



# Living and Actual Income of Smallholder Tea Farmers in Malawi

Webinar, Community of Practice on Living Income  
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# 1. The Concept of Living Income



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# 1. The Concept of Living Income

- *Living Income* and *Living Wage* are closely connected.
- The concepts of *Living Wage* and *Living Income* are both dealing with the requirements to achieve a **decent standard of living** for people in different countries and contexts.
- The idea of a *Living Wage* is applied in the context of hired workers (in factories, on farms) while *Living Income* can be applied to both, those that work as hired workers or independently (e.g. as farmers)
- *Living Income* is typically applied in the context of farm households where you may have different income streams including income from hired labor

# Operational Connector

When calculating different income streams within a household we propose to use the *net income per labor unit* (per year, month, week or day) as operational connector



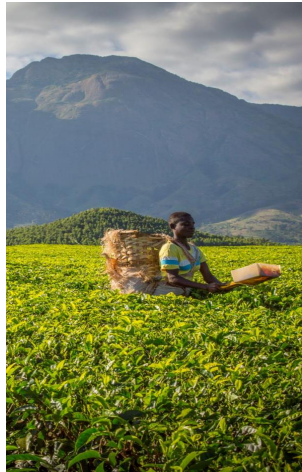
# Definition

## Living Income

- **Household concept**
- Applies to **any income earner**
- A living income is the net income of a household, sufficient to enable all members of the household to afford a **decent standard of living**. (currently under revision by the Community of Practice on Living Income)



## 2. Methodology



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## 2. Methodology



**1. Determining Household and Farm Composition**

**2. Deriving a Living Income Benchmark**

**3. Determining the Actual Income**

**4. Compare Actual Against Living Income (Gap Analysis)**



## 2. Methodology

### 2.1 Determining Household and Farm Characteristics

Characteristics of household and farm	Part-Time (Typical) Smallholder Model Employment Rate: 43%	Full-Time Smallholder Model Employment Rate: 100%
Determining the household for consumption and as workforce	<ul style="list-style-type: none"><li>• 5 people per HH</li><li>• 1.59 people as productive work force</li><li>• 169.5 workdays of 391.8 workdays utilized</li></ul>	<ul style="list-style-type: none"><li>• 5 people per HH</li><li>• 1.59 people as productive work force</li><li>• All 391.8 workdays utilized</li></ul>
Main farming activities as the base for farm income	<ul style="list-style-type: none"><li>• 0.6 ha = total farm size</li><li>• 0.4 ha = tea</li><li>• 0.2 ha = maize and pigeon pea in relay cropping</li><li>• No other on-farm or off-farm activities</li></ul>	<ul style="list-style-type: none"><li>• 1.39 ha = total farm size</li><li>• 0.92 ha = tea</li><li>• 0.46 ha = maize and pigeon pea in relay cropping</li><li>• No other on-farm or off-farm activities</li></ul>

Done through secondary information, focus group discussions or formal surveys

## 2.2 Deriving a Living Income Benchmark

- Using Ankers methodology (regarded so far as „best“)
- Or as **proxies** the World Bank Poverty Lines
- Trying a local methodology by University of Malawi

