul style="list-style-type: none"> <li>Supplier</li> <li>Databases, e.g. Global Conflict Tracker<sup>11</sup></li> <li>Official government information</li> <li>Own data (e.g. risk assessments)</li> </ul>
<ul style="list-style-type: none"> <li>Role of origin governments in managing the crop, either through mandating quality or prices, or physical handling/sale of the product</li> </ul>	<ul style="list-style-type: none"> <li>Supplier</li> <li>Own data</li> </ul>
<ul style="list-style-type: none"> <li>Prevalence of sustainability standards</li> </ul>	<ul style="list-style-type: none"> <li>Supplier</li> </ul>
<ul style="list-style-type: none"> <li>% certified product in your supply chain</li> </ul>	<ul style="list-style-type: none"> <li>ISEAL Alliance</li> <li>Standards organisations (e.g. RSPO, Rainforest Alliance, Fairtrade International)</li> </ul>
CHAIN AND FARMER ORGANISATION	SOURCE
<ul style="list-style-type: none"> <li>% Small farms vs plantations</li> </ul>	<ul style="list-style-type: none"> <li>Supplier</li> </ul>
<p>How are the supply chains organised? (request a diagram of the chain)</p> <ul style="list-style-type: none"> <li>Who aggregates the product?</li> <li>How many steps are involved in aggregation and processing?</li> <li>Where is the finished product made?</li> <li>How is value distributed across these steps?</li> </ul>	<ul style="list-style-type: none"> <li>Supplier</li> </ul>
<ul style="list-style-type: none"> <li>Level of farmer organisation</li> </ul>	<ul style="list-style-type: none"> <li>Supplier</li> </ul>
<ul style="list-style-type: none"> <li>Typical trading terms between farmer organisations and your suppliers (e.g. spot purchase, contract growing, future contracts, seasonal volume contracts)</li> </ul>	<ul style="list-style-type: none"> <li>Supplier</li> </ul>
FARMER DATA	SOURCE
<p>Level of actual incomes of farming households</p> <ul style="list-style-type: none"> <li>income from target crops</li> <li>total household income</li> </ul>	<ul style="list-style-type: none"> <li>Supplier</li> <li>Research studies done at origin</li> </ul>
<ul style="list-style-type: none"> <li>Degree of heterogeneity in farmer populations (e.g. range of farm, family and productivity levels)</li> </ul>	<ul style="list-style-type: none"> <li>Supplier</li> <li>Research studies done at origin</li> </ul>
<ul style="list-style-type: none"> <li>Income gap between actual incomes and a benchmark (either IPL, national poverty line or living income benchmark)</li> </ul>	<ul style="list-style-type: none"> <li>Supplier</li> <li>Research studies done at origin</li> </ul>

<sup>11</sup> Council on Foreign Relations. Global Conflict Tracker

# Communicate expectations on living incomes and engage suppliers

Step

# 4

1 2 3 4 5 6 7 8

**Companies can best engage their suppliers by communicating to them the company's commitment to integrating the living income of smallholder farmers into their sourcing practices.**

The business strategy on living incomes should be formulated in line with inclusive business principles. It should state that the company prioritises the inclusion of smallholder farmers in its supply chain and is committed to a pathway towards a living income for those farmers. Commitments to the following SDGs can support the principle of inclusion:

SDG 1 - No Poverty

SDG 2 - Zero Hunger

SDG 8 - Decent Work and Economic Growth

SDG 10 - Reduced Inequalities and

SDG 17 - Partnership for the Goals



If companies send a signal to suppliers that they do not want to procure from poor people or regions with high poverty rates, this could trigger the unintended consequence of shifting supply to wealthier regions, thus exacerbating poverty.

Based on the materiality analysis and identification of poverty hotspots, buyers can prioritise suppliers with whom they wish to engage and discuss their strategy to address the topic through their sourcing practices and partnership programmes. Companies should bear in mind that working towards a living income relies strongly on building long-standing relationships with suppliers and taking a long-term view of procurement where the short-term lowest price is neither the only nor necessarily the main target.

Whenever possible, strategies can be co-designed with suppliers. Also, suppliers who are considered to be well prepared to address the topic could be engaged to act as learning partners in this process in order to test possible mechanisms to advance good sourcing practices that consider a living income. With the aim of adequately engaging and supporting suppliers on this journey, companies can provide suppliers with guidelines and be open to hearing about experienced suppliers' solutions on strategies to close the income gaps of smallholder farmers. To build this knowledge, companies can engage with voluntary standards systems, industry initiatives or learning platforms such as the Living Income Community of Practice.<sup>12</sup>

<sup>12</sup> [The Living Income Community of Practice](#)

# Define living income benchmarks and measure gaps

Step

# 5

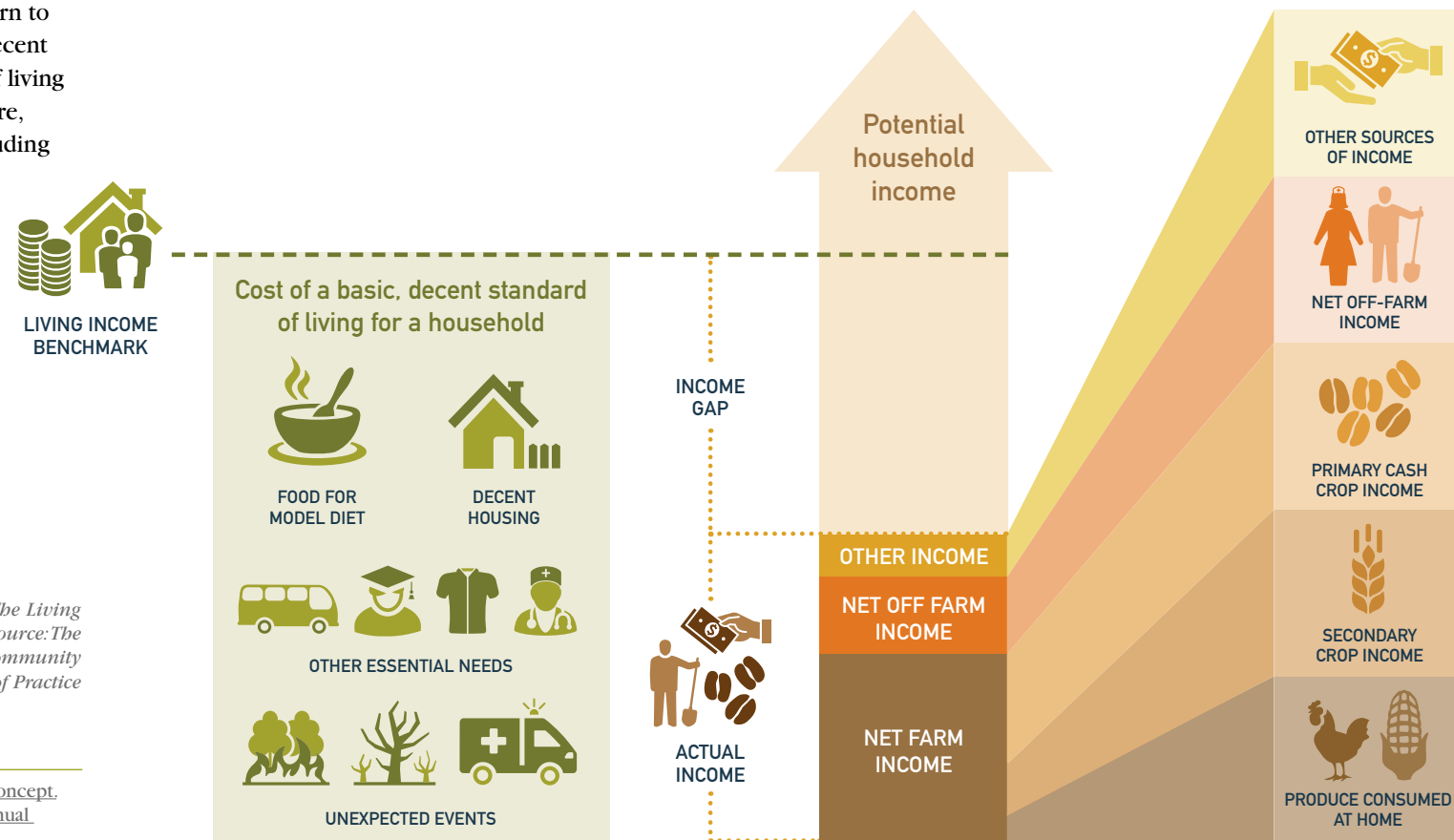
1 2 3 4 5 6 7 8

## DEFINING A LIVING INCOME BENCHMARK

The Living Income Community of Practice defines living income as the net income a household needs to earn to enable all members of the household to afford a decent standard of living. Elements of a decent standard of living include: food, water, housing, education, health care, transport, clothing and other essential needs including provision for unexpected events.<sup>13</sup>

These elements are defined according to the methodology developed by experts Richard and Martha Anker and used by the Global Living Wage Coalition in the definition of living wage benchmarks for employed workers.<sup>14</sup> This is commonly known as the 'Anker Methodology'.

Figure 10; The Living Income Concept; Source: The Living Income Community of Practice



<sup>13</sup> The Living Income Community of Practice. [Living income concept](#).

<sup>14</sup> Anker, R. and M. Anker. [Living Wages Around the World: A Manual for Measurement](#).



A living income benchmark comprises data that allows an estimation to be made of the costs of basic needs for a decent standard of living in a particular place, and a benchmark for household income to be developed from that estimation. It is a benchmark of the cost of a decent standard of living. It is typically used to compare cash needs and actual incomes for producer families in a particular geographic location. If a living income benchmark is not available for your sourcing regions or you do not have the resources to calculate one, a comparison of actual incomes can also be done using the widely accessible World Bank poverty lines<sup>15</sup> and/or the national poverty lines calculated by government statistics offices.

It is recommended that the World Bank poverty lines are adjusted for the purchasing power parity in a particular country and that rural and urban national poverty lines are examined

for the variables included. Many countries do not include all costs of living in their poverty line calculations and are only based on an extrapolation from the cost of food. It is important to recognise that the methods used to calculate poverty lines are based on actual expenditures required for families to survive and are not intended to represent the cost of a decent standard of living, as the Anker method does.

Once a living income benchmark is established, it can be used to inform a variety of conversations and/or decisions, depending on the user’s needs. For companies developing a living income strategy, this is helpful for understanding how large the income gap is between producers’ current incomes and the benchmark, and thus how substantial the challenge is in closing that gap.

