

Living Income Webinar Series

16 July 2019

Living Income Efforts in the Coffee Sector

Supported by the



Federal Ministry
for Economic Cooperation
and Development

Implemented by



Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH



Today's webinar facilitators



Christina Archer
Sustainable Food Lab



Sheila Senathirajah
ISEAL Alliance



Coffee Cherries, Sustainable Food Lab

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Agenda

1. Introduction to the Living Income Community of Practice
2. Living Income Gap Analysis, Kenyan coffee
3. Q&A
4. State of the Sector – open discussion:
5. Upcoming webinars and events

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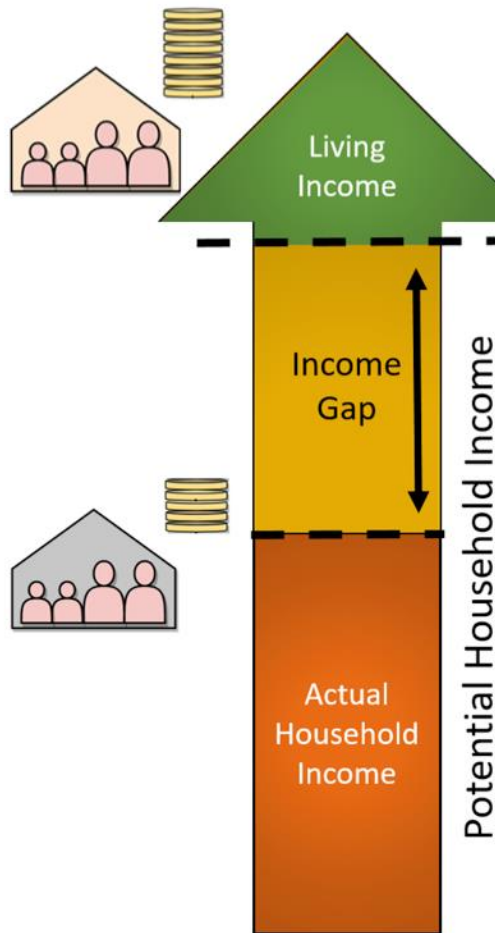


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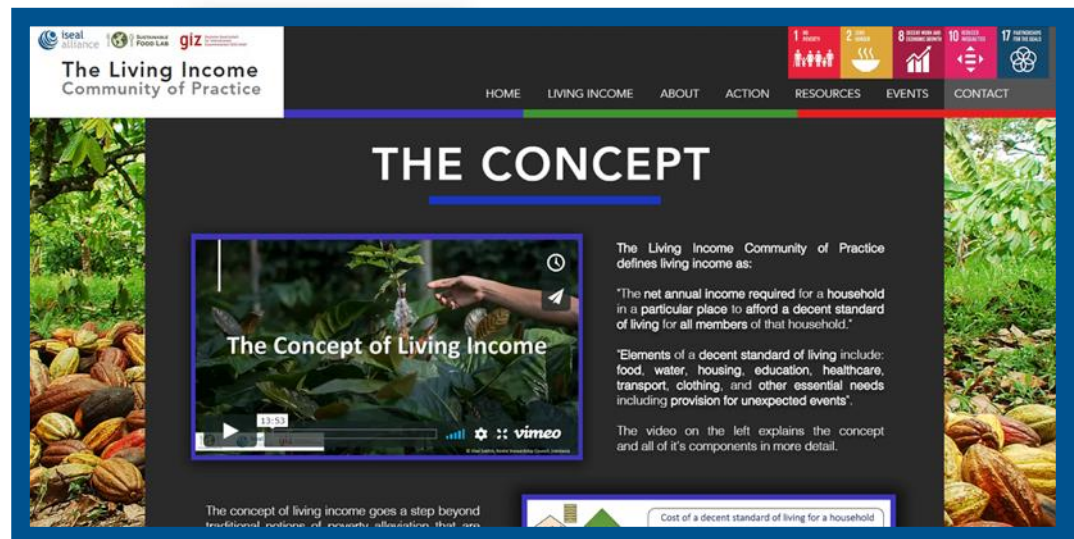
The Living Income Community of Practice

Foster collaboration and support organisations in their journey towards improving farmer incomes, and enabling farmers to achieve a decent standard of living.



Cost of a decent standard of living for a household

Cost of decent food + Cost of decent housing + Cost of other essential needs + Provisions for unforeseen events



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Join us! www.living-income.com

The Living Income Community of Practice

Fostering collaboration and support organisations in their journey towards improving farmer incomes, enabling farmers to achieve a decent standard of living.

Facilitate learning and exchange around measurement

Understand the gap between actual and living income

Identify and discuss strategies to close the income gap

Learning across sectors
and helping organisations realise SDG commitments

Open community of practice

Sharing information about the efforts of different actors in this space

Learn more: www.living-income.com
Contact: adam@isealalliance.org

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Demonstrating and Improving Poverty Impacts (DIPI) Programme

Working towards improving the livelihoods of smallholders

Demonstrating and Improving Poverty Impacts (DIPI) Programme.

Demonstrate the contribution that certification systems can make to poverty alleviation and pro-poor development; and

Drive poverty alleviation and improved livelihoods for those working primarily in agriculture and forestry, through improved impacts of certification.

Demonstrating and Improving Poverty Impacts (DIPI) Programme.

- » One of the key project activities was research looking to understand the impacts of certification on farmer livelihoods and poverty.
 - Evaluations were conducted in 3 varied product-geography contexts, focusing on a different standard or set of standards but with a common research focus on supporting the livelihood and income of poor smallholder farmers. Baseline research took place in 2015, published in 2016 and end line field research in 2018, published in 2019.

Demonstrating and Improving Poverty Impacts (DIPI) Programme.

›The 3 research sector/ sites are:

- » Coffee, Kenya (impacts of UTZ and Fairtrade)
- » Coffee, Indonesia (impacts of Rainforest Alliance and 4C certifications)
- » Cotton, India (impacts of BCI certification)

For today's webinar, we will be talking about the research work done in Kenya on coffee. In this context ISEAL engaged the Committee on Sustainability Assessment (COSA), to undertake the impact evaluation as well as use the opportunity to gather some additional data to support the work on living income in the region and sector.

Today's guest speaker



Carlos de los Rios
Committee on Sustainability Assessment (COSA)

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Tea, Kenya © Ola Höiden for Fairtrade

Income gap analysis of coffee farming households in Western Kenya

Comparing actual incomes with the Living Income Benchmark

Carlos De Los Rios
Senior Researcher, COSA

July, 2019

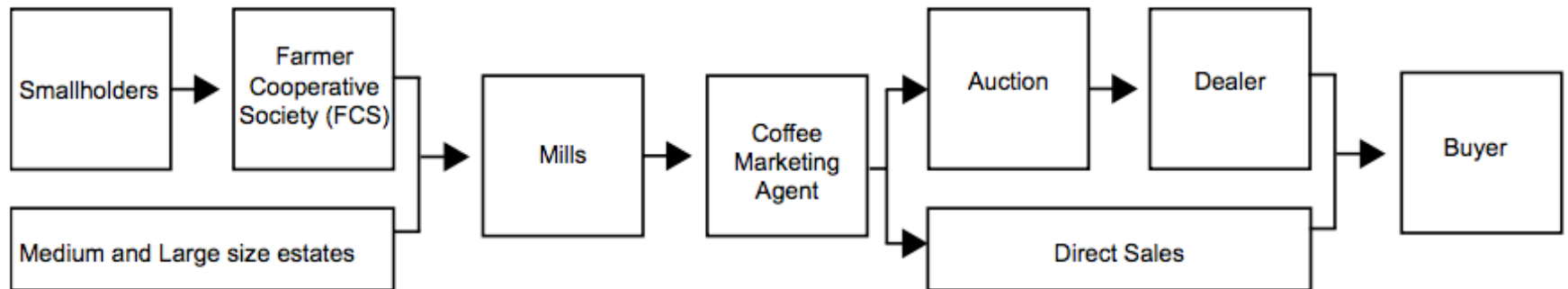


Background

The objective of the study is to assess the income gap between **actual living incomes** and the **living income benchmark**, and to propose alternatives on how certification bodies can contribute to close the gap.