Cost of  
nutritious low  
cost diet

+

Cost of basic  
acceptable  
housing

+

Other  
essential  
expenses

+

Margin for  
unexpected  
events

=

Cost of  
basic quality  
of life for  
average  
person

×

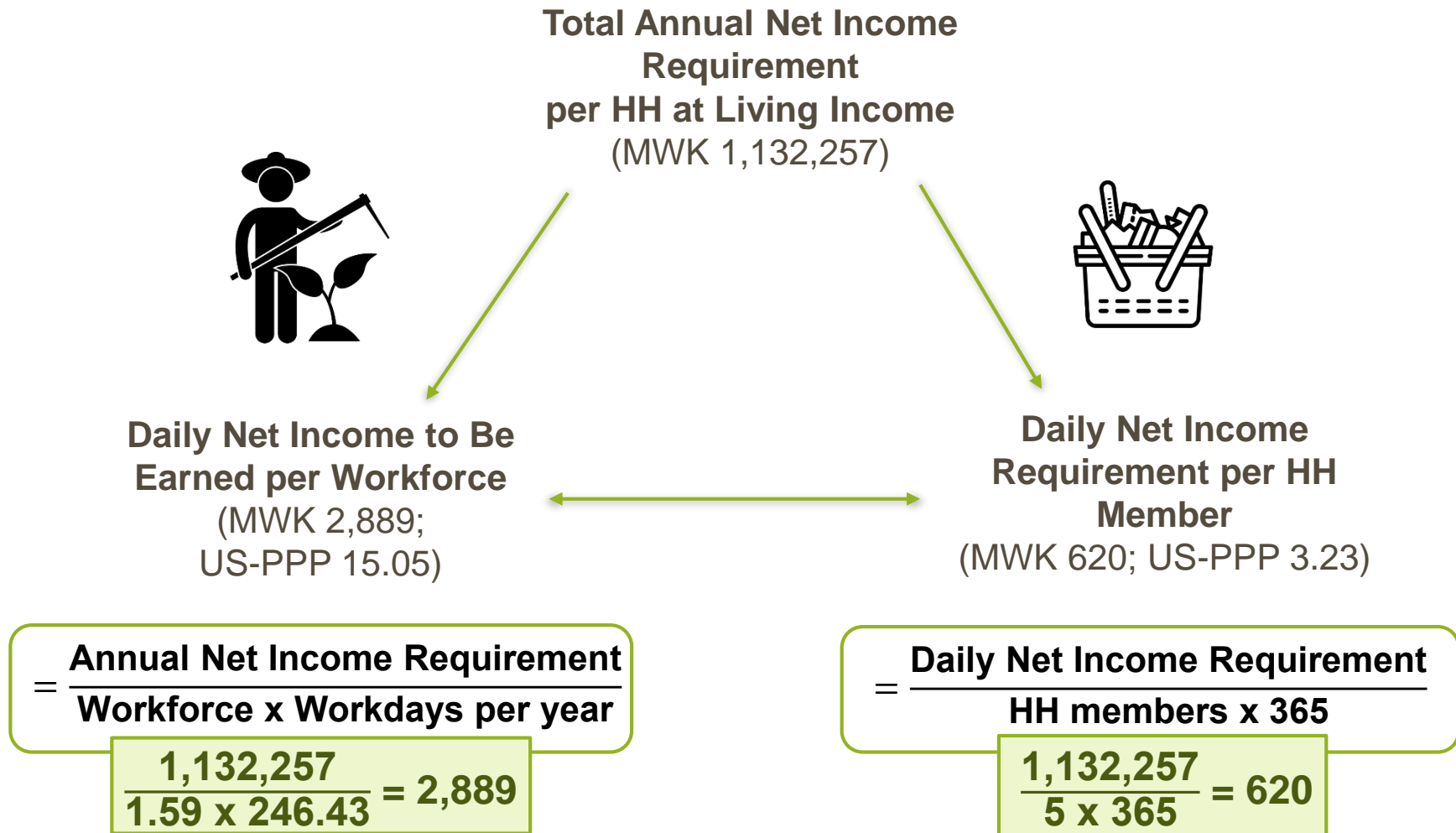
Family  
size

=

Living  
Income

... but calculating the benchmarks is only half of the battle. **It's the gap between actual income and living income that matters!**

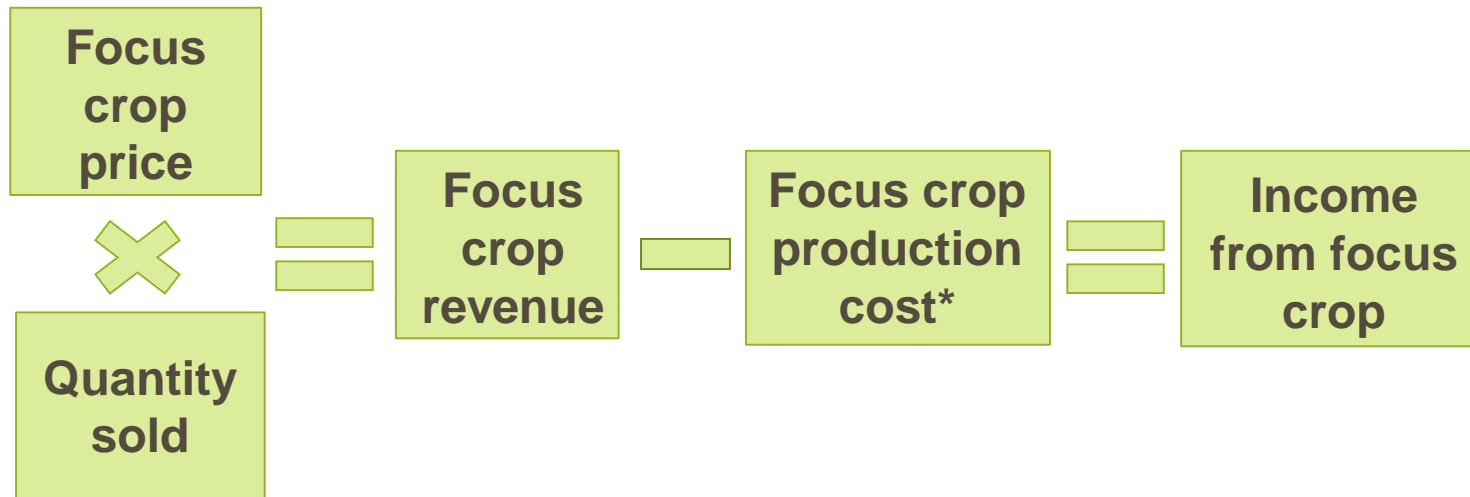
## 2.2 Deriving a Living Income Benchmark