METHODOLOGY TO CALCULATE THE COST OF A DECENT STANDARD OF LIVING FOR A LIVING INCOME BENCHMARK



Figure 11; The Living Income Concept; Source: The Living Income Community of Practice

<sup>15</sup> World Bank. Poverty and Equity data portal.

## ESTIMATING THE GAP BETWEEN ACTUAL AND LIVING INCOMES

**With a living income benchmark in place, buyers can evaluate the actual income of farm households. Actual income is the total net household income and can be established using a number of methods:**

### Farmer self-reported income data

- *Farmer surveys* can be used to understand the amount of income from cash crops, other crops and livestock, off-farm income, other sources of income (such as wage work or remittances) and the value of food produced at home (as this can reduce the cost of food for a family). There are varying degrees of data quality from farmer recall, as it is difficult for any individual to recall specific revenue and costs.

### Calculated incomes from existing records

- *Cooperative or aggregator records* can be a source of commercial data such as yields, farm size and farmgate price. Some organisations also track costs of production and % total household income from target crops. With these data variables, household incomes can be estimated.
- *A review of farm records* can be extremely helpful for understanding the actual costs of production in a farm's main crop and potentially their secondary crops. However, for smallholders in regions with high illiteracy and poverty rates, farm records are rarely kept and would require a technical support programme.

### Incomes from research

- *Research studies* can provide a credible, third party analysis of typical incomes in a region. If using third party research studies, care must be taken to understand the extent to which the results represent the farmers in your sourcing regions, how large the sample was and the methods used to collect income data.
- *Impact assessments* done in your supply chains and sustainability programmes can yield the best quality data on farmer incomes.

When establishing a living income benchmark or measuring actual household incomes, it is important to engage with institutions and initiatives that have been developing and testing methodologies both to calculate living income benchmarks and to identify actual incomes. Incomes and other financial data are always sensitive information to ask farmers to report. Credible reporting requires both skill on the part of the enumerator as well as a level of trust between the interviewer and interviewee. Best practices in the field of poverty research are recommended to avoid common pitfalls which can lead to inaccurate or faulty data quality. Some examples are:

- The Living Income Community of Practice has developed several [income measurement guidance documents](#)
- The Poverty Action Lab provides an extensive [measure and data collection](#)
- The World Bank has [Lessons from 15 Years of the Living Standards Measurement Study](#)

### CALCULATION OF A LIVING INCOME



Figure 12; Source: The Living Income Community of Practice

# Take Action

## Steps



Step 6 - Formulate living income strategy  
and set an internal policy and targets

Step 7 - Assess and implement interventions

# Formulate living income strategy and set an internal policy and targets

Step

# 6

1 2 3 4 5 6 7 8

Buyers can begin the strategy development process by defining a **roadmap** that establishes an action plan with specific deadlines and specific **targets** (see example below). The targets to be defined and the deadlines to be established would depend on how much progress buyers and suppliers have already made on the topic in the previous steps, moving from targets to improve the transparency of the supply chain towards targets to close the income gap of farmers.

Incentivising buyers to adopt responsible purchasing practices, including strategies to close income gaps, is a powerful lever for change.<sup>17</sup> For that, traditional targets applied to procurement professionals can be reviewed, and the living income strategy can be supported through references within:

- Buyer's job description and professional development plan
- Collective performance agreements
- Individual performance agreements
- Staff development evaluations and recognition arrangements (including financial incentive plans)
- Category management objectives

## When defining indicators and setting up the targets, the SMART criteria<sup>16</sup> approach could be considered:

[S]	Specific	indicators should be specific to reflect the change to be measured;
[M]	Measurable	indicators, whether quantitative or qualitative, should be measurable, making it possible to assess whether they were achieved or not;
[A]	Achievable	targets should be realistic and within the capacity to be achieved;
[R]	Relevant	indicators should be determined so that they really measure the contribution to achieve the final goal, which is to reduce the income gap;
[T]	Time-bound	deadlines to achieve the established targets should be defined, taking into consideration realistic time frames to accomplish it.

The targets defined in the roadmap should be translated into **incentive schemes**. In this case, this means existing incentive schemes for sourcing departments' professionals, as well as incentive schemes present in agreements with suppliers who establish a credible plan to raise smallholder farmers' incomes.

## UNILEVER: ENGAGING WITH SUPPLIERS

Unilever's approach on how to reach farmers is based on their engagement with their suppliers, who are the ones directly buying from farmers. They provide support for farmers' training programmes, delivered by suppliers and NGOs, and pay premium prices for suppliers who invest in interventions that support the farmers.

Source: *Unilever*

<sup>16</sup> UNDP (2009): Handbook on planning, monitoring and evaluating for development results, p. 58. See also [Better Working: Equal Access Participatory Monitoring and Evaluation toolkit](#), Module 2: Setting objectives and indicators, p. 4ff.

<sup>17</sup> Ethical Trading Initiative. [Guide to buying responsibly](#), 2017.

The adoption of incentive schemes to engage suppliers is also key to implementing the strategy. The terms of trading between producers and buyers influence the economic viability of the producer.

Relevant elements are:

- Comprehensive and long-term contracts and/or Memorandums of Understanding
- Payment of premiums
- Risk sharing
- Preferential sourcing
- Knowledge sharing

A global study by the International Labour Organization together with the Ethical Trading Initiative and Sedex<sup>18</sup> showed a strong link between purchasing practices and decent working conditions in producing countries, particularly developing countries. Apart from agreeing on basic terms and conditions, contracts should include details of minimum standards of working conditions and persons who would be responsible if changes in order occur, as well as accurate technical order specifications.

Direct, stable and long-term relationships are another relevant element to increase trust and collaboration and reduce commercial risks.<sup>19</sup>



#### ISO 20400 – SUSTAINABLE PROCUREMENT: PERFORMANCE MANAGEMENT

The standard refers to the importance of ensuring that sustainable objectives and goals should be included, for instance, in collective and/or individual performance objectives, staff development evaluations, incentive plans and recognition arrangements.

*Source: ISO 20400 – Sustainable procurement*

<sup>18</sup> ILO INWORK Issue Brief No. 10. [Purchasing practices and working conditions in global supply chains: Global Survey results](#), 2017.

<sup>19</sup> AidEnvironment. [The Case For Fairness in Trade](#), 2019.

# Assess and implement interventions

Step

# 7

1 2 3 4 5 6 7 8

**How can your company help close the gap to a living income? The next step is to better assess the challenges and opportunities facing farmers in your supply chain to see how your company – through business practices, support for programmes that directly serve farmers or participation in precompetitive sector change – can contribute to improving the income of farmers.**

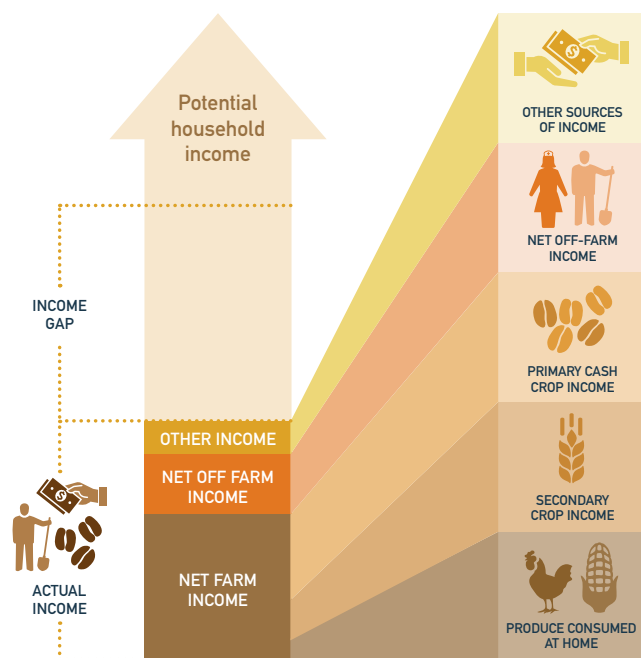


Figure 13; Source: *Living Income Community of Practice*

## WHAT DOES IT MEAN TO SUPPORT FARMERS TO REACH A LIVING INCOME?

Income for a farming household comes from four main sources:

- Cash from your company's primary crop,
- Cash from other crops,
- Other forms of off-farm income
- Food crops grown on-farm (thereby reducing the need to buy food).

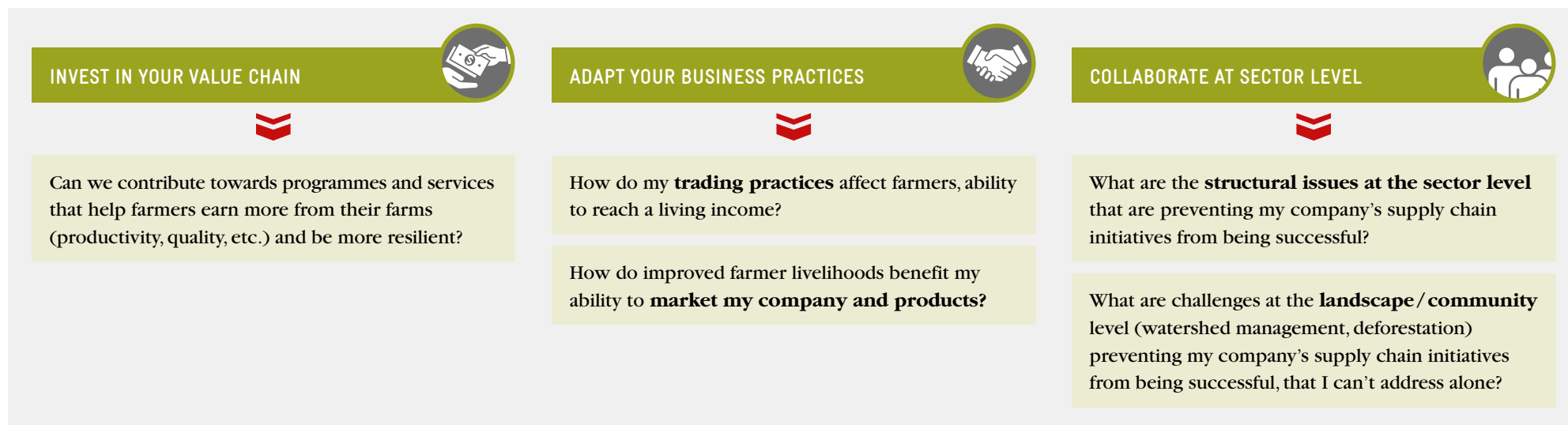
Initially, it is important to understand the challenges and opportunities that farmers face when it comes to income. These can include low productivity, low prices, small land parcels, high dependency and poor quality. Many small-scale farmers may also lack the kinds of services that they need to make improvements – access to technical experts, affordable finance, quality inputs, etc.