The study collected qualitative and quantitative data between September and October 2018 as part of the DIPI evaluation program. We interviewed 304 farmers clustered in three cooperatives in the Mount Elgon region (Bungoma).

Coffee Farming in Kenya



Household clustering allows sharper insights

- Facilitate income comparison and reflect the variability of household composition and livelihood strategies.
- Hierarchical clustering: we found three distinct groups:
 - Female-headed households
 - Male-headed households with 1 or less acres for coffee farming
 - Male-headed households with more than one acre planted with coffee.

Cluster variables	Female-headed	Male-headed, typical	Male-headed, large
Household size	6.1	7.0	7.0
Coffee Area (acres)	0.6	0.5	1.5
Clustering disparities			
Education	6.2	9.1	9.8
% Credit	40%	40%	64%
% coffee / total income	28%	22%	33%

Capturing all household income components

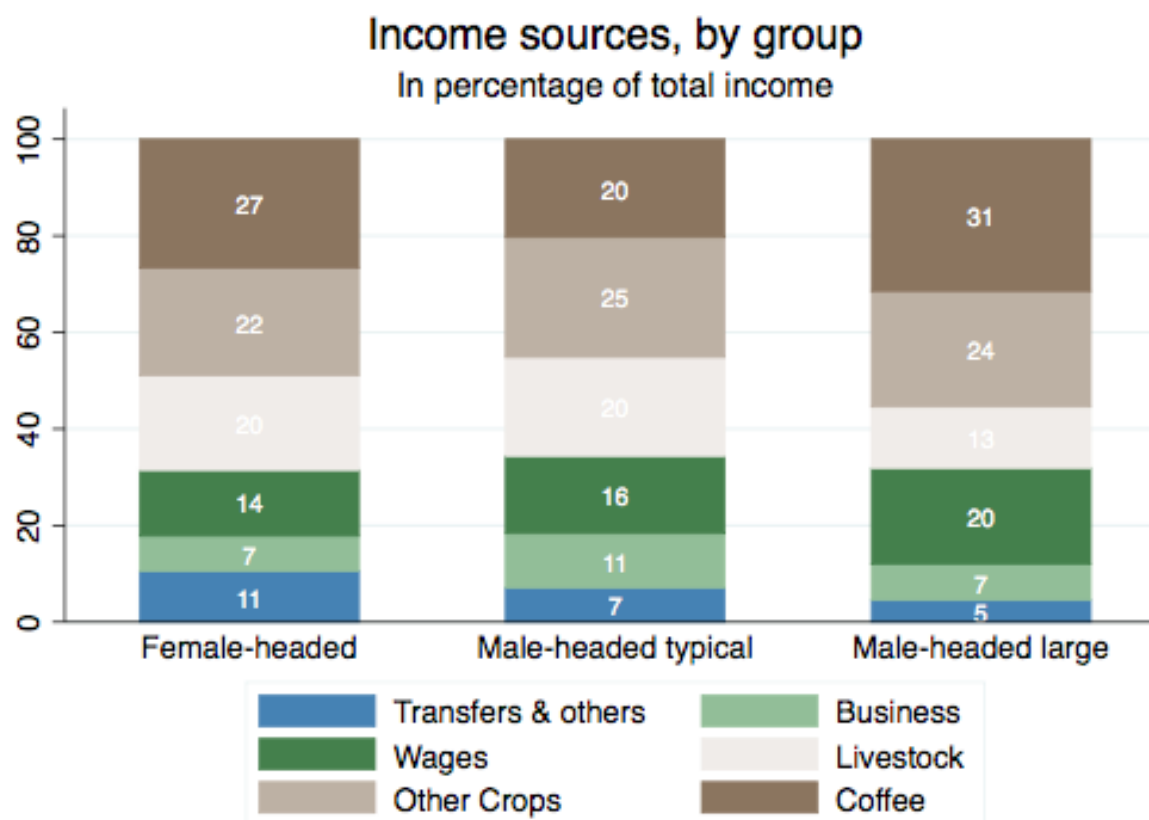
- Various income streams beyond farming and livestock management, mostly informal.
- Survey developed to adequately assess net income from coffee production, and effectively capture typical sources of income in rural areas from household members.

Labor income	
	Agricultural Non agricultural
Independent	<div> Farm net income: - Focus crop (coffee) - Other crops - Livestock </div> <div> Household business (handcrafts, shop, etc.) </div>
Dependent (any household member)	<div> Work in someone else's farm </div> <div> Work off-farm for someone else (local government, private business) </div>

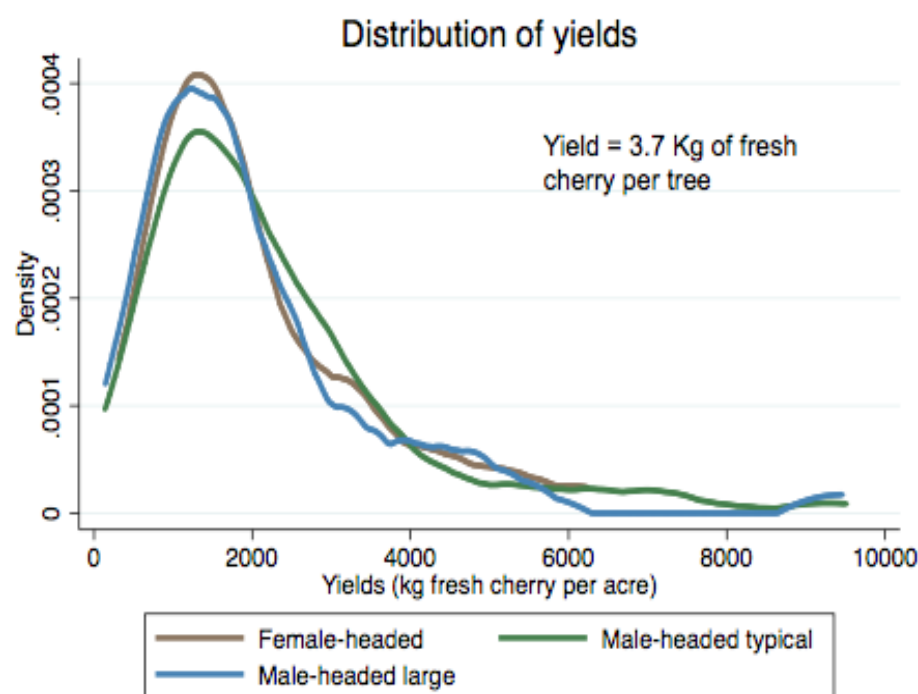
Non-labor income

Remittances, retirement, CCT, safety net programmes, etc.