## 2.2 Deriving a Living Income Benchmark

	Living Wage/- Living Income in MKW	No. of WDs/year	No. of work force	Annual Income Required per HH in MKW	Daily Income required per HH Member in MKW	Daily Income required per HH Member in USD-PPP
<b>Living Wage (Ankers)</b> 5 HH members	2,580	276	1.59	1,132,257	620.41	3.23
<b>Living Income (adjusted from Ankers)</b> 5 HH members	2,889	246.43	1.59	1,132,257	620.41	3.23
<b>World Bank Extreme Poverty Line</b> 5 HH members	1,699	246.43	1.59	665,968	364.91	1.90

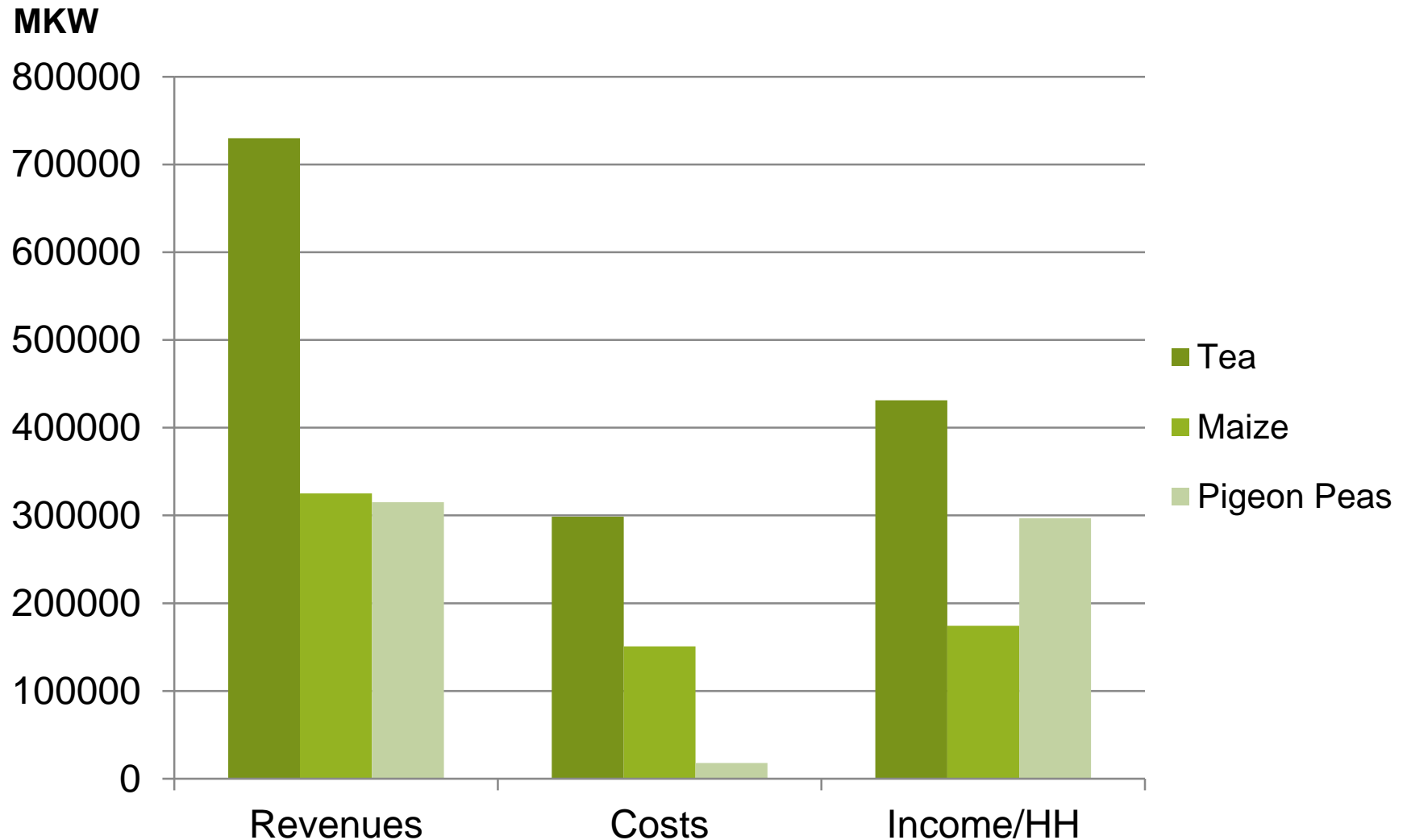
## 2.3 Determining the Actual Net Income