In farming systems where there are large productivity or quality gaps, many companies set up supply chain programmes that bring more services to farmers in order to help them improve their production practices. Investing in supply chain farmer supports programmes that offer on-the-ground solutions. These types of programmes can provide much-needed services and support to farmers to help them improve production practices, productivity and therefore incomes. However, experience has shown that these farmer support programmes are only successful when farmers see a positive return at a reasonable risk.

In recent years, programmes in cocoa and coffee that have promoted productivity improvement have struggled because prices were too low to justify farmer investment and volatility too high to motivate practice change even with appropriate farmer support services. Companies must look at their business practices to understand if they could bring more value and stability to the farmers through the way they buy or market goods. For example, engaging in longer-term contracts or increasing the price paid to farmers can allow farmers to feel more confident in investing in their farm. In addition, if farmers are facing structural or landscape-level challenges that a company cannot generally tackle alone, collaborating at the sector level can allow you to effect change more broadly. This can allow your company to engage more effectively with issues such as deforestation or watershed management at the landscape level, or governance issues such as market management or fair tax legislation at a sector level.

WHAT CAN A COMPANY DO AS A **BUYER** TO SUPPORT LIVING INCOME FOR FARMER PARTNERS?

Key questions in three pathways of influence/action



When looking to support income, a company may pursue just one of these pathways or all of them in parallel. Within these pathways, your company will also need to make decisions around 1) which interventions are most appropriate for the challenges producers are facing, and 2) whether to target resources to either support a large number of farmers to a lesser degree (scale) or to support a small number of farmers to a large degree (depth).



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# Pathway of Influence and Action: Invest

in your value chain





## PATHWAY OF INFLUENCE AND ACTION: INVEST IN YOUR VALUE CHAIN

Companies can consider helping smallholder farmers improve their income by supporting programmes that bring services through the value chain to farmers. These services help increase income, build assets and improve resilience. Supply chain investments include interventions that directly target farmers in order to improve agricultural production on the crop you buy, such as access to inputs, finance or technical services.

Furthermore, programmes that support women's economic empowerment, youth or diversification of incomes can be beneficial to households or enable the household to earn other forms of income.

To determine what programmes or services may be impactful in your value chain, start with a needs assessment within identified hotspots. This helps you to determine which supply chain interventions will be most useful to support farmer partners and therefore provide the most return on your company investment.

- 1) **Identify current barriers to farmer success** that can be helped through a supply chain intervention (low crop yield, poor quality, low net income from primary crop, insufficient land size, farming family poverty, etc.)
- 2) **Understand root causes** (insufficient access to quality inputs, poor agricultural practices, no access to finance, climate change adaptation needed, etc.)
- 3) **Design corresponding solutions** that address root causes (subsidised access to inputs, farmer field schools, promote income diversification, provide direct credit, etc.)
- 4) **Understand how partners can help** implementation and determine potential roles (depending on their role in the supply chain, capacity and access to farmers, companies can deliver these services themselves or work through partners - either subject-matter expert NGOs or through their suppliers - to implement these types of initiatives)
- 5) **Prioritise action** based on severity of the need and potential for progress.

An important lesson from field programmes to date is that farmers are making the best decisions they can. Sometimes the gap is knowledge, but frequently there are good reasons why farmers follow the practices that they do. Farmers - particularly those with low incomes - have to be conservative about changing practices as they have little ability to manage risks. Therefore, programmes that bring knowledge and services but also address risks, costs and Return on Investment are more effective. This becomes especially vital when changing a practice is seen as a risk by the farmer.

INVEST IN YOUR VALUE CHAIN




**FARMER SUPPORT PROGRAMMES**

- Professional producer organisations
- Farm service delivery
  - access to inputs
  - access to finance
  - market mitigation tools
  - technical assistance
- Women's economic empowerment
- Income diversification

## MARKET ACCESS

**WHY:** Despite their large numbers in agriculture, smallholder farmers are often excluded from formal value chains because barriers to entry are high, there is little infrastructure in rural areas and there is poor or no access to services and training. In order to secure supply from smallholders in remote and rural areas, companies must make markets inclusive by adapting business operations to meet smallholder needs.<sup>20</sup> When given the right support, smallholder farmers can be invaluable partners to companies. They have access to land and produce premium quality. As companies learn to work with smallholders, they can lower transaction costs and begin to reach economies of scale. Furthermore, they can even benefit from donor assistance as well as political and social capital associated with working with poor farmers to build rural economies.<sup>21</sup>

**WHAT:** Tailor your business practices to the particular context to make it easier for smallholders to engage in the supply chain and ensure there is a path to meeting your company's quality specifications.

- Ensure transparent price and quality information
- Adjust payment terms and contracts to prevent side selling
- Provide necessary training and services that help farmers meet your company specifications
- Incentivise suppliers to create income improvement strategies in areas of high poverty

<sup>20</sup> [The Inclusive Business Action Network](#) has a wide library of resources and cases for successful approaches to inclusive business.

<sup>21</sup> Backgroundpaper Global Agro-Industries Forum. [Business models that are inclusive of small farmers](#), 2008.

## VALUELINKS

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH has developed an action-oriented methodology called [ValueLinks 2.0](#) that compiles the most important tools for value chain promotion. It provides the framework for a systematic approach to analysing value chains and the joint strategy development of value chain stakeholders. It aims to strengthen business linkages, service provision and the regulatory framework for improving competitiveness and stimulating sustainable and inclusive pro-poor growth. ValueLinks 2.0 refers to living incomes for discussing strategic considerations for value chain development and suggests using the concept for an informed dialogue between stakeholders on fair pricing policies and setting targets for value chain upgrading.

Source: [ValueLinks Association e.V.](#)

## NESTLÉ: UNDERSTANDING FARMERS' CHALLENGES

Nestlé has developed a global approach to conducting regional contextual assessments of its supply chain. It is called the Rural Development Framework. These assessments lay the foundation for identifying barriers and opportunities to improve livelihoods.

Source: [Nestlé](#)

## CARGILL: COOP ACADEMY

Cargill's Coop Academy is aimed at empowering farmer organisations as a starting point for reaching farmers and their communities. The Coop Academy is a "mini-MBA programme" pairing classroom training with on-the-ground coaching to support leaders to improve how they run their businesses and support long-term cooperative growth. Since the start of the programme, 36% of cooperatives have now been rated as professional, up from 3% before engagement with the programme.

Source: [Cargill](#)

## PROFESSIONAL PRODUCER ORGANISATIONS

**WHY:** Producers come together in different types of organisations (e.g. farmer producer organisations, cooperatives, federations) that empower them to make use of economies of scale and increase their collective bargaining power. Producer organisations offer farmers the ability to negotiate for better access to inputs and financial services at lower prices, offer their own training on good agricultural practices and/or sell to market at higher prices.<sup>22</sup> A professional producer organisation is a valuable business partner to a company sourcing its goods as it reduces transaction costs, can act as a consistent producer partner in terms of yield and quality produced and sold, and can help a company to meet its sustainability (or farmer income) goals as an implementing partner to improve livelihoods.

**WHAT:** Producer organisations vary in their level of maturity and professionalism. Depending on their need, your company may support cooperatives in different ways, including supporting the professionalisation of their business practices (internal management, operations, financial management) and the way they provide services to their farmers (sustainability, market access, external risk mitigation, access to inputs/credit/funding and capacity builders like services providers, etc.).<sup>23</sup>

## SERVICE DELIVERY MODEL

**WHY:** Services are most effectively grouped together in a combined “service delivery model” that includes access to inputs, financing options and technical agronomic services. Service delivery models that reach farmers in an effective way and fulfil service gaps that act as barriers to farmer professionalisation are integral to ensuring farmers have the resources they need and the skills necessary to be productive, meet specifications, grow income and improve resilience. Service delivery may include integration with other strategies, such as a gender-sensitive approach, youth-focused activities or the promotion of climate-smart practices.

## SERVICE DELIVERY MODEL

To be successful, service delivery should benefit and be economically viable for all stakeholders, including value chain investors, service providers and farmers. For you as a value chain investor, service delivery is part of your core business, and making it clear that the farmer is the client of these services can lead to more effective delivery by your partner service provider. IDH – the Sustainable Trade Initiative – has created a data-driven approach to understanding and improving service delivery models.<sup>24</sup>

Source: *idb*

## SAP AND GIZ ARE REVOLUTIONISING THE ADMINISTRATION OF A FARMERS' ORGANISATION

Uganda is one of Africa's largest coffee exporters, but the majority of its coffee is harvested by smallholders who have limited market access and therefore receive low prices for their produce. In 2005, the Uganda Coffee Farmers Alliance (UCFA) was formed which enabled to secure higher prices. However, the organisation is labour-intensive and expensive to administer.

SAP and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH have, therefore, been collaborating as part of a develoPPP.de partnership with the UCFA. The develoPPP.de programme is implemented by GIZ on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

By means of adapting SAP's basic software to the local context and training 12 UCFA managers in using an app to record the quantity of coffee supplied by individual farmers, administration and accounting was made more efficient, which resulted in reduced organization costs by 11 percent, thus increasing the local profitability of coffee value chains.

Source: *GIZ*

<sup>22</sup> Farmer Income Lab. [What works to increase smallholder farmers' income? A landscape review](#), 2018.

<sup>23</sup> Cargill. [Farmer Organization](#), 2019.

<sup>24</sup> IDH. [Service Delivery Models](#), 2019.

## ACCESS TO INPUTS

**WHY:** Access to affordable and quality inputs (seeds, fertilisers, pesticides, etc.) is critical for farmers' productivity and their ability to produce quality products to meet specifications.

**WHAT:** Companies may determine that farmers do not have access to quality inputs for a variety of reasons:

- 1) They are not available,
- 2) They are available but adulterated,
- 3) They are available but farmers are unable to afford them,  
or
- 4) Farmers do not see their value as worth the price.