Income diversification as a risk management tool



Two ways of constructing the coffee income picture



- Little input usage: 55% of farmers hire labor, 52% use fertilizers, and only 21% use pesticides.
- The ratio of revenue to cash outlays is 5:1
- Male-headed large farmers have higher revenues per acre, but also higher costs. On average net incomes per acre are similar across groups

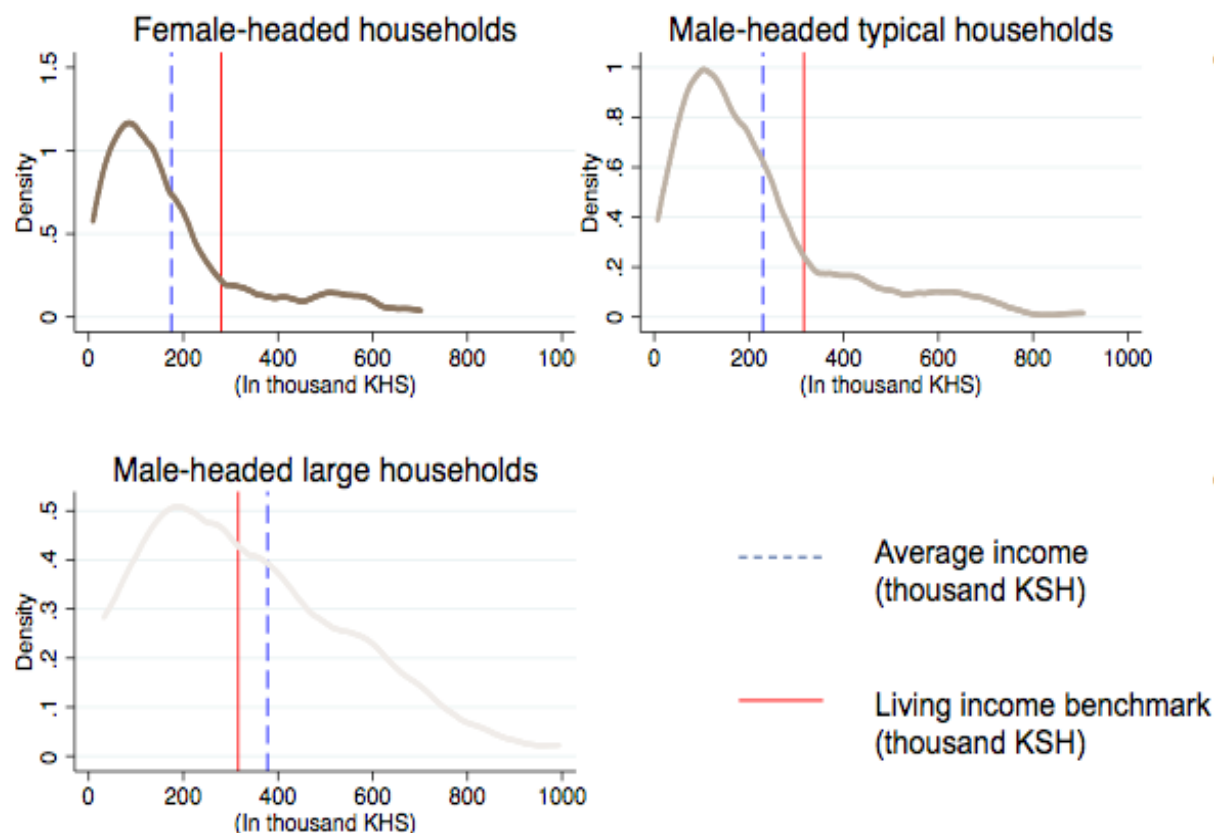
Comparing actual income with the living income benchmark

- We use the “cost of a basic but decent life” concept in the estimation of the living wage (Anker & Anker, 2017)
- We need to adjust the reference size of household to account for the specific household composition of adults and children found in our Western Kenya clusters:
 - Adjust the cost of the per-person diet
 - Adjust the cost of decent housing and associated utilities
 - Adjust for inflation
- We compare our results with what farmers in focus groups discussed. Results are fairly similar

(In thousand KSH)

	Female-headed	Male-headed, typical	Male-headed, large
Living income benchmark	280	316	316
Food	149	174	174
Housing	43	50	50
Non-food non-housing	58	58	58
Provision (5%)	12	14	14
Inflation adjustment	18	21	21

Comparing actual income with the living income benchmark

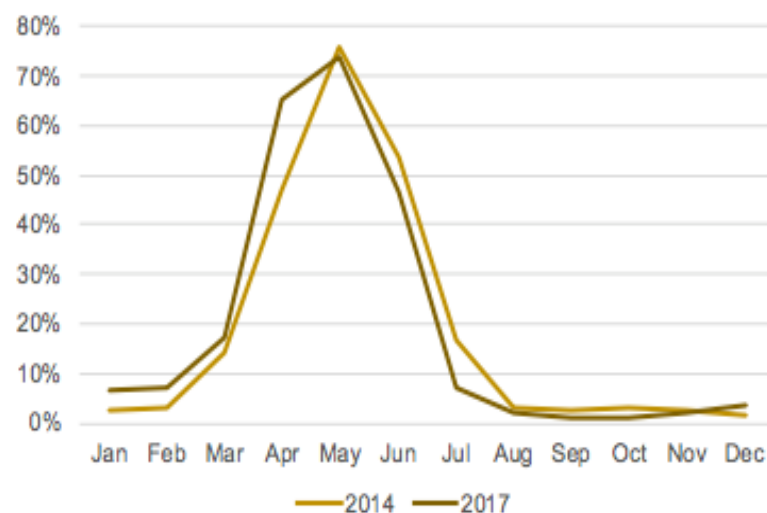


- Female-headed households and typical male-headed households are on average significantly below the living income benchmark (84% and 80%, respectively)
- Large male-headed households are on average better positioned, yet 40% are still below the living income benchmark.