\*except family labor costs

## 2.3 Determining the Actual Net Income

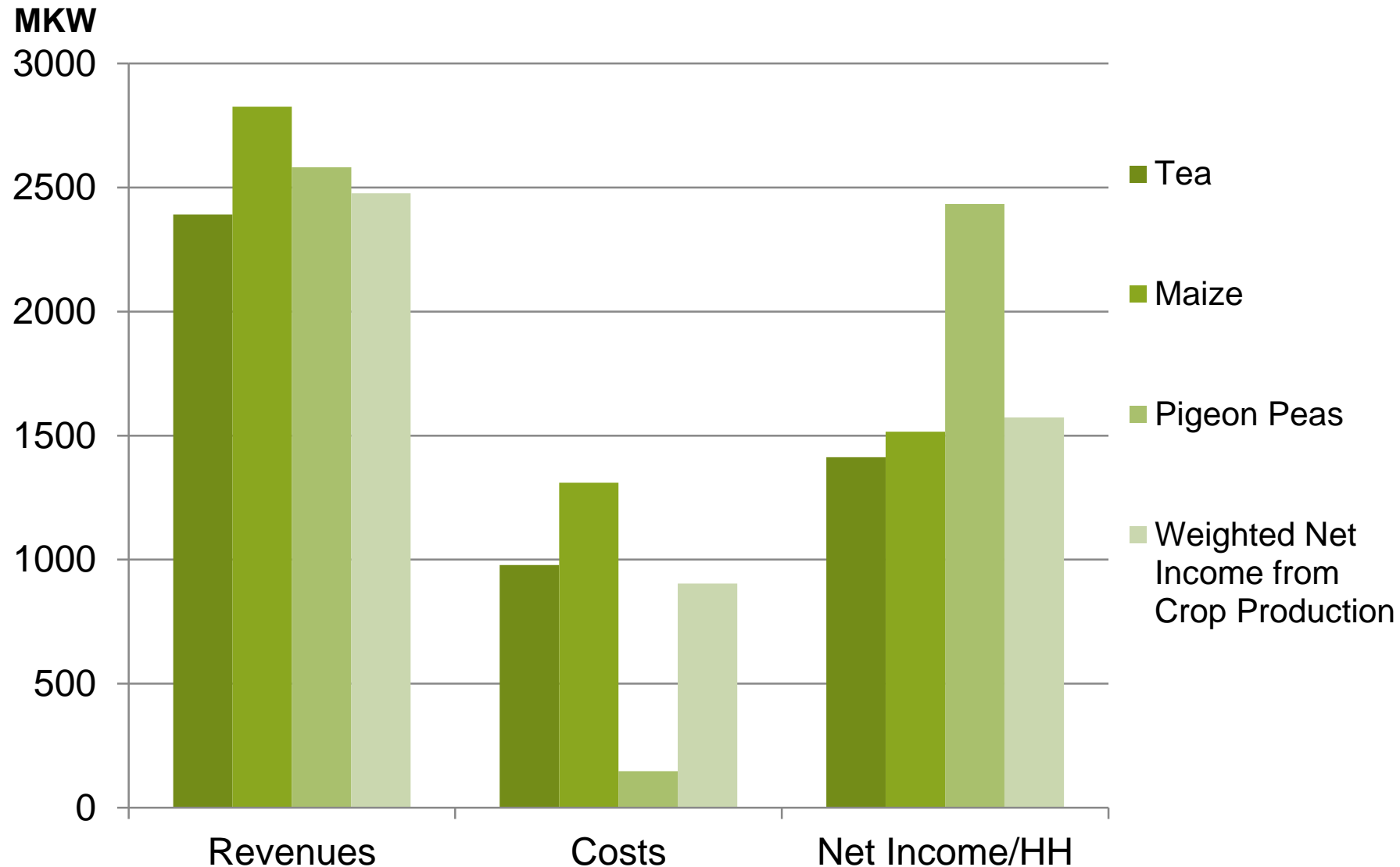
Crop budgets of main crops of a typical smallholder tea farm per hectar