Critical to the success of company interventions aimed at facilitating access to inputs is to pair inputs with the appropriate training on input use and complementary agricultural practices.

- Facilitate access to input finance through a formal financial partner.
- Companies provide inputs to the farmers at no cost or at subsidised rates before the planting season and these are then deducted a proportion of the cost from the sale price after harvest.<sup>25</sup>
- Companies provide information and training on the appropriate use of inputs.

## NEUMANN KAFFEE GRUPPE (NKG) BLOOM: TRANSFORMING SMALLHOLDER COFFEE FARMERS' LIVELIHOODS

Through Farmer Services Units located in their export companies, NKG offers service packages to farmers, including financing assistance and capacity building. Under this initiative of NKG BLOOM, smallholder coffee farmers in Uganda receive cash advances and fertiliser for their coffee trees. This prevents farmers from getting into debt with local money lenders and pre-selling their harvest at very low prices for immediate cash. Reimbursement can be made at harvest time. This helps break the cycle of poverty and debt that many farmers face. At the same time, NKG benefits from gaining access to high-quality coffee beans.

Sources: *Field Buzz* and *NKG BLOOM*

## REVITALISING THE MALAWI TEA SECTOR

The Strategic Alliance „Towards Living Wages and Living Incomes for Tea Workers and Tea Farmers” in the scope of the Malawi 2020 Tea Revitalisation Programme supported smallholder tea farmers and rural workers employed on tea estates through collective bargaining, business management trainings, assisting communities in developing new businesses, and to establish saving schemes in Malawi. Achievements include wages for tea estate workers increased to levels 50% higher than the rural minimum wage in Malawi. Furthermore, the first ever collective bargaining agreement (CBA) was signed by the trade union for tea workers and the Tea Association of Malawi.

18,800 workers received a more nutritious diet fortified with essential minerals and vitamins, and in addition, all tea estates provided fresh vegetables once a week. Some estates created business opportunities for women to engage in growing vegetables on the estate.

More than 2,000 smallholder farmers were trained in 66 farmer field schools. This is every sixth tea farmer in the country, two thirds of them being women. At these Farmer Field Schools, farmers build their knowledge and skills to improve the quality of their tea farming, business management and standard of living. 80 savings groups were formed to improve access to financial means.

Source: *Ethical Tea Partnership*

<sup>25</sup> Sustainable Food Lab, Business Fights Poverty (2017): [Enabling smallholder farmers to improve their incomes](#), 2017.

ACCESS TO FINANCE / ECONOMIC EMPOWERMENT

**WHY:** Investing in tools, equipment and more advanced techniques is a way for smallholder farmers to increase yields and thus income. In some cases, investment is needed just to maintain quality and yields, such as in the case of aging tree stocks that need to be renovated and/or rehabilitated, like cocoa and coffee in some sourcing areas. Smallholder farmers are often risk averse when it comes to accessing financial services, and often rightfully so. Before investing, farmers must be able to:<sup>26</sup>

- Cover their family's basic needs;
- Have means to access financial services;
- Have a reliable income source;
- Be reasonably sure that they will receive adequate return on their investment.

**WHAT:** Companies can:

- **Promote financial literacy:** Financial literacy is essential for farmers so they can manage their business efficiently, protect themselves against financial risks and access productive credit.<sup>27</sup> Education on investment management can help farmers to make smart decisions relating to savings and credit.
- **Support farmer business schools:** The provision of training on topics such as farm record keeping and managing the costs of inputs in order to build the business and financial literacy of farmers has the capacity to enable sound decision-making and improve efficiency.<sup>28</sup>
- **Promote savings-led groups:** Village savings and loans groups are self-managed, community based groups that provide their members with access to basic financial services.<sup>29</sup> The main purpose is to provide simple loans to community members who do not have access to formal financial services.<sup>30</sup>
- **Facilitate access to formal financial services:** Companies can facilitate access to finance by connecting farmers to financial institutions and providing offtake guarantees/contracts, and/or by “drawing lenders’ attention to the security offered by the company’s ongoing local purchasing programmes”.<sup>31</sup>
- **Provide direct credit:** Where a company assesses the farmer’s creditworthiness more positively than a distant bank’s judgement, “it may be economical for the company to partially underwrite the risk of loans to farmers or farmers’ organisations”.<sup>32</sup>
- **Adjust financial services to farmers’ reality:** Financial services should be available and ideally tailored to the unique needs of farmers. This includes, for instance, the provision of loans with flexible repayment terms in line with local crop planting and harvest cycles.<sup>33</sup>

<sup>26</sup> InfoBridge. [Towards an integrated approach for project analysis for small farmers: the Living Income / Fair Price method](#). 2014.

<sup>27</sup> Café Africa, Global Coffee Platform. [Financial Literacy to Facilitate Access to Finance in Eastern Africa – an inventory of training tools and materials for coffee farmers](#). 2016.

<sup>28</sup> IFPRI. [The Impact of a farmer business school programme on incomes of smallholder farmers](#). 2018.

<sup>29, 33</sup> Farmer Income Lab. [What works to increase smallholder farmers’ income? A landscape review](#). 2018.

<sup>30</sup> Catholic Relief Services: [Savings & Internal Lending Communities \(SILC\) – Field Agent Guide](#). 2019.

<sup>31, 32</sup> Sustainable Food Lab, Business Fights Poverty: [Enabling smallholder farmers to improve their incomes](#). 2017.

## FARMER RISK MITIGATION

**WHY:** Company collaboration to share and reduce risks of investment for farmers can provide farmers with income reliability and also unlock farmers' capacity and willingness to invest.<sup>34</sup>

**WHAT:** As a company, you can use your leverage to build in risk mitigation or risk sharing tools, services and infrastructure that support a more stable income for farmers.

- **Crop/weather insurance:** Crop insurance is a financial tool that farmers can use to protect themselves against the loss of crops due to natural disasters (e.g. floods, drought, blight) and pests. As a company, you can negotiate with providers that offer crop insurance to farmers or, where that is not feasible or desirable, you can also share the risk with farmers directly.<sup>35</sup>
- **Post-harvest loss prevention:** Post-harvest loss prevention programmes promote technologies and techniques that reduce the risk of crop loss and allow farmers to store their product in a time of low prices.<sup>36</sup> It ranges from packaging techniques to storage infrastructure.<sup>37</sup>

## AGRICULTURAL BUSINESS ANALYSIS AND INVESTMENT TRAINING

Agricultural Business Analysis and Investment Training (AgBAIT) is a modular training approach that enables both emerging farmers and agri-based enterprises alike to analyse their current business operations and potential investments. For this purpose, a paper and an Excel-based support tool have been developed to calculate and analyse the envisaged investment options. In addition, AgBAIT offers participants the opportunity to get acquainted with the financing options of local financial institutions and to present their business and investment plan to these financial institutions.

Source: [GIZ](#)

## WEATHER INSURANCE FOR KENYAN FARMERS

The Syngenta Foundation, the Kenyan insurance company UAP and Swiss Re Corporate Solutions teamed up to offer Kenyan farmers insurance to help them feel confident in investing in their farms in the face of climate change and harsh weather conditions. The Kilimo Salama model, designed specifically for small-holders, uses automated weather stations and mobile payments to provide insurance payouts instead of visiting individual farms. This model results in reduced administrative costs, which allows the project to provide insurance to thousands of farmers at a premium price they can afford.

Source: [Syngenta Foundation](#)



[iStock.com/Simon J Beer](#)

<sup>34</sup> Farmer Income Lab. [What works to increase smallholder farmers' income? A landscape review](#). 2018.

<sup>35,36</sup> Sustainable Food Lab, Business Fights Poverty. [Enabling smallholder farmers to improve their incomes](#). 2017.

<sup>37</sup> Muthar, K. FSG. Yieldwise. [Building a Better Food System in Africa Through Shared Value Partnerships](#).

## TECHNICAL ASSISTANCE

**WHY:** Farmers benefit greatly from understanding and adopting good agricultural practices that can help to increase efficiency, productivity and/or quality.

**WHAT:** Technical assistance can come in a variety of forms including training, coaching and farmer field schools. For a company, understanding which practices need to be adopted is the first step; understanding and removing barriers to adoption is the second. Many farmers know what to do, but do not or cannot implement recommended practices because of technical or financial factors. Understanding these barriers and pairing technical assistance with other value chain investments (access to finance, inputs, insurance) is often critical to farmer adoption.

- **Training/coaching:** Productivity enhancement interventions through improved agricultural technologies (e.g. improved crop varieties and seed technology) and practices (e.g. crop diversification, planting and pruning) can raise crop yield and reduce crop loss caused by pests, diseases or drought.<sup>38</sup>
- **Farmer field schools:** The provision of hands-on agronomic and technical training through farmer field schools is key to enhancing productivity.<sup>39</sup>



## BETTER LIVING CONDITIONS FOR VANILLA PRODUCERS IN MADAGASCAR

Better living conditions for vanilla producers in Madagascar in exchange for premium quality and sustainably grown vanilla is the aim of the development partnership between Symrise AG, the consumer goods company Unilever and GIZ. Annual fluctuations in the volume and quality of vanilla have caused repeated problems for the purchaser Symrise. Together with Unilever, the company therefore decided to cooperate directly with the smallholders. With GIZ's backing, the partners have been providing support for around 7,000 smallholders and their families in one of the poorest regions in the world since 2014. The aim is to empower approximately 10,000 families to improve their livelihoods and, in return, for the companies to receive premium quality vanilla from sustainable crops.

The development partnership revolves around practice-oriented training delivered on the ground at model farms, the establishment of farmer field schools where people can learn about cultivating vanilla and further training for teaching staff in order to foster environmental awareness in primary schools.

In the course of the development partnership, three agricultural colleges have been set-up with more than 180 trainees between them. Moreover, the number of low-yield months has already fallen from five to three. By the end of the project, at least 70 % of the smallholders are to have increased their vanilla production by up to 40 % per hectare.

Source: [DeveloPPPde](#)

<sup>38</sup> Farmer Income Lab. What works to increase smallholder farmers' income? A landscape review, 2018.

<sup>39</sup> Sustainable Food Lab, Business Fights Poverty. [Enabling smallholder farmers to improve their incomes](#), 2017.