Large poverty rates affect food insecurity

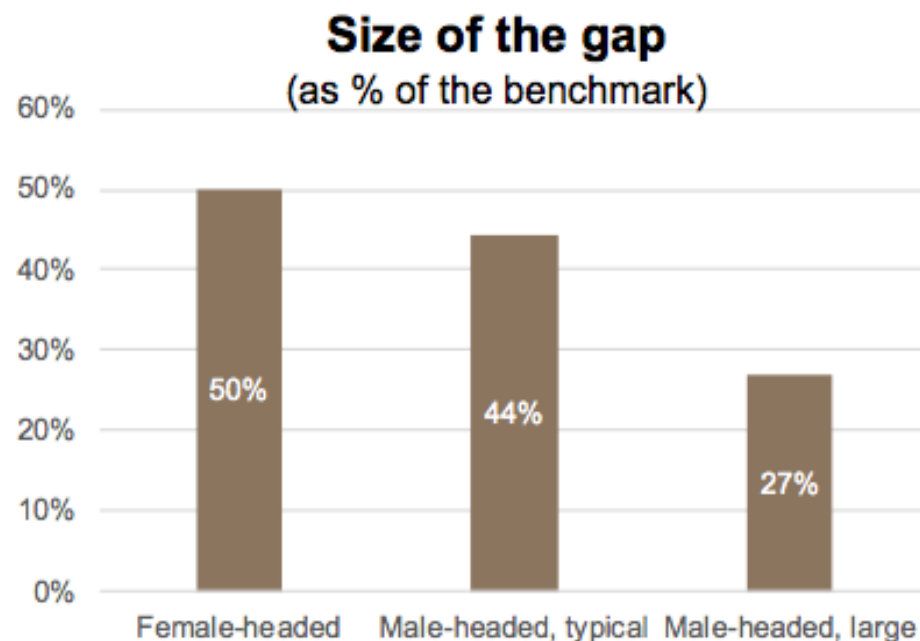
- Large number of farmers are not able to meet a basic cost of needs bundle.
- While incomes have significantly increase over time, poverty remains the same (income gap)
- Income streams are not evenly distributed over time. In fact, the harder season is between April and June, when farmers are expecting coffee payments.

Monthly distribution of food insecurity



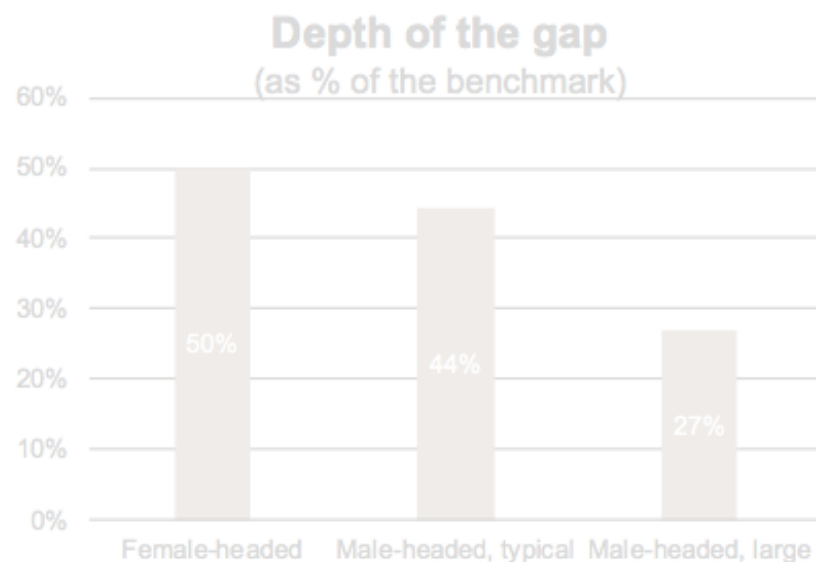
Depth of gap and inequality amongst the poor matter

- 77% of farmers live below the living income benchmark... but how far do they stand below the living income benchmark?

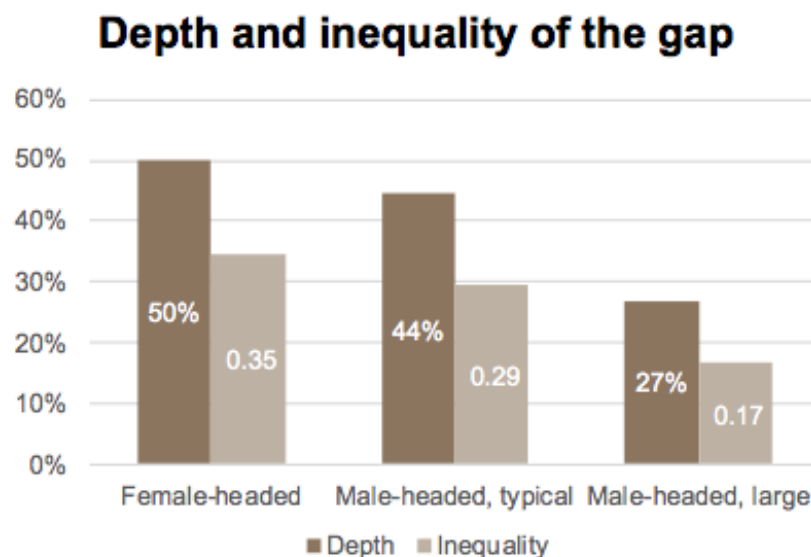


Depth of gap and inequality amongst the poor matter

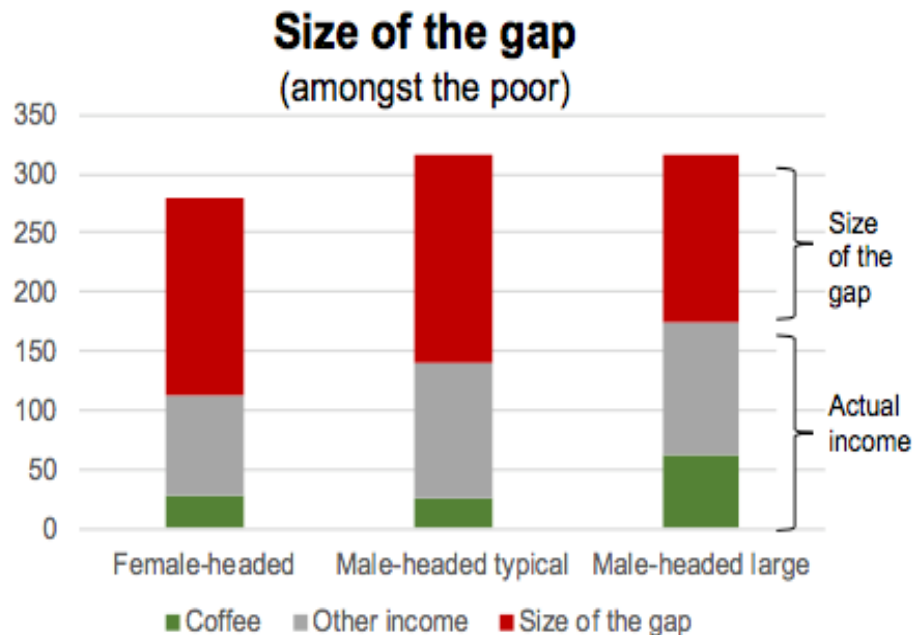
- 77% of farmers live below the living income benchmark... but how far do they stand below the living income benchmark?



- What about the distribution of the gap... are all farmers stand at the same point below the living income benchmark?