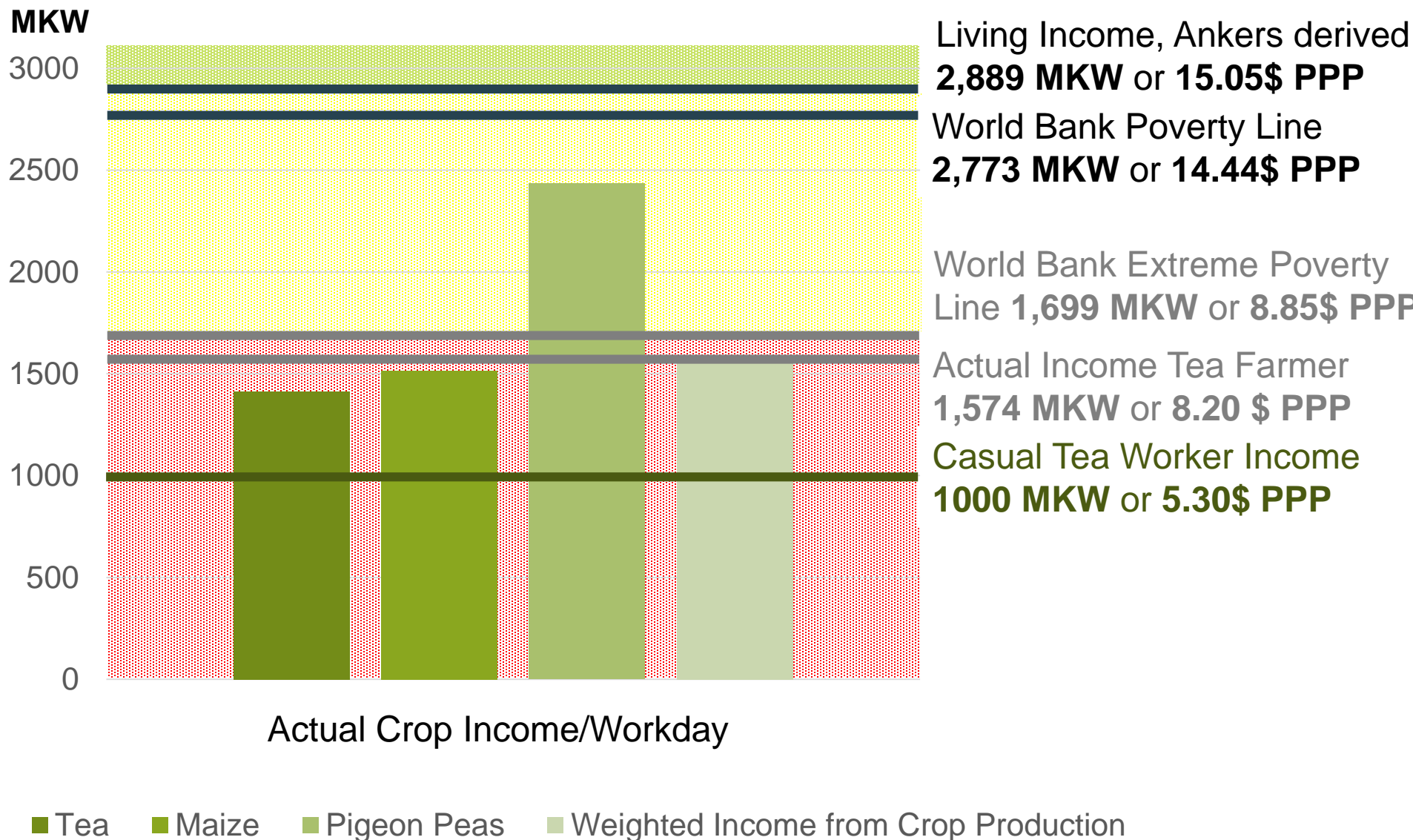
## 2.3 Determining the Actual Net Income