## WOMEN'S ECONOMIC EMPOWERMENT

**WHY:** Women play a key role in the agricultural sector, in some countries representing more than half of the agricultural labour force. However, women can still face great challenges when it comes to accessing land, inputs and financing, technology and markets, which can restrict their access to training/ services that aim to improve productivity, earnings and income.<sup>40</sup> Women are an integral part of the farming family and when given the opportunity to fulfil their potential, they add greatly to the success of farming families. On average, women tend to invest more of their average income in nutrition, health and education, which increases the rate at which families build assets and resilience.<sup>41</sup> Often, women are more likely to adopt agricultural technologies or innovations. When value chains embrace gender sensitivity, everyone benefits: the farming family, the community and the value chain stakeholders.

**WHAT:** In order to see more productive investment, women need to be in a decision-making role, either in partnership with male members of the family over household income, or have control over their own self-generated income. When women participate in agricultural work of the focus crop, it is important that they too benefit from training so that they can adequately play a decision-making role in production.

- Focus on male, female and youth empowerment and intra-household decision-making within programmes instead of emphasising women in their own programmes, which can make them seem more vulnerable and raise tension between the sexes.
- Ensure women can access training and capacity-building programmes (e.g. by employing female extension agents, encouraging families to attend training together or scheduling programmes to fit better with women's schedules).<sup>42</sup>
- Promote women's economic empowerment by supporting income diversification efforts that can be led by women, either into other crops for sale at local markets, value addition or off-farm income, or encouraging women's participation in village savings and loan groups (VSLA).



<sup>40</sup> International Labour Organization. *Decent and productive work in agriculture*. 2017.

<sup>41</sup> Kanesathasan, A. et al. *Capturing the Gender Effect*. 2013.

<sup>42</sup> Sustainable Food Lab, Business Fights Poverty. *Enabling smallholder farmers to improve their incomes*. 2017.





# PRO-PLANTEURS

PRO-PLANTEURS is a joint project of the Federal Ministry of Food and Agriculture (BMEL), the Federal Ministry for Economic Cooperation and Development (BMZ), the German Initiative on Sustainable Cocoa (GISCO) and the Ivorian Conseil du Café-Cacao (CCC). The project aims to professionalise 20,000 small-scale cocoa farmer households and their farmer organisations in Côte d'Ivoire as well as to improve the cocoa farming families' livelihoods by increasing their incomes and improving nutrition. Pro Planteurs supports women in activities such as production, processing and marketing to financially empower them. Sixteen projects on income generating activities with 2,100 women are currently ongoing with women's groups in the farmer organisations. Furthermore, 14,000 farmers took part in technical trainings on diversification (food crops and animal husbandry) to increase their income generated by other agricultural sources than cocoa. Project activities also focus on overcoming seasonal food shortages and promoting a balanced nutrition. Specific training materials were developed, and 76 female members "Animatrices Rurales" of the farmer organizations were trained in cooperation with the National Food Program (PNN). The Animatrices Rurales conducted the awareness-raising sessions for 16,000 families.

In addition, 200 Farmer Field Schools and 20 demonstration plots were set up and serve to train more than 5,000 farmers, in Good Agricultural Practices (GAP). More than 6,000 farmers were trained in farm management in Farmer Business Schools.

Source: GIZ

## DIVERSIFICATION

**WHY:** Crop diversification is a promising strategy for improving net income and reducing risk. Farmers grow complementary crops on their farms that bring in more money, are sold as cash crops in the local or export markets or which reduce costs and improve food security as sustenance crops. As an added benefit, crop diversification helps to build resilience to environmental and economic shocks by spreading production and market risk. If focused on subsistence crops, crops can act as a food security safety net in the event of an income drop and can also contribute to improved dietary diversity and nutrition, which is vital to ensuring general health and wellness.

**WHAT:** Before promoting a cash crop or off-farm income diversification strategy among your producer partners or in collaboration with a producer organisation, it is imperative to understand farming family interests and to support a business evaluation of the diversification options relative to goals, including:

- 1) **farm-level analysis** to understand what works for farming families in the agronomic context along with any restraints;
- 2) **business model analysis** to understand what opportunities are available and what is needed to make the diversification product profitable at the household level; and
- 3) **what off-farm income generating opportunities exist in the region.**

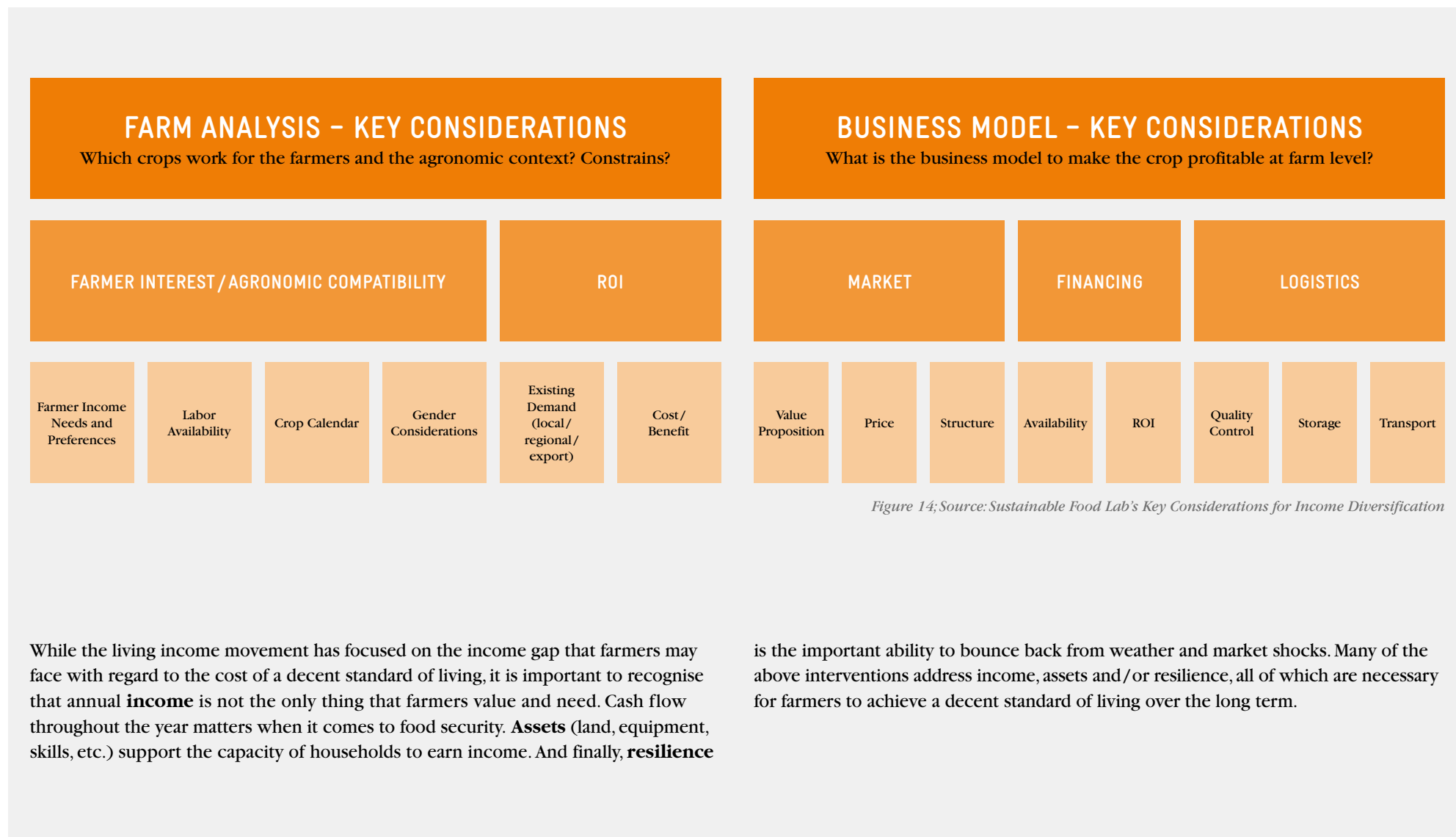
Diversification interventions can promote women's economic empowerment and decision-making by soliciting design input from all members of the targeted community/ cooperative and implementing interventions that support women's participation.

- **On-farm diversification – cash crop:** Many people have identified cash crop diversification as a key climate and market volatility resilience strategy. However, efforts in this regard are often one-sided, favouring a primary crop and not equipping farmers with the resources or markets to successfully manage and sell the “diversification crop”. This presents an opportunity to engage multiple companies in supporting farmers in professional diversification that will increase farmer income, build resilience and help to grow a sustainable supply of more than one cash crop, given there is demand and access to markets.
- **On-farm diversification – subsistence crops:** Improving food crop production in terms of quality, quantity and diversity of food grown for household consumption is a key strategy to reduce the costs of family dietary needs, stabilise income in the face of economic shock and promote health by offering a consistent source of nutritious food and a diversified diet. Companies can promote food crop production as part of their service delivery model by providing training and seeds.
- **Off-farm diversification:** Diversification into off-farm income sources can help grow farmer income and reduce climate and market risks. As with on-farm income, where a company is promoting a particular pathway to diversify income (i.e. by offering agricultural services or making and selling goods), it must be sure that a national or international market exists. In some cases that same company can be the off-taker, which helps to ensure a market for farming families.

### PROVA AND BARRY CALLEBAUT: IMPROVING VANILLA FARMERS' RESILIENCE THROUGH CROP DIVERSIFICATION WITH COCOA

To secure a sustainable vanilla supply, PROVA partnered up with Barry Callebaut, with support from IDH, in 2016 to engage in an on-the-ground project in Madagascar. The joint project aims to encourage farmer entrepreneurship, improve community livelihoods and secure a sustainable supply of vanilla by overcoming challenges linked to agriculture and market volatility. Additionally, the project supports farmers in diversifying their income by teaching them how to grow and process cocoa in anticipation of a potential upcoming price drop.

*Source: Sustainable Vanilla Initiative*



A man wearing a light blue t-shirt and a grey cap is looking intently at a large, dark brown cacao pod hanging from a tree. He is touching the pod with his right hand. The background is a lush green forest. A green semi-transparent overlay covers the left side of the image, containing text.

Pathway of Influence  
and Action:

# Adapt

business practices



## PATHWAY OF INFLUENCE AND ACTION: ADAPT BUSINESS PRACTICES

A company's principal role is to buy and sell goods or services. When considering how your company can have significant impact for farmers' incomes, an analysis of your current business practices will help to ensure that those practices are contributing to this goal. At a minimum, the company's business practices do not cause harm, and at best, they can be adapted to optimise the impact on improved farmer income. Typically, a company's commercial leverage, its 'buy', is significantly larger than any philanthropic or add-on investment programme and, as such, can be a powerful focus of leverage in terms of how to contribute to living incomes.