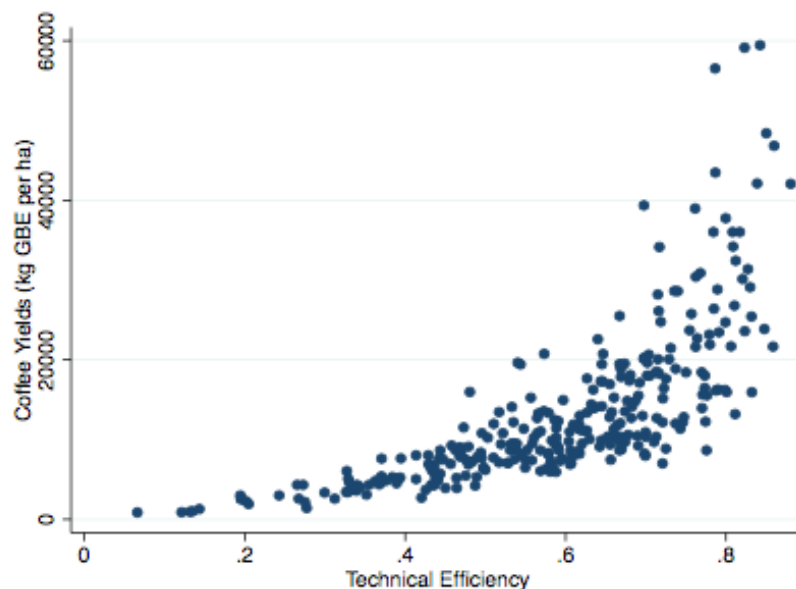
How much is needed to meet the living income benchmark



- Average income for large male-headed households exceeds the living income benchmark:
 - Relatively low poverty gap index
 - Significant portion of households above the living
- However it is necessary to assess which income stream(s) could deliver the best combination of income and risk.
- The relative weight of coffee income is low (24%). However, there is significant room for improving coffee income.

Technical efficiency can contribute to closing the income gap

- We estimate farmers ability to produce the maximum output possible given locally available production factors.
- Average technical efficiency = 0.58. As more farmers are able to adequately use these factors (e.g. inputs and labor) exponential yield increase is plausible.
- Farmers' productivity can almost double with existing technology by using an adequate mix of good agricultural practices.



There is room for quality improvement

- Prices received in the Mt. Elgon region (KSH 47.65) are significantly below national average (KSH 53.75) due to poor quality.
- Large heterogeneity between cooperatives (being the same agroecological region)
- We found that training, both at the farm and cooperative levels, promote quality improvement.
- Quality incentives for farmers are needed

Other sources of income is an alternative

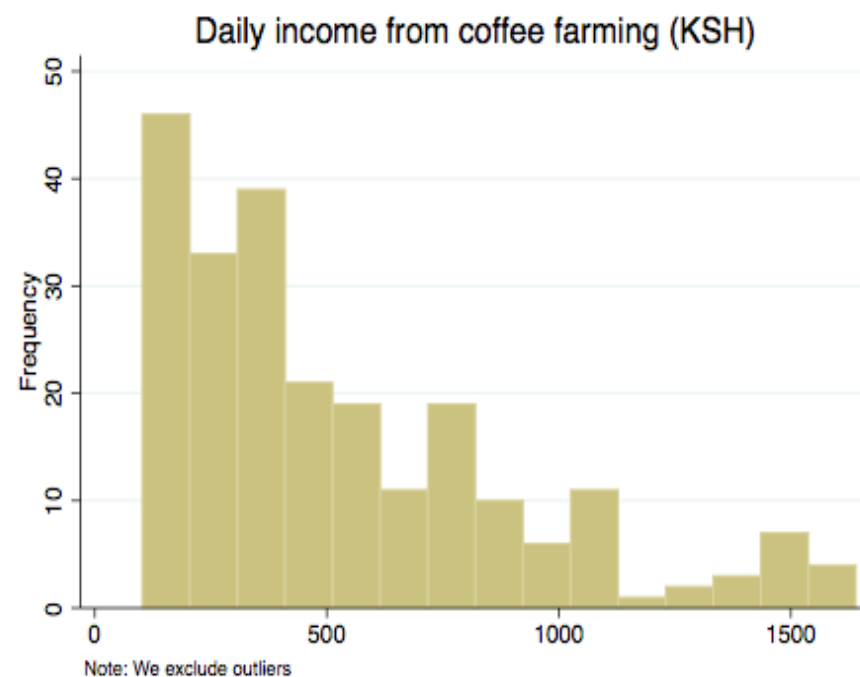
- Being above the living income benchmark is highly correlated with having other sources of income at the household level.
- But having other sources requires assets:
 - Livestock income (capital)
 - Wage income (education)

Coffee pays well, but risky

- Average family labor allocated to the coffee farm is 78 days.
- Average daily rate from coffee farming pays higher than other alternatives in the region, but... highly heterogeneous.

Average daily rate (KSH)	
--------------------------	--

Agricultural worker	270
Off-farm labor	425
Daily income from coffee farming	530



Closing the gap: A summary of findings

- Coffee farmers in Western Kenya are poor (77% of interviewed households live below the living income benchmark)
- Farmer's living below the benchmark are on average 58% below
- Coffee accounts for 24% of total household income
- Scope to significantly improve coffee net income by leveraging farmers technical efficiency (higher yields), and providing improved quality incentives (at the FCS level)
- However, coffee income itself will not close the gap as the "poverty" depth is large enough and coffee area is too small.
- Assessing other sources of income (on and off farm) and the opportunity cost of labor on the coffee farm, is crucial to close the gap while keeping low levels of risk ensuring sustainable livelihoods.



Equivalences

1 acre = 0.4 hectares

1 USD = 100 Kenyan Shilling (KSH) 1kg

Green Bean (GBE) ~ 7 kg Fresh Cherry
(GCP)*

Thanks

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info@thecosa.org

Questions?



Community of Practice Member Updates

Global Coffee Platform

ICO

IDH

SCA PRC

Fairtrade

GIZ

Aidenvironment

Shift

Azahar

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Coffee Processing, Tanzania, Sustainable Food Lab

Current Initiatives on Farmer Income in the Coffee Sector

Country	Initiative	Organizations	Contact / URL
Global	Sector Dialogues in various member countries	International Coffee Organization	Saenger@ico.org
Global	SCA Coffee Price Crisis Response Initiative	SCA Committee	pricecrisis@sca.coffee https://sca.coffee/research/sustainability
Global		World Coffee Producers Forum	
Colombia	Coffee Living Income Task Force	IDH	https://www.idhsustainabletrade.com/sectors/coffee/
7 origin countries	Assessing costs of production for LI reference prices	Fairtrade International	Peter Kettler p.kettler@fairtrade.net
Multiple origins	True Price and living income research	True Price & Fairtrade International	https://trueprice.org/wp-content/uploads/2015/04/Assessing_Coffee_Farmer_Household_Income_Report_2017_updated.pdf
Ethiopia	GIZ Coffee Initiative	GIZ	
Kenya	Demonstrating Impacts on Poverty Initiative	COSA/ISEAL and members	Carlos de los Rios cd@thecosa.org , Vidya Rangan vidya@isealalliance.org
Uganda	Sustainable Living Income Project	Shift/Great Lakes Coffee/GIZ	https://www.shiftsocialimpact.com/sustainablelivingincomes
Colombia	Purchasing approach which benchmarks price to both costs of production and regional minimum wage levels	Azahar Coffee	https://azaharcoffee.com/en/tyler@azaharcoffee.com

Global Living Wage Coalition Benchmarks

Available benchmarks in Origin countries:

Brazil	Minas Gerais SW	coffee	June 2016
Nicaragua	North west	Coffee bananas	October 2017
Guatemala	Rural central region	Coffee	September 2016

Forthcoming benchmarks in Origin countries:

Mexico	Chiapas	Coffee	2019 tbc
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Community of Practice Member Updates

Global Coffee Platform (see slides): George Watene (watene@globalcoffeeplatform.org)