Crop budgets of main crops of a typical smallholder tea farm per workday



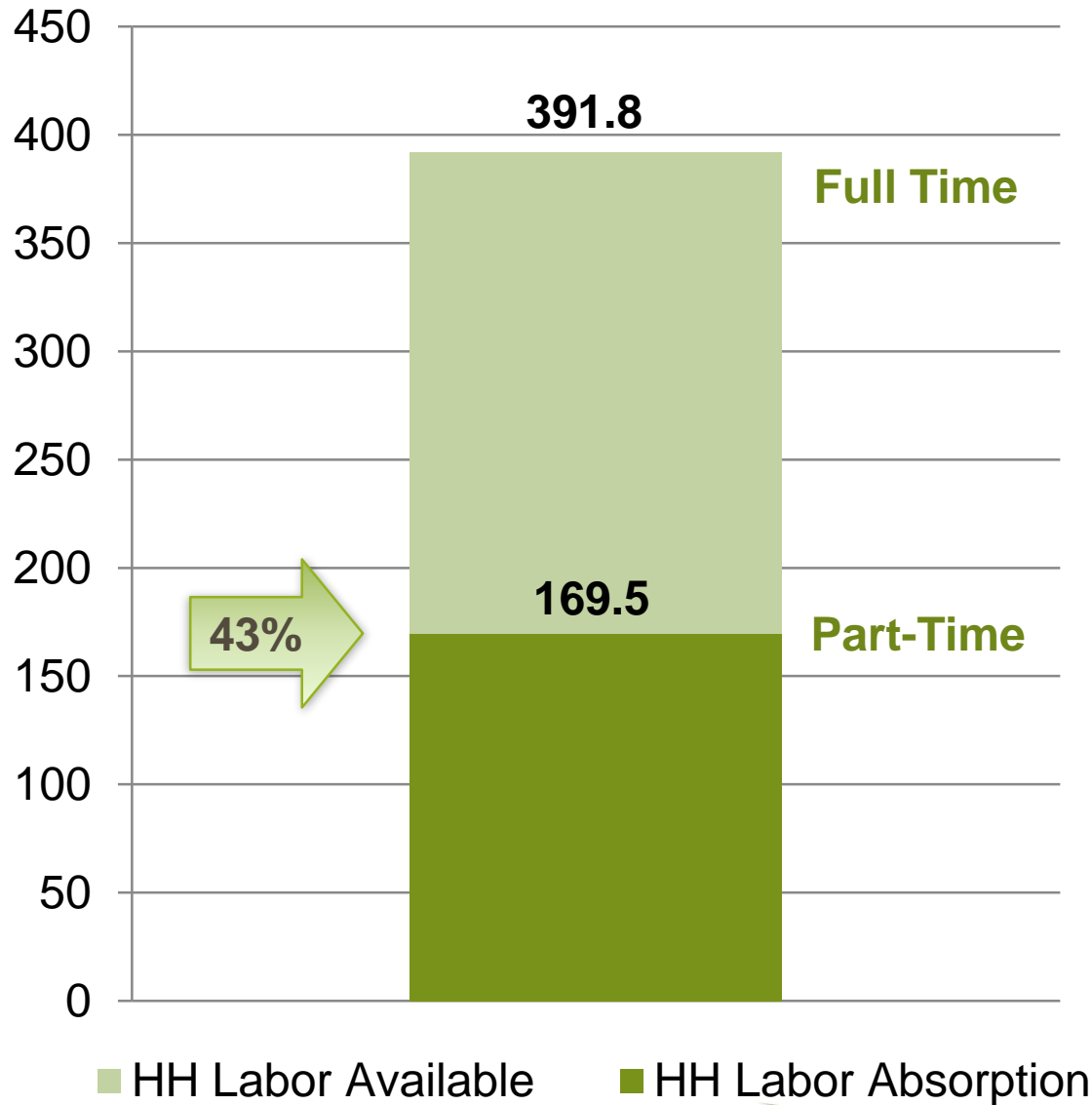
## 2.3 Determining the Actual Net Income

