Webinar Series
Living Income Community of Practice

23 February 2017

Photo © Cotton field on a sunny day © Better Cotton Initiative

The Living Income / Fair Price methodology

Presentation to the Living Income Webinar on the calculation of ‘fair’ prices

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February 2017

Introduction

Discussed before: what is a Living Income (LI) and how can it be measured

The desirability to achieve a Fair Wage for labourers and a Living Income for farmers is something we all agree upon

Now we will look at a way how to achieve such a LI

The LI/FP approach is a generally applicable method to calculate the prices a farmer should receive in order to be able to obtain a sustainable Living Income

This method has as yet not been applied in a large project, but it has been developed on basis of data collected in the field and all ingredients for large scale application are there

Contents

- Why is discussing prices important
- What is a fair producer price
- How to calculate fair prices
- Case study Burkina Faso
- What the LI/FP (Living Income / Fair Price) methodology can be used for
- Effects higher producer prices on consumer price
- Export products
- Who can use the LI/FP method

Why is discussing prices important

- Most common interventions are intended to raise production, facilitate marketing and sell more,
- Too little attention is given to the price the producer receives for his products
- Only when he receives a sufficient price for all his work, be it in the form of wages or of the price received for the product, will he/she be able to achieve a Living Income.

- **The income of the farmer is revenue for his products minus costs, plus additional income**
  - The revenue he obtains through his sales price is determined by the market price
    - This price is determined outside his influence by demand and supply
    - These market forces do not take into account the needs of the producer, nor sustainability
    - These market prices are generally accepted because they are so-called equilibrium prices where demand meets supply

What is the problem with market prices?

- Market prices are ***not*** equilibrium prices since there is no perfect competition
  - Examples:
  - Monopolies
  - Import and export restrictions / subsidies
  - Food aid
  - Political interference
  - Besides the demand side consists of **effective** demand which means that the demand of people with no or little financial resources, is not taken into account. So esp. for food products it is important to realize that the **demand of the poorest is not taken into account** in the equilibrium price

What is a ‘fair’ price to the producer?

A ‘fair’ price for the producer is a price for a product that includes all production costs and at least a *‘Living Income’* for the farmer and all workers involved

- The payment should be based on a complete working week spent on this production, and the product is a product that is useful.
- This fair price is based on ***actual, real costs*** and ***actual, real needs***.

How to calculate such a ‘fair’ price

a. Choice of the target group (area, size of plot, family size, mode of production)

b. Calculation of Living Income of the target group

c. Calculation of production, marketing, storage and other costs for target crop

d. Production in kg of target crop

e. Calculation of price/kg (Fair Price) that will lead to a Living Income

Case study Grain Burkina Faso

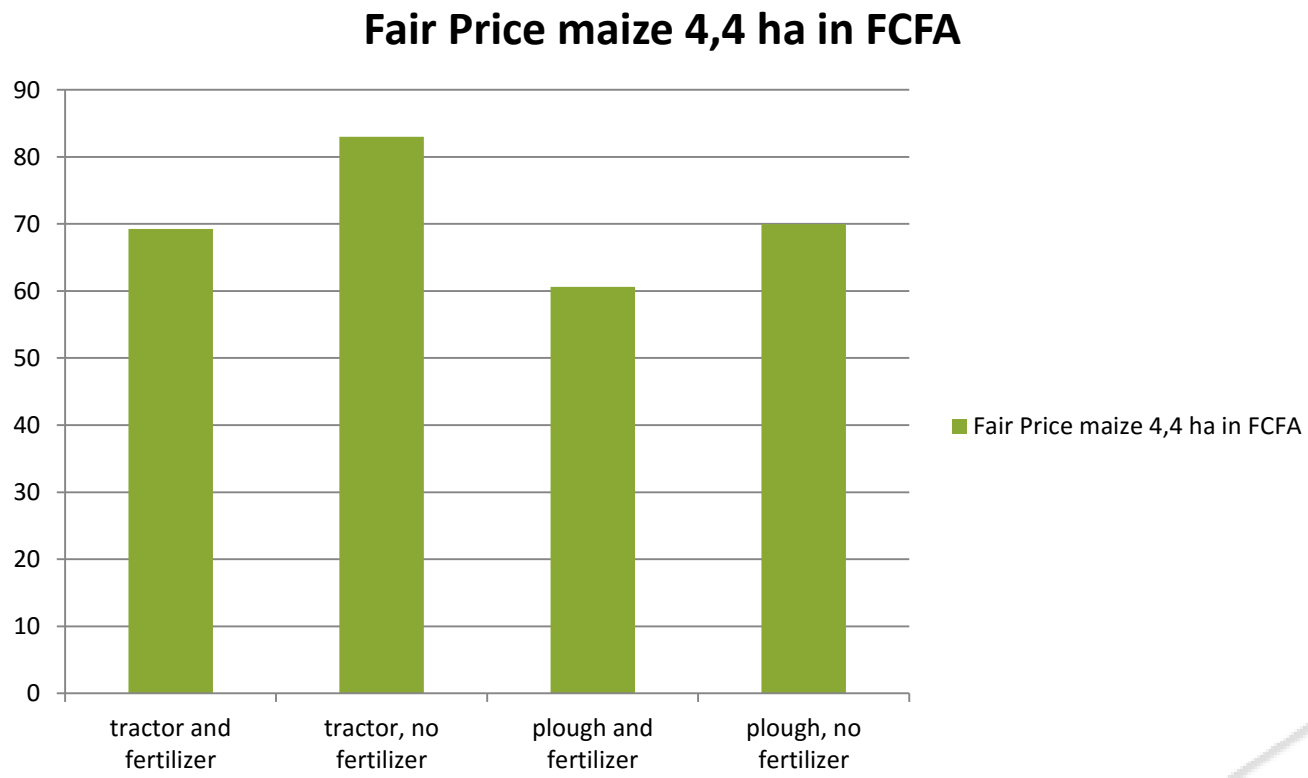
- Production costs
- Production costs are different for each crop as well as for each production method
- Example:

Maize	Cost/ha (FCFA)
tractor and fertilizer	181500
tractor, no fertilizer	118750
plough and fertilizer	142500
plough, no fertilizer	79750

Calculation ‘fair’ price

- Because production costs are different in each situation, there is also a different ‘fair’ price for each situation
- The fair price is the total of living income and production costs divided by production in kg
- FP = (LI + production cost) / production
- Important assumption:
  - The calculation of fair prices is based on the assumption of full employment on the specific crop

This leads to the following ‘fair’ prices for the same product (maize)



Family size	7,9				
of which adult earners	4,4				
Working days/yr	275				
LI/yr		**XOF 572.892**			
LW/working day		**XOF430,81**			
Size of the farm in ha	4,40 ha				
LI/ha *= LI / size of the farm*		**XOF 130.203**			
Needed to calculate costs per crop / ha (these costs may differ, depending on way of cultivation e.g. with/without fertilizer and/or ,improved seeds)					
	a	**b**	a. maize: plough no fertilizer		
Investments / repayments (interest and depreciation)			b. maize: plough and fertilizer		
Inputs					
Hired labour	XOF 67.500	XOF 67.500			
Field operation costs					
Harvest and post harvest costs					
Transformation costs					
Storage, Handling and Transport	XOF 12.250	XOF 19.750			
Fertilizing		XOF 55.250			
Costs of the umbrellla organization					
Taxes					
Other					
Total production costs / ha	XOF 79.750	XOF 142.500			
Production in kg per ha. per crop for different ways of cultivation					
	a	**b**			
	3000	4500			
FP per kg = (costs/ha + LI/ha) /production/ha	**XOF 69,98**	**XOF 60,60**			
In case of Additional income	**a**	**b**			
Home grown food	XOF 7.000	XOF 7.000			
Labour (working for third parties)	6462	6462	15 days	LW/day*working day	
Remittances					
Subsidies					
Other	XOF 186.538	XOF 186.538			
Total additional	XOF 200.000	XOF 200.000			
New LI/ha	XOF 84.748	XOF 84.748			
	a	**b**			
FP per kg = (costs/ha + LI/ha) /production/ha	**XOF 54,83**	**XOF 50,50**			

Family size	7,9				
of which adult earners	4,4				
Working days/yr	275				
LI/yr		**€ 873,37**			
LW/working day		**€ 3,18**			
Size of the farm in ha	4,40 ha				
LI/ha *= LI / size of the farm*		**€ 198,49**			
Needed to calculate costs per crop / ha (these costs may differ, depending on way of culti					
e.g. with/without fertilizer and/or improved seeds)					
	a	**b**	a. maize: plough no fertilizer		
Investments / repayments (interest and depreciatio			b. maize: plough and fertilizer		
Inputs					
Hired labou	€ 102,90	€ 102,90			
Field operation costs					
Harvest and post harvest costs					
Transformation costs					
Storage, Ha	€ 18,68	€ 30,11			
Fertilizing		€ 84,23			
Costs of the umbrellla organization					
Taxes					
Other					
Total product	€ 121,58	€ 217,24			
Production in kg per ha. per crop for different ways of cultivation					
	a	**b**			
	3000	4500			
FP per kg = (costs/ha	**€ 0,11**	**€ 0,09**			
In case of Additional i	**a**	**b**			
Home grown food	€ 10,67	€ 10,67			
Labour (working fo	€ 9,85	€ 9,85	15 days	LW/day*working days	
Remittances					
Subsidies					
Other	€ 304,87	€ 304,87			
Total additional	€ 325,39	€ 325,39			
New LI/ha	€ 124,54	€ 124,54			
	a	**b**			
FP per kg = (costs/ha	**€ 0,082**	**€ 0,076**			

What the LI/FP method can be used for

- It is a generally applicable approach to determine the minimum price to be paid to the producer
  - A buying company that wants to pay a fair price to producers, could pay that fair price that is in accordance with the technology applied by the great majority of smallholders in that region

- As an identification, monitoring and evaluation tool
  - What is the influence of export taxes and import subsidies on prices and thus the life of the rural population
  - Will other interventions achieve the goal of a Living Income if prices do not change as well
  - What changes should take place in the supply chain in order to achieve a Fair Price and thus a Living Income to the farmer

Effects of raising producers share on consumer prices

	Initial wages of 20 €		Doubling of wages,		Doubling of wages,
			other cost increases		other costs
			in %		in fixed amounts
Description	€	%	€	%	€
country of origin					
Labour	**20**		**40**		**40**
Material	20		20		20
Rent	5		5		5
Other costs	5		5		5
Total production costs	50		70		70
Transport	8	15%	11	15%	8
Subtotal	58		81		78
Shipping and Handling	12	20%	16	20%	12
Subtotal	69		97		89
country of destination					
Transport and handling costs	3	5%	5	5%	3
Storage	3	5%	5	5%	3
Subtotal	76		106		96
Profit importer	15	20%	21	20%	15
Subtotal	91		128		111
Costs and profit retailer	27	30%	38	30%	27
Subtotal	118		166		138
Taxes 10%	12	10%	17	10%	14
Consumer price	**130**		**182**		**152**

Export products

- No world prices and no premiums, but prices based on real, actual costs
- Fair