Kenya coffee platform has also been involved in economic viability studies in various sections of the country, showing very similar to COSA's results: Smallholders - on average, 45% living below the LI benchmark, and low productivity/efficiency, esp at producer organization level;

Platform members are working on how they can improve productivity - they see increasing knowledge is a critical unlock, and are using coffee training manual and upgrades to coffee extensions program

Coop level efficiency is also critical - they have seen gains of up to 20% gains in farmer income, based on coop efficiency improvements

ICO Christoph Saenger (Saenger@ico.org): - post Sector Dialogues Phase 1 brought together sector actors to set targets and agree on a roadmap together

Next sector dialogue is a high level CEO and senior leader forum in London, on Sep 23

Website: <http://www.ico.org/documents/cy2018-19/pj-131e-sector-wide-dialogue-coffee-price-crisis.pdf>

IDH (see slides): Ashley Tuttleman (tuttleman@idhtrade.org)

Coffee Living Income Task force: convening leaders to look at pricing and procurement practices, and is intended to complement the wide swath of work on farm level improvements

Focusing on collecting data on Colombia, and engaging stakeholders sourcing from here to develop analysis, best practices, and identify ID bottlenecks to scale these

Will be creating 'archetypes' of sourcing models to help understand the role of sourcing models in closing LI gaps

Roasters, exporters and retailers are members on task force

ASK: if anyone has their own best practices on sourcing and pricing, please send this to IDH

Community of Practice Member Updates

SCA PRC Colleen Anunu (pricecrisis@sca.coffee): update on SCA Price Crisis Response initiative Board of SCA gave mandate to address the chronic low prices and better value distribution models for the specialty coffee market. Working with Forum for the Future to develop a systems approach to identifying the drivers and leverage points in specialty to address price crisis, short and long term. Have convened actors in USA, EU and most recently in Brazil - to engage and develop the approach together. Trying to foster alignment with other forums and organizations: eg World Coffee Producers Org, IDH, CI, Fairtrade Int'l, RA

Fairtrade Peter Kettler (p.kettler@fairtrade.net): LI reference price research and price crisis For Fairtrade, the work on living income started in cocoa. Now testing farm record keeping tools in several origin countries. Working with select small producers organizations, and reference farmers to use farm record keeping system, and training extensionists to use tool Doing preliminary data analysis and eventually Q3-4 2019 will set up multistakeholder technical advisory committee to review farm size, costs of sustainable production

GIZ (see slides) Friederike Martin (friederike.martin@giz.de) gave overview of GIZ's work with LI, and introduced the Coffee initiative fund, call for proposals, for details see slides and contact via coffeeinnovation@giz.de

Community of Practice Member Updates

Aidenvironment David Short: Advising on pricing and procurement issues as well as living income and living wage. They are working on a potential German coffee tax exemption, exempting roasters who produce coffee that is sustainability produced and is fairly traded. Developed a sustainability mechanism, to be channelled to smallholder farmers as well as throughout the value chain to promote more responsible practices. Includes Sustainable production criteria, fair price, responsible procurement and transparency criteria

Shift: (see slides) Living Income in Uganda, Sara Mason (sara@shiftsocialimpact.com)

Working with Great Lakes Coffee, Farmer Brothers, KGM and GIZ on 2 workstreams:

1. living income benchmarks for 3 primary Arabica sourcing regions - to be done by Impact Institute (True Price) - *invitation to anyone in Uganda sector to be involved*
2. Then will be applying the work to 10,000 households - measuring actual incomes and designing tailored solutions; farmer access to information and how these analysis can be beneficial to farmers

Azahar Coffee: Tyler Youngblood (tyler@azaharcoffee.com): are analyzing farm size, cost of production and productivity in multiple Colombia regions, and have been using as a reference the minimum wage as a possible indicator and poverty line as reference. They give buyers these reference prices to help farmers achieve x income, y income, z income - being piloted this year in Colombia with specialty buyers



Economic Viability of Coffee Farming in Kenya...

Towards a living income

Webinar 16/07/2019 George Watene Watene@globalcoffeeplatform.org



Kenya



2.1 USD/lb in 2017
1.84 USD/lb in 2018
1.44 USD/lb in 2019



Low farm productivity

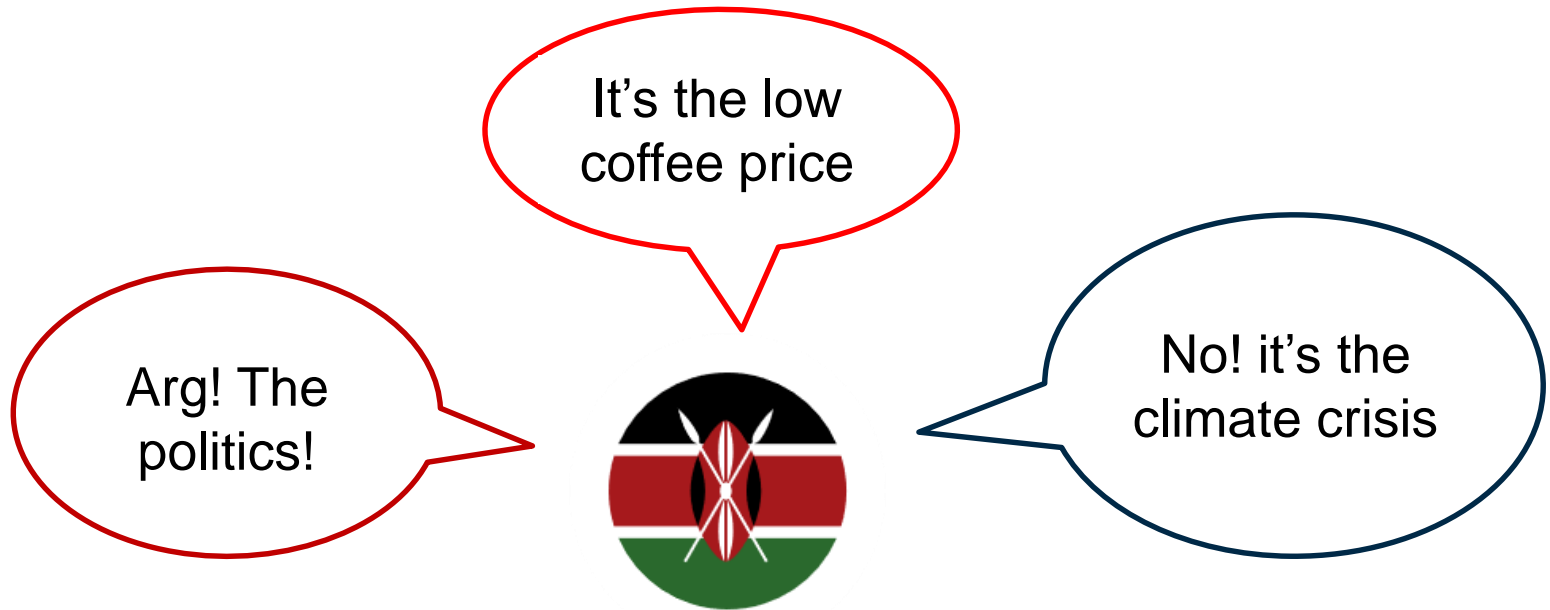


Farmers leaving coffee farming





Why farmers don't get more money from coffee farming?