Net Income per workday of a typical smallholder tea farmer & benchmarks



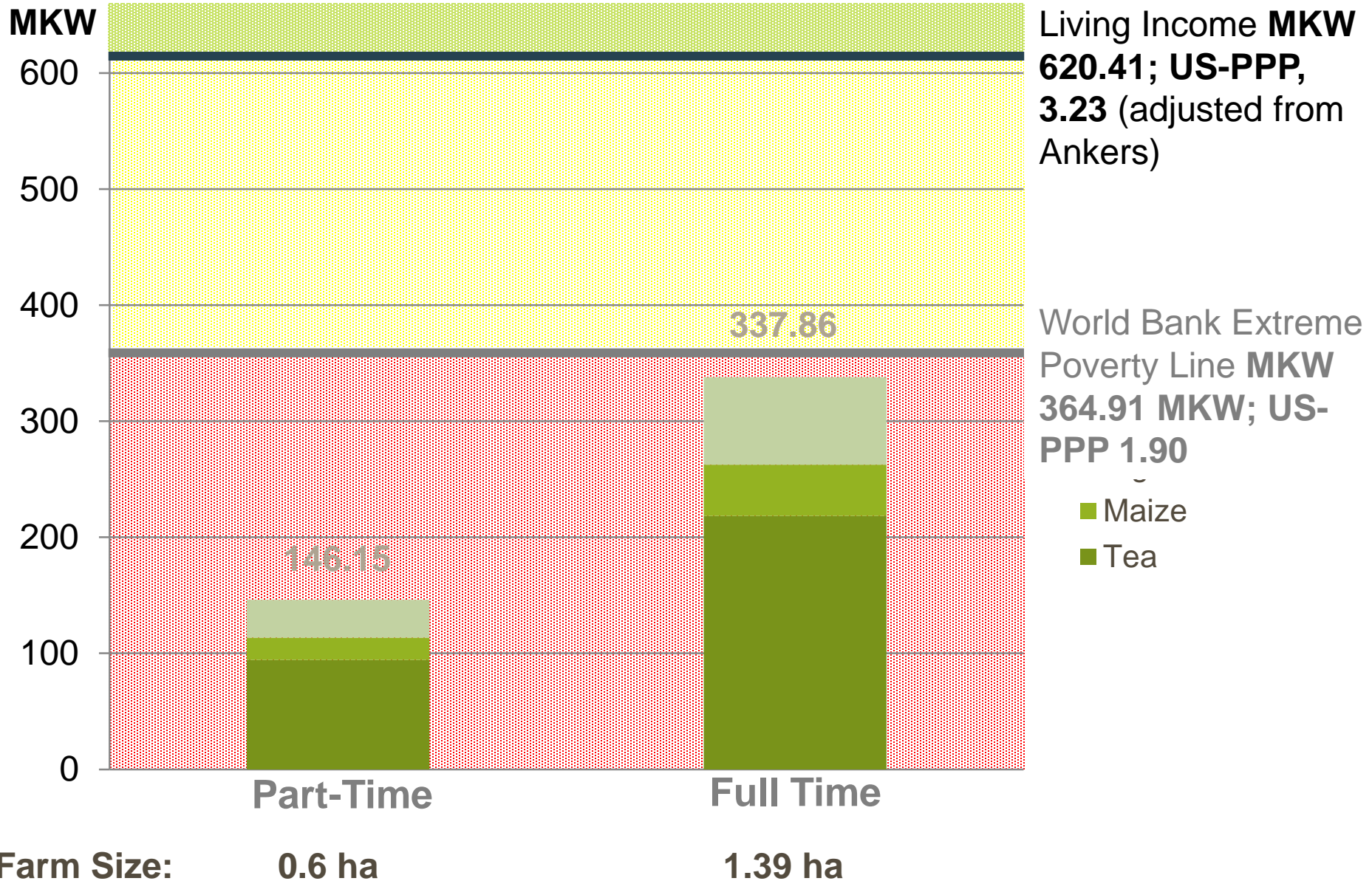
## 2.3 Determining the Actual Net Income