Adaptation of business and trading practices can include the introduction of risk-sharing mechanisms that can deliver certainty or more consistent value to the farmer. Transparent and inclusive business practices benefit farmers through the clear communication of standards, quality requirements and pricing.

### Core business practices to review include:

- Supplier management
- Pricing and transparency
- Certification and premiums
- Marketing and consumer education

### ADAPT YOUR BUSINESS PRACTICES

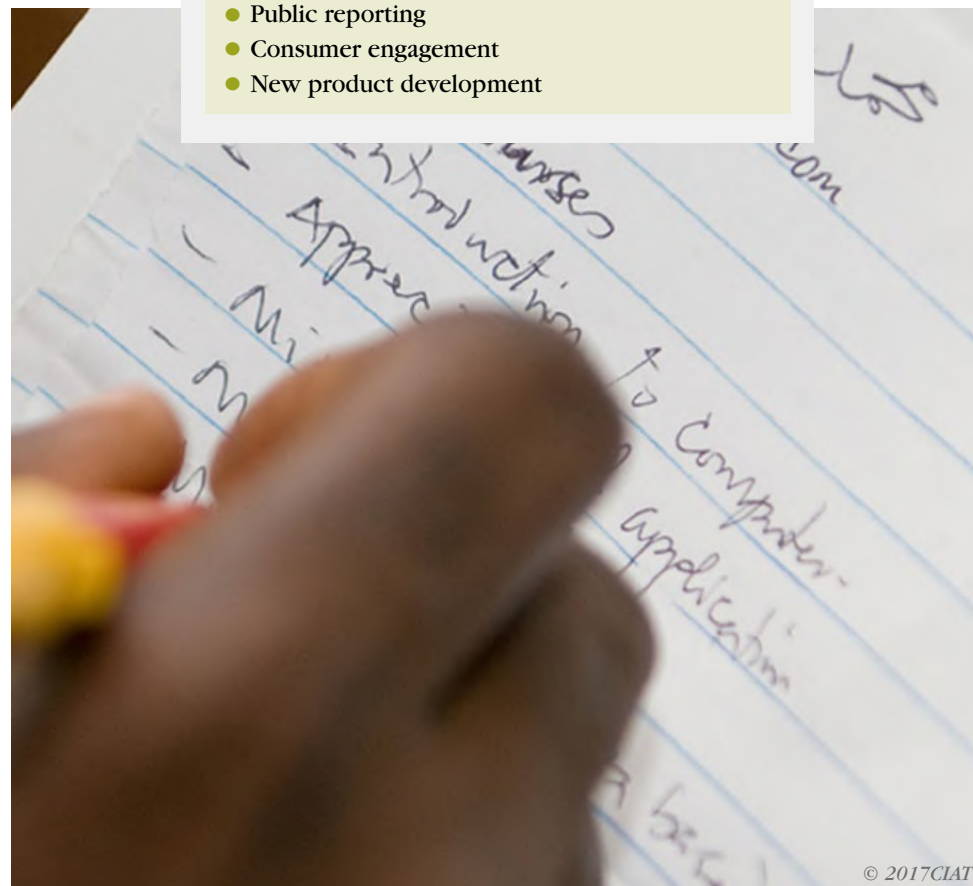


#### TRADING PRACTICES

- Supplier management
- Pricing and transparency
- Certifications and premiums

#### MARKETING

- Public reporting
- Consumer engagement
- New product development



## SUPPLIER MANAGEMENT

**WHY:** Suppliers are core to effective chain management and can be critical for income-related interventions. Intermediaries often operate on limited margins and require co-investment from clients and public entities to enable them to develop and sustain programmes with farmers. Farmer poverty is often as much of a reputational and supply risk for your suppliers as for your own company.

**WHAT:** Discuss with your procurement leads for the focus ingredient to understand how the company selects, contracts and sets requirements for your Tier 1, and possibly Tier 2, suppliers. Is this approach based on the tenet of creating shared value? The concept of shared value, coined by Michael Porter of Harvard Business School, is the management philosophy in which business finds commercial opportunity in societal problems.<sup>43</sup> A core tenet of a shared value approach is to address societal problems like poverty among farmers as an opportunity for partnership with your suppliers, rather than as a compliance risk issue to be audited and eliminated from the system through shifting sourcing origins.

While spot buying and annual competitive bids may be the norm, can the procurement department build in selection criteria for longer-term agreements? Could there be a pilot with several of the company's most reliable suppliers, based on performance criteria for services to smallholders?

- **Longer-term contracts or sourcing agreements** can allow suppliers to develop multiyear training and investments with their farmer base, with a higher probability of a positive impact.
- **Preferential supplier ratings** based on performance can be strong incentives for suppliers to invest.
- **Payment of premiums** either through quality or standard-related programmes.
- **Risk sharing** through guarantees for farmer loans or agreeing that future contracts can be used as guarantees. This can effectively leverage procurement for affordable finance for farmers.



*AungMyo - stock.adobe.com*

<sup>43</sup> Shared Value Initiative.

## PRICING AND TRANSPARENCY

Price volatility and low prices are among farmers' biggest barriers to earning a living income. Low prices, often beneath the costs of sustainable production, can limit farmers' capacity to optimise input use, hire labour and professionalise. Price fluctuations create a high level of uncertainty, which increases farmers' aversion to risk. They are hesitant to make investments without a reasonable return. Even worse, these could drive them into debt if the market crashes. Lack of good market information hampers producers' ability to negotiate for better prices.

A company reliant on smallholder farmers for a sustainable supply of quality ingredients has a vested interest in ensuring that

- 1) its farmer partners can invest in farming practices that lead to productivity and quality; and
- 2) its farmer partners continue to sell their crops to them.

### LIVING INCOME REFERENCE PRICE

The Living Income reference price tool explains how to calculate the prices of agricultural commodities based on benchmarks such as a living income, the World Bank or national poverty lines and minimum wages in comparison with actual prices. These are all references that shall establish thresholds above mere survival (poverty line) or at the level of a life in dignity (living income). The reference prices shall inform agricultural producers and buyers of agricultural commodities and, in particular, provide support to farmers and farmers' organisations in their price negotiations.

Source: *GIZ*

To ensure farmers' ability to invest and to maintain loyalty, companies can:

- provide stable demand for the purchased crop,
- provide farmers with visibility into price and payment mechanisms,
- ensure farmers can cover the cost of sustainable production to meet quality specifications and production goals,
- offer services, benefits, premiums or other incentives for loyalty and the transition towards desirable cultivation practices,
- offer services, benefit, premiums or other incentives for quality product determined by quick tests or assessments.<sup>44</sup>

- **Commit to minimum price levels for poverty protection:** Suppliers can commit to minimum price levels for a certain quality specification and guarantee them even when market prices decrease.<sup>45</sup> The minimum price in this case could be based on a benchmark, such as a living income benchmark, or the cost of sustainable production for the purchased crop. In some cases, this may be paired with a farm-level intervention programme to de-risk a particularly large investment that will take years to recover, such as renovation or rehabilitation in crops like coffee and cocoa.<sup>46</sup>
- **Calculation of fair prices:** Access to own and secondary data on both the costs of sustainable production and on viable farm size can be used to calculate fair prices. When available, results from living income benchmarks can be used to calculate what a fair price might be for commodities purchased from smallholder farmers.<sup>47</sup> For example, Fairtrade International compiles data to determine parameters for the cost of sustainable production and viable farm size for full-time family employment, compares this to the living income benchmark for that crop and calculates the Fairtrade Living Income Reference Price.<sup>48</sup>
- **Market information systems:** Supporting farmers to have access to market information systems regarding prices, market sales, weather and pest risks can help them to make better informed decisions.<sup>49</sup>
- **Outgrower schemes or contract farming:** Outgrower schemes, also known as contract farming, refer to an arrangement under which a farmer agrees to produce and sell a certain quantity of a commodity at a future date through a longer-term contract. This guarantees the farmer access to buyers and to pre-agreed prices. In the best case, the buyer is guaranteed a reliable supply. Through this scheme, the buyer will often provide the farmer with technical and financial support, such as training and loans to purchase inputs.<sup>50</sup>

## CONTRACT FARMING

Contract farming as an inclusive business model has the potential to link business strategies with sustainable development priorities such as income generation and poverty reduction, as these provide goods, services and livelihoods on a commercially viable basis to smallholder farmers. To facilitate such inclusive business model arrangements, GIZ published two [Contract Farming Handbooks](#) in 2013 and 2015 that provide practical guidelines for linking small-scale producers and buyers through business model innovation.

Source: *GIZ*

44 Sustainable Food Lab, Business Fights Poverty. [Enabling smallholder farmers to improve their incomes](#), 2017.

45 See for instance, Tony's Chocolonely: [Annual Report 2017-2018](#).

46 AIDEnvironment and Sustainable Food Lab. [Pricing Mechanisms in the Cocoa Sector](#), 2018.

47 The Living Income Community of Practice. [The Applications](#).

48 Fairtrade International. [Fairtrade Living Income Reference Model](#), 2019.

49, 50 Farmer Income Lab. [What works to increase smallholder farmers' income? A landscape review](#), 2018.

## CERTIFICATION

**WHY:** Certification can be defined as a procedure to monitor and validate the compliance of farmers using a set of voluntary standards and performed/implemented by a third party.<sup>51</sup> Certification can be a mechanism for farmers to access buyers who require specific standards and, in many cases, to be paid a premium. As part of the certification schemes, farmers will often receive technical training and support.<sup>52</sup> The literature on the impact of different standards is extensive<sup>53</sup> and it is difficult to make generalisations regarding particular certification programmes and their effect on farmer income. However, the evidence is strong that a sustainability certification programme aids suppliers and farmer organisations in organising their farmer base, mapping farms, better understanding current production and delivering training for improved social, environmental and agronomic practices. They are also critical mechanisms for communicating a company's commitment to sustainability through on-pack seals.

- **Request information from the standards system** your company uses regarding the ways their standard impacts farmer income. Many standards systems are piloting new and innovative ways to improve farmers' income and can be partners in value chain programmes.