We need a fact-based discussion!



We stopped speculating
and agreed to

act

together!

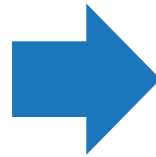


**Kenya
Coffee
Platform**

leads the study and...

**...activates private and public
stakeholders in Kenya to**

- Design
- Fund
- Discuss
- Publish



**Economic Viability
of Coffee Farming**



Solidaridad





In Kenya, 45% smallholder farmers are below living income

Insights


Low farm productivity



Efficiency gaps in coffee chain (cooperatives)



Closing Gap

- 
- Improve access to inputs
 - Improve coffee extension
 - Roll out National Sustainability Curriculum

- Ensure faster payment for farmers
- Financial audits and capacity building for cooperatives



transparency
identified gaps

Economic
Viability

of Coffee
Farming

Thanks
to

Collective
action

Problem assessment

Fact-based
discussions

Informed decisions





Economic Viability of Coffee Farming in Kenya...

Links

Kenya coffee Platform
Economic Viability Study

<https://www.globalcoffeeplatform.org/assets/files/03-GCP-Tools/Kenya-Coffee-Platform-Coffee-Economic-Viability-Study-Report.pdf>

Terms of Reference for Taskforce Coffee Living Income

With initial focus on Colombia as a relevant reference country, the TCLI will:

- **Convene frontrunners** in the coffee sector to fast track critical contributions to the wider sector dialogue on Living Income. Ensure a safe space by inviting a trusted group of actors to exchange views and best practices.
- **Identify proven, innovative sourcing practices** in coffee and comparable sectors.
- Critical contributions from TCLI will focus on:
 - 3rd party authorized Living Income reference calculations
 - **Document current farmer income and transaction prices for identified sourcing/pricing archetypes**
 - **Practical yet balanced methodological framework** to effectively address the complex coffee smallholder income challenge within the wider systemic frame
 - **Document and share “good practices” in sourcing and pricing models** that contribute to a positive impact on living income of coffee producing organizations
 - **Document fact-based insights** into the relationship between certain archetypical sourcing agreements and the living income of farmers
 - **Identify bottlenecks and possible solutions to scale** these “good practices”

The hypotheses will be tested in interviews to establish different sourcing archetypes

EXAMPLE
Archetypes to be defined
via interviews

Archetype 1
Conventional



Archetype 2
Conventional with product value recognition



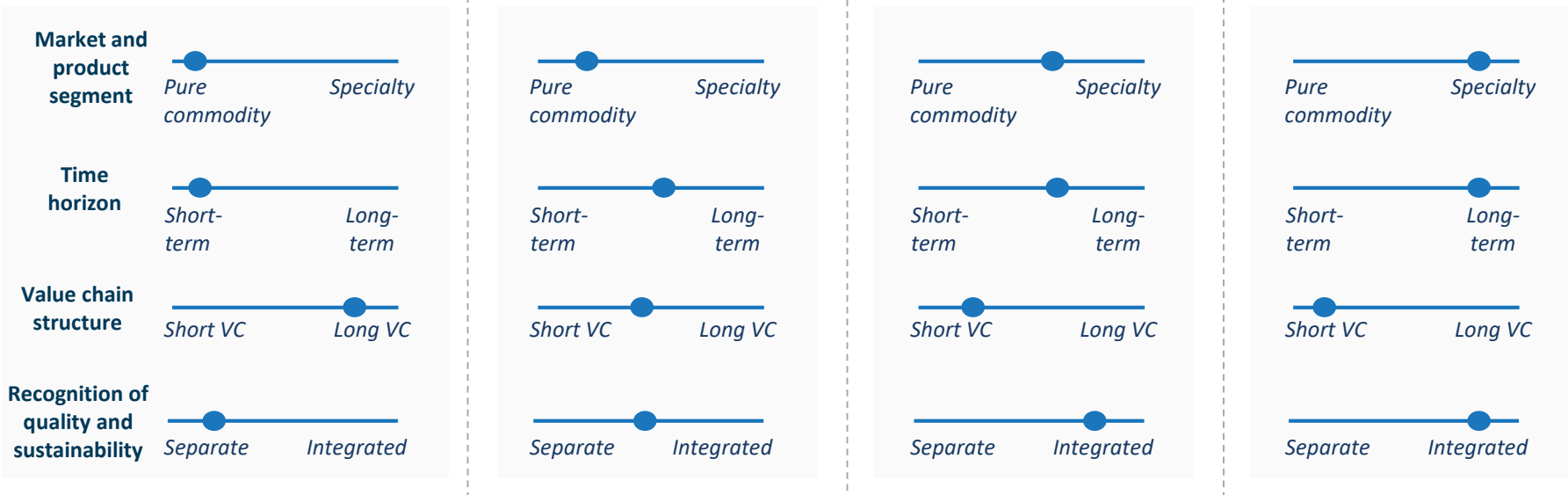
Archetype 3
High value consumer market



Archetype 4
Specialty



Characteristics



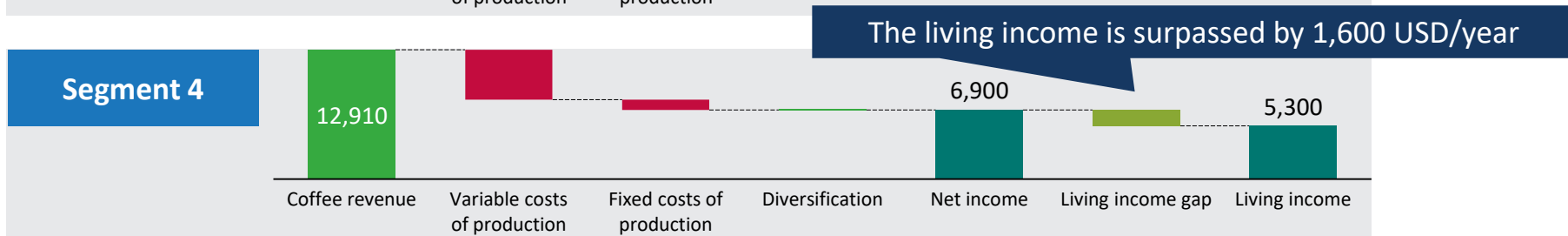
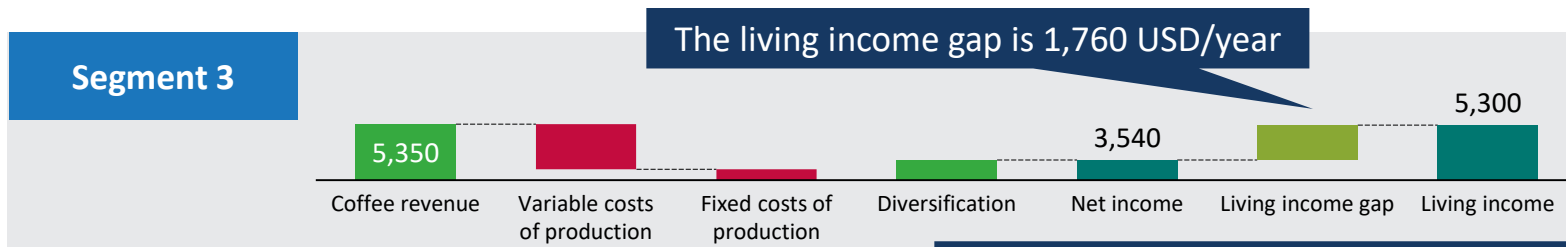
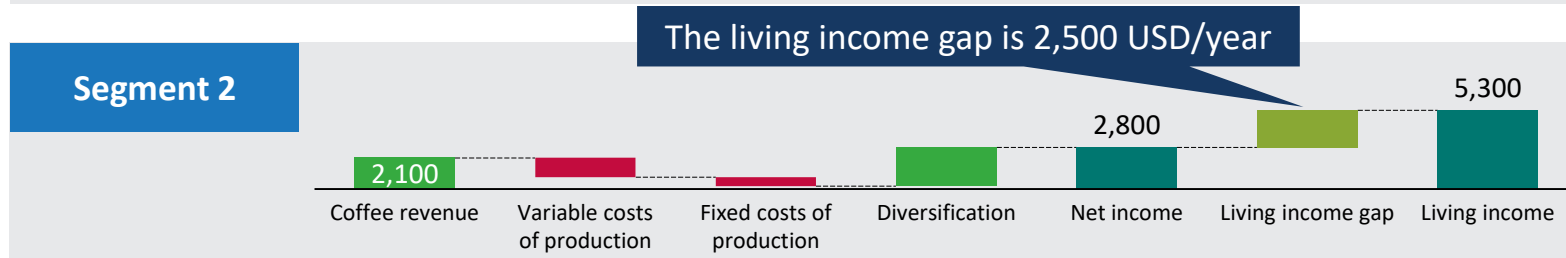
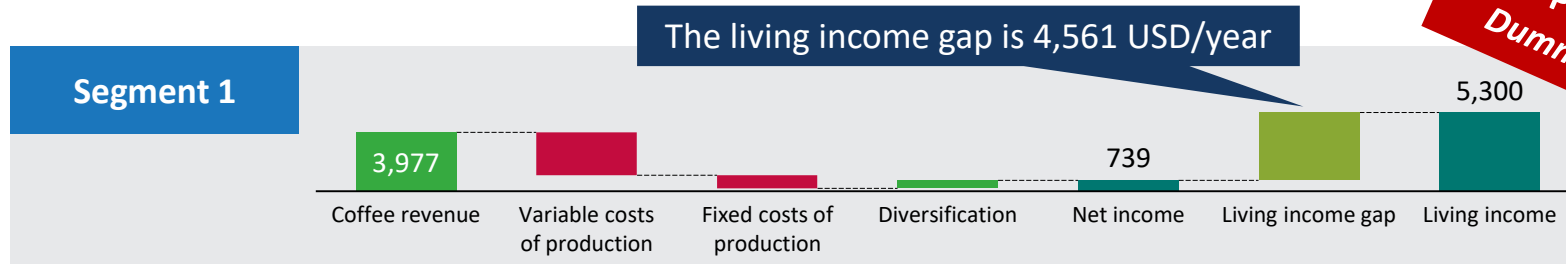
Understanding the sourcing model of each archetype is key to measure impact at farm-level

Notes:

1. Companies are likely a hybrid of two or more archetypes

We can compare the farmer P&Ls with the living income benchmark to determine the living income gaps

FOR ILLUSTRATIVE PURPOSES
Dummy numbers



Notes:

Living income benchmarks are being developed independently of IDH and NewForesight. Use of these are pending timely availability.



Coffee Innovation Fund

Call for Proposals

 **The fund seeks to increase profitability of small-holder coffee farmers and foster fairer value distribution in the supply chain.**

It creates opportunities for investments in the four countries Indonesia, Vietnam, Myanmar and Ethiopia.

Who can join this initiative?

Producer organizations, processors, exporters, traders and other private companies that wish to innovate and scale operations, access new markets and elevate livelihoods of small-scale coffee growers.

Proposal for investments in three focus areas:

Innovative Farming Systems

i.e. experimental processing
methods and carbon
emission free practices

New Market Access

i.e. digital trading, online
auctions and consumer-
facing activities

Inclusive Business Models

i.e. value sharing models,
financing schemes, tracking
& traceability tools

Submit your idea until 15 August 2019. Please use the idea template.

The fund does not offer cash-disbursements but seeks to cover the cost of materials, technology and technical assistance. Proposals should not exceed a budget of € 50,000 and should include an equivalent fund matching contribution, either in monetary or in-kind form.

Selection criteria

Proposals will be awarded according to criteria pertaining innovation, replicability, inclusivity and potential impact.

Please contact: coffeeinnovation@giz.de



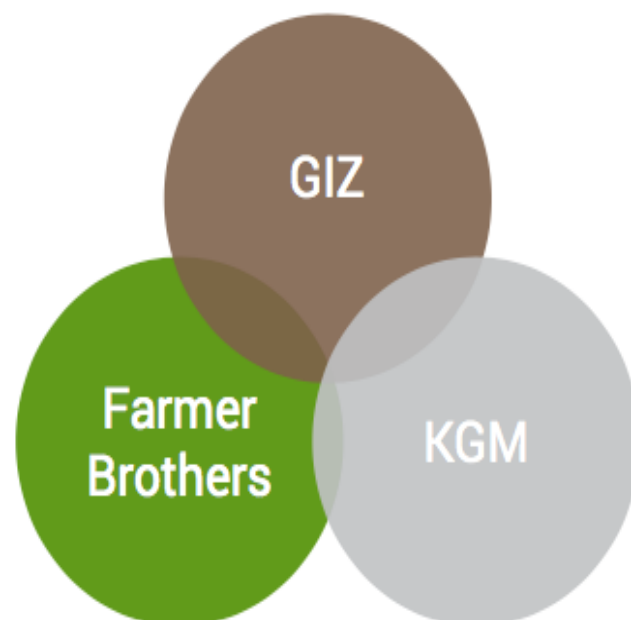
The Sustainable Living Income Project

The Sustainable Living Incomes Project **will support** farming households in Uganda to **earn a living income**, while **improving environmental** and **social sustainability**.

IMPLEMENTING PARTNERS



SUPPORTED BY





The Sustainable Living Income Project



Two Separate Workstreams

1

Living Income Benchmarking

- 3 Origins in Uganda:
 - Mt. Elgon
 - Paidha
 - Rwenzoris
- Impact Institute/True Price to conduct studies.



2

Application of Living Income Benchmarks to GLC's Sustainable Coffee Supply Chain

- Farm Sustainability Surveys
- Farmer Segmentation & Interventions
- Farmer access to information

For more information, please contact:

sara@shiftsocialimpact.com

Upcoming events

July 23 WEBINAR

10:00 ET / 14:00 GMT

Improving Livelihoods in Dominican Republic
Cacao: Measuring and Closing the Living
Income Gap.

*Clif Bar, Social Accountability International
and a Dominican cacao farmer*

Register at www.living-income.com/events

November 5-6 CONFERENCE

International Living Income / Living Wage
Conference, Rotterdam

Contact info@theonlywayisupconference.com



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www.living-income.com

Living wage

<http://www.isealalliance.org/our-work/improving-effectiveness/global-living-wage-coalition>

Questions? Email us at:

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