### Workdays per Year per Household



## 2.4 Comparing Actual Net Income against Living Income

### Smallholder Farm Models – Net Income per Person



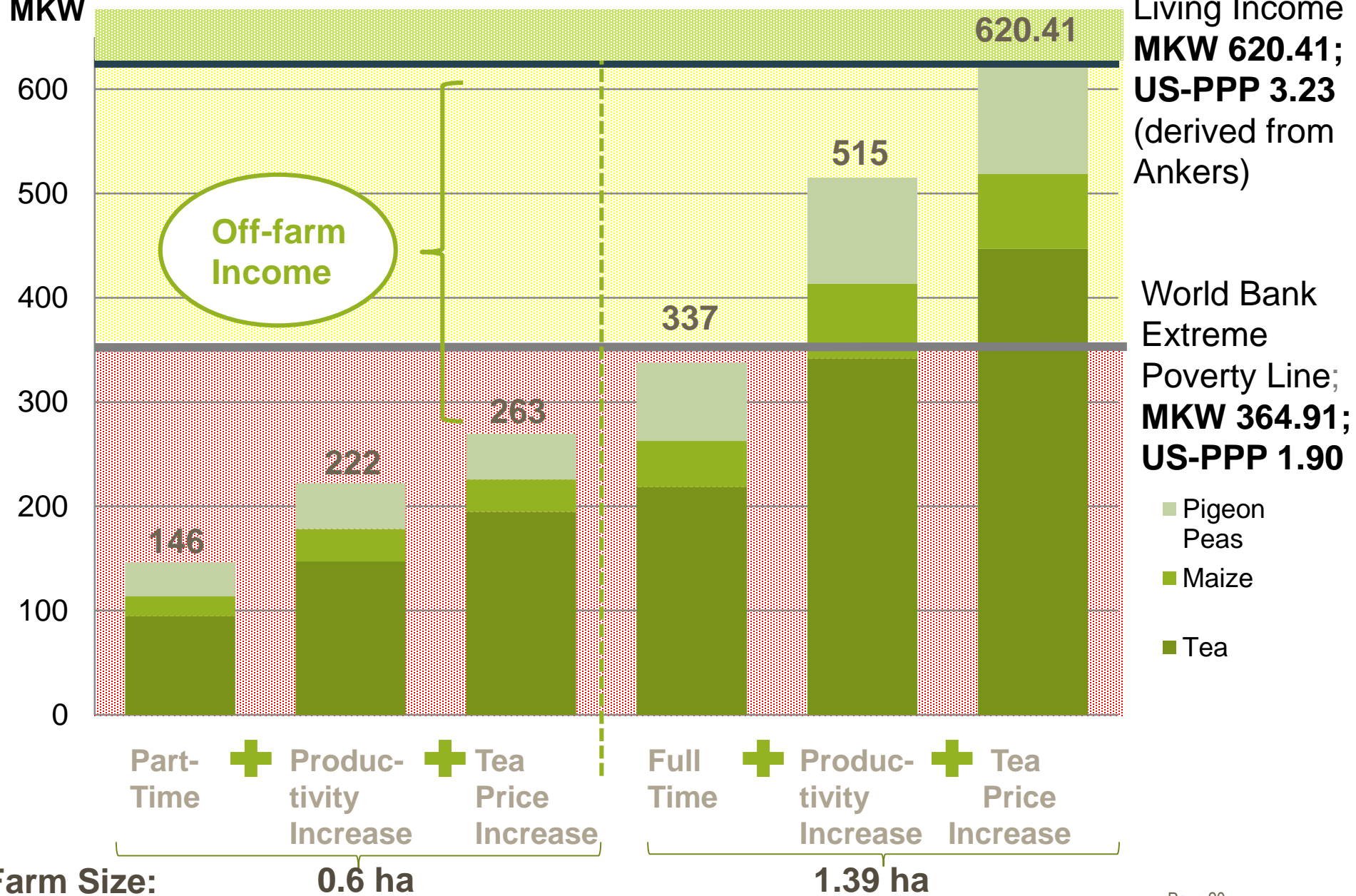
### 3. Modeling: from Average Smallholder Tea Farmer to Reaching a Living Income



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# 3. From Average Smallholder Tea Farm to Reaching a Living Income – Part-Time and Full Time Model

MKW





# Towards reaching a living income

- „**Classic**“ capacity development activities to increase farmers agronomic **productivity by 33%**
  - Conducting farmer field & business schools to improve technical and entrepreneurial knowledge of smallholder farmers
  - Supporting village savings and loan groups (VSLs) to increase capital base
- „**Alternative**“ promotion activities to increase tea prices by 22%
  - Introducing sustainable procurement practices (at the moment being tried out through IDH/Oxfam activities)
  - Introducing sustainable consumption practices (making consumers aware/fair pricing)

## 4. Conclusions



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# Conclusions

- Living Income benchmarks:
  - **Upper bars:** Ankers **3.23 US \$ PPP** vs. World Bank Poverty Line of **3.1 US \$ PPP** are very similar
  - **Lower bars:** World Bank Extreme Poverty Line of **1.9 US \$ PPP** and if available, National Poverty Line
  - World Bank Poverty lines may well serve as proxy living income benchmarks
  - Casual labor line serves as a reference line for agricultural labor on the labor market
- We propose a „green zone“ starting from the Ankers' derived Living Income line upwards to depict the area where a living income has been reached
- We propose a „yellow zone“ between the Ankers' derived Living Income line and the World Bank extreme poverty line to depict an area where there is upwards a transition towards a living income
- We propose a „red zone“ below the World Bank extreme poverty line to depict an area that is clearly below a living income

# Conclusions

- For the case of Malawi our model calculations suggest
  - Part-time model
    - A living income based on crop production cannot be reached under prevailing conditions of farm size, productivity and tea price (Part-time Model);
    - However, significant increases can still be reached by productivity and price increases (however, this would remain below the living income benchmark); additionally well remunerated off-farm income opportunities would need to be pursued in order to reach a living income
  - Full time model
    - A living income can be reached with a productivity increase of 33% („classical approach“) and tea price increase of 22% („alternative approach“, e.g. through „sustainable procurement and consumption practices“)



**Thank you!**

### Acknowledgements

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