## SUSTAINABILITY / QUALITY PREMIUMS

- **Incentives for meeting specifications:** Price incentives can be established through a direct and transparent trading relationship, where the criteria for the price increase and the expectations of both buyer and supplier are detailed and agreed. Wherever possible, different actors should be involved (e.g. all major buyers within a sector or a public institution managing the crop). Likewise, under the consideration of the competition law, improved prices to the farmer should be taken into account on company or even sector level that covers production cost and supports a decent standard of living to the farmer and his family.<sup>54</sup>

Fairtrade International has a comprehensive living income strategy made up of the complementary pillars of sustainable pricing, Fairtrade sales, sustainable yields and cost efficiency. These pillars are supported by Fairtrade's advocacy for a supportive enabling environment and MEL (Monitoring, Evaluation, Learning) structure for learning.

Source: [Fairtrade International](#)

## FAIRTRADE LIVING INCOME STRATEGY

### LIVING INCOME GOES BACK TO FAIRTRADE'S ROOTS

Fairtrade envisions a world in which all producers can enjoy secure and sustainable livelihoods, fulfil their potential and decide on their future. Fairtrade's Theory of Change has sustainable livelihoods as its ultimate goal, to achieve through trade on equitable terms.

Income and sustainability are closely related. In order to enjoy sustainable livelihoods, small-scale farmers and workers need to earn sufficient income for a decent standard of living, so they can send their children to school, eat nutritiously throughout the year, have some savings for unexpected setbacks, retain future generations in farming and allow elders to retire with dignity. Aiming for this, Fairtrade has developed its living income strategy for smallholders and a living wage strategy for hired workers.

Fairtrade is built on the principle of long-term trading relationships that share the benefits of trade more equally. Fairtrade Minimum Prices are set to ensure the costs of sustainable production are covered and to provide farmers a safety net against price drops in the world market. However, Fairtrade's continuous monitoring and learning has shown that more is needed to lift smallholders out of poverty. Therefore, Fairtrade's Living Income Strategy revisits the pricing models to include a margin that allows small farmers to make a decent livelihood.

In addition, the Fairtrade Premium is a powerful instrument to seed-fund producer-led initiatives to improve farmers' livelihoods, based on strategic assessment of investments geared towards increased farm profitability and sustainable producer organizations.

Empowering farmers to take control over their lives is a fundamental aspect of Fairtrade's approach to sustainable livelihoods. By strengthening their organizations and building their capacity to create value on behalf of their members, smallholders are able to achieve economies of scale, be efficient business partners and drive impact.

*Living income is defined as sufficient income generated by a household to afford a decent standard of living for the household members. Elements of a decent standard of living include: food, water, housing, education, health care, transport, clothing, and other essential needs, including provision for unexpected events.*



Source: [Fairtrade International](#)

51, 52 Farmer Income Lab. [What works to increase smallholder farmers' income? A landscape review](#). 2018.

53 ISEAL Alliance. [Evidensia](#).

54 Sustainable Food Lab, Business Fights Poverty. [Enabling smallholder farmers to improve their incomes](#). 2017.



Pathway of Influence  
and Action:

# Collaborate

at sector level



## PATHWAY OF INFLUENCE AND ACTION: COLLABORATE AT SECTOR LEVEL

To reach sustainability at scale, supply chains need to operate in well-functioning sectors and landscapes whose challenges are better suited to collaborative work. This type of pre-competitive work is valuable for sectors as a whole and also boosts the success of individual supply chain projects by providing the enabling environment in which producers can be successful now and in the future. When sourcing from poorly functioning sectors, you and your producer partners are much more prone to price and production volatility and weak service provision and organisation that leads to supply insecurity, a bad quality reputation and reduced incentives for producer investment, among other negative impacts.<sup>55</sup> Through platforms or project work, your company can collaborate with others facing similar challenges and engage with government, civil society and communities who can bring different assets to the table for collaborative solutions.

### SECTOR GOVERNANCE

**WHY:** As a company, your reach alone can only go so far. Working through a sector platform, your company can help to tackle some of these widespread challenges that will support your ability to work effectively in the sector, and can increase farmer income, assets and resilience. Sector governance is the management of the rules of the sector. AidEnvironment, IIED and New Foresight, with support from IFC and IDH, came together starting in 2013 to draw roadmaps for a better functioning agri-commodity sector, and developed the Sector Transformation Model. In this model, governance is defined as coordination, revenue generation and reinvestment and market management and regulation.

**WHAT:** Identify an organisation or initiative that is addressing issues that frame governance in your priority ingredient sectors. If you are focused on vanilla, for example, which platforms are addressing the regulations that guide the transparency of pricing and services in the top origins? Which initiatives might be focused on providing better financial services across a sector at scale? These can operate at a national or global level. Consider joining – or at least supporting – these initiatives to develop a transparent, inclusive approach to sector governance at origin.

### INVEST IN YOUR VALUE CHAIN



#### SECTOR GOVERNANCE

- Sector price mechanisms
- Supply management
- Rural economic development policy

#### LANDSCAPE / COMMUNITY INTERVENTION

- Watershed/forest protection
- Community based income projects
- Social protection
- Land tenure

<sup>55</sup> Sustainable Food Lab. An Overview of Sector Governance. [Looking beyond the value chain to build high performing and resilient agricultural sectors](#). 2018.

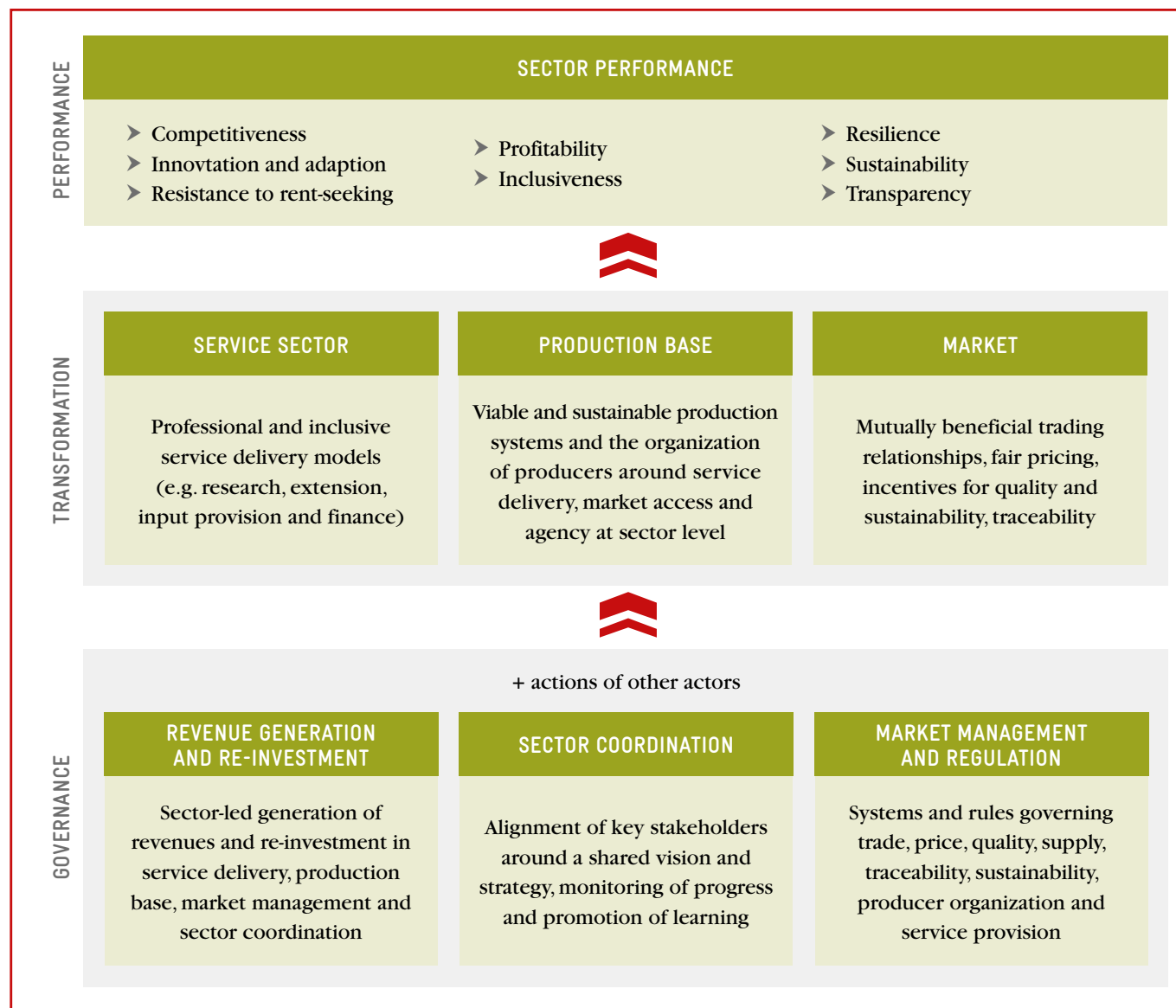


Figure 15; Source: Sector Transformation, originally developed by IIED, AIDEnvironment and New Foresight.<sup>56</sup>

56 AIDEnvironment. Sustainable Sector Transformation. 2015.

## LANDSCAPE / COMMUNITY INTERVENTION

**WHY:** Supply chains that can deliver living incomes depend on healthy ecosystems, diverse and well-managed landscapes and intact communities. Farmers will not maintain profitability without investing in their soil health, nor be able to sustain their farms if their watersheds are not protected. At a large scale, forests provide critical ecosystem services of microclimatic regulation as well as carbon sequestration for mitigating the effects of climate change.

**WHAT:** Consider how your economic sustainability strategy relates to your environmental and social policy. Are there reinforcing patterns such as poverty that exacerbate incidences of child labour, or is deforestation causing an increased threat of floods or landslides?

Companies can lend support and financial resources to well-managed landscape efforts. These can have critical and long-lasting enabling effects for farmers' ability to maintain their assets and be resilient to shocks from disease outbreaks, weather or volatile markets.

These efforts should follow established guidelines on community involvement and participatory land use planning.

### COCOA & FORESTS INITIATIVE

The cocoa industry, governments and international civil society have developed frameworks of action to stop deforestation in cocoa-growing regions of West Africa and Colombia. These action plans include:

- ▶ Conservation of National Parks and forested land, as well as restoration of forests that have been degraded by cocoa farm encroachment.
- ▶ Sustainable intensification and diversification of income in order to increase farmers' yields and livelihood, to grow "more cocoa on less land" and thereby reduce pressure on forests.
- ▶ Engagement and empowerment of cocoa-growing communities. In particular, mitigation of the social impacts and risks of land-use changes on affected cocoa farmers and their communities.

*Source: IDH Sustainable Trade, World Cocoa Foundation*



### WORLD COFFEE RESEARCH

WCR has organised a global system of coffee breeding to both save and accelerate climate adapted and high quality planting materials for the benefit of the entire coffee sector. Companies can contribute into this research and it does not have to be linked to a particular origin to benefit the future incomes and productivity of farmers globally.

*Source: World Coffee Research*



# Natural Rubber

Commissioned by BMZ, GIZ has been collaborating with the district Kapuas Hulu in West-Kalimantan, Indonesia, towards sustainable agricultural production that does not negatively impact forests and other valuable ecosystems. Palm oil and natural rubber are the two largest forest-risk commodities with supply chain links to the German market. The long-term objective of the project is to establish a sustainable production region in Kapuas Hulu: a cross-commodity, jurisdictional approach is being applied to improve sustainability within the district and along the supply chain, thus reducing deforestation and improving the living conditions of smallholder farmers.

A multi-stakeholder platform was created at district level, bringing together local government, private sector and civil society to address several sustainability issues. Within this platform, various stakeholders identify sustainability risks and develop potential solutions to address these in order to reconcile forest and nature conservation, sustainable agricultural and economic development. Concepts to identify and preserve high conservation value and high carbon stock areas are integrated into land use planning. In accordance with FPIC principles, the population is involved in decisions affecting them.

Embedded in the jurisdictional approach, a traceable supply chain for sustainable natural rubber from Kapuas Hulu to Germany has been established in a joint project with the global tire manufacturer Continental AG and GIZ.

Source: GIZ

# Monitor results

Step

1 2 3 4 5 6 7 8

Step 8 - Monitor results



*Diana Kosaric - stock.adobe.com*

# Monitor results

Step

# 8

1 2 3 4 5 6 7 8

**How do you know if your efforts are working to close the gap? When working to improve producer income, assets and resilience it is imperative to track progress as a way of understanding if interventions are working, to be able to improve where possible and to be able to share results to tell the story of your sustainability efforts. An affordable way to measure progress is critical for most companies, who will want to focus investment on supporting farmers while also building effective information feedback loops.**

Performance measurement is a Monitoring and Evaluation (M&E) approach intended to measure current conditions on the ground (a baseline) and track progress over time (follow-up). The goal of performance measurement is to provide modest (in scale, scope and cost) approaches to measuring conditions and change that complement other, more sophisticated impact measurement techniques.

First, sit down with colleagues to understand WHAT you want to measure and WHY (i.e. how will this information be useful). Start by mapping out project objectives and designing indicators that help you to understand if you are reaching your set company targets. Depending on your needs, your company may use just quantitative data (generally obtained through a survey) or both quantitative and qualitative data (a mix of survey, focus group and interview data). Data can be collected over a range of indicators, covering productivity, quality, income, food security, resilience and other livelihood elements.<sup>57</sup> (see Step 5)



Depending on the capacity of a company, a performance monitoring protocol could be created internally or in collaboration with a partner. Either way, you should consider being sensitive to not overburden producer partners or local staff with data collection, and ensure the data collected is useful to programme improvement – benefiting both producer partners and your company. The MIT D-Lab has created a LEAN approach to guide companies in their research efforts and it has been used by companies engaging in smallholder agricultural supply chains. This approach promotes rigorous, respectful, right-sized data collection that produces meaningful results for learning and decision-making.<sup>58</sup>

## MONDELEZ AND COCOA LIFE: IMPACT EVALUATION

An independent research agency is measuring the progress of the Cocoa Life programme on the ground by “conducting farmer, farmer household and community studies comparing baseline conditions to developments over at least three years”. The KPIs include:

- Net income from cocoa (men and women)
- Net income from sources other than cocoa (men and women)
- Cocoa productivity
- Increase in women’s participation in decision-making progress
- Cocoa farmers’ reduced vulnerability to external shocks.

Sources: *Mondelez, Cocoa Life*

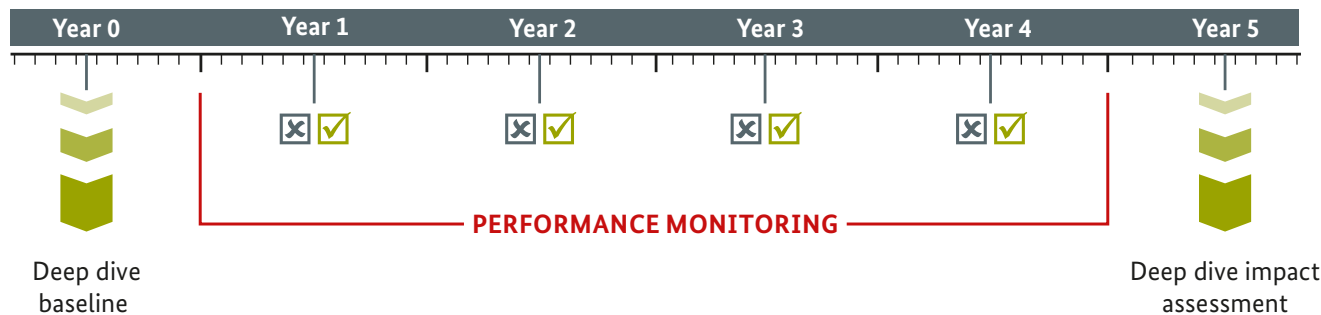
<sup>57</sup> For more information on performance measurement in smallholders supply chains, including guiding questions and indicator areas, see Sustainable Food Lab. [A Shared Approach to Performance Measurement: Common Indicators and Metrics](#), 2016

<sup>58</sup> MIT. [Lean Research Guide: A rigorous, respectful, relevant and right-sized alternative](#), 2018.

Performance measurement can be useful for a single study to measure the state of producers at a particular point in time (such as adoption of good agricultural practices, yield or income), and for subsequent measurements to identify whether activities are being accomplished as expected and whether the main outcomes are moving in the right direction. This is particularly relevant for understanding the effects of your company’s adaptation of business practices to directly improve farmer income, or supply chain innovations aimed at building producer assets and resilience. This approach can allow for some general analysis of correlation between the adoption of better management practices and specific outcomes (e.g. crop yields), but is not necessarily rigorous enough to demonstrate the attribution of outcomes to specific activities. Attribution questions – how much change can be attributed to a specific intervention – can possibly be included in more rigorous methods, including counterfactual groups for comparison. These approaches can be complementary, as illustrated in Figure 16.

A deep dive baseline will provide information on the “current state” from which you can measure progress; performance monitoring in the interim provides guidance on how the programme is progressing in time to make changes for improvement and, finally, the deep dive end line assessment gives more information about the “attribution” of change to the intervention if a control group is used (i.e. your programme was the sole cause of the change), or “contribution” to change (i.e. your programme could be one of many factors contributing to change) if a less rigorous evaluative method is used. Depending on your needs as a company, you can work with an expert to determine the rigour of your baseline and end line assessments (if you plan to use the results for internal decision-making with regard to an improvement, looking for “contribution” is likely enough; if you plan to publish in an academic journal or be held accountable to specific claims, you may need to show “attribution”).

TYPICAL CHARACTERISTICS OF PERFORMANCE MEASUREMENT<sup>59</sup>:



- Data collection over a range of indicators
- Drawing on data from existing regular sources in the system (such as certification audits or supplier data) or through fast and affordable survey techniques
- Changes are measured by tracking change over time, not from control groups comparison
- Household surveys are often designed to be straightforward, relatively quick and easily administered by local enumerators

Figure 16

For more information on performance measurement in smallholders’ supply chains, including guiding questions and indicator areas, see [A Shared Approach to Performance Measurement: Common Indicators and Measurements](#).



59 Sustainable Food Lab. *Performance Measurement in Smallholder Supply Chains: A practitioner’s guide to developing a performance measurement approach*. 2016.



# Additional resources



# Additional resources

## LEARNING SPACES AND RESOURCE COMPILATIONS

Global Living Wage Coalition

[www.globallivingwage.org](http://www.globallivingwage.org)

Living Income Community of Practice

[www.living-income.com](http://www.living-income.com)

ALIGN Action Network

[www.align-tool.com](http://www.align-tool.com)

## TOOLS AND LEARNING RESOURCES: MEASUREMENT

[Living Income Community of Practice: the Applications](#)

COSA. [Guide to Smallholder Performance Measurement](#)

Sustainable Food Lab. [A Shared Approach to Performance Measurement: Common Indicators and Measurements](#)

Sustainable Food Lab. [Performance Measurement in Smallholder Supply Chains: A practitioner's guide to developing a performance measurement approach](#)

MIT. [Lean Research Field Guide: A rigorous, respectful, relevant, and right-sized alternative](#)

[FAQ on Living Income benchmarks, LICoP](#)

[Guidance on calculating household income, LICoP, COSA, KIT](#)

[Applying the Household Economy Analysis to Measure and Address Income Gaps in Agriculture Supply Chains](#)

## TOOLS AND LEARNING RESOURCES: CLOSING THE INCOME GAP

BMZ/GIZ. [Video: Introduction to Living Income](#)

Sustainable Food Lab. [Enabling smallholder farmers to improve their incomes](#)

[Farmer Income lab. What works to increase smallholder farmers' income? A landscape review.](#)

[IDH Sustainable Trade Initiative. Service Delivery Models](#)

# Additional resources

## TOOLS AND LEARNING RESOURCES: PRICING

Fairtrade International. [Fairtrade Living Income Reference Price Model](#)

## SECTOR GOVERNANCE

Sustainable Food Lab. [An Overview of Sector Governance: Looking beyond the value chain to build high performing and resilient agricultural sectors](#)

[Inclusive Business Action Network](#)

[Shared Value Initiative](#)

## DATA / RESEARCH PORTALS

ISEAL Alliance. [Evidensia](#).

Evidensia provides easy access to credible research on the sustainability impacts of supply chain initiatives and tools, including standards and certification.

[World Bank. Poverty and Equity Data Portal](#)

Comprehensive source for the latest data on poverty, inequality and shared prosperity. The portal allows you to explore several poverty and inequality indicators for countries and regions as well as explore countries by various income levels – low income, lower middle income and upper middle income – and access poverty and inequality data for fragile, IDA and other country groupings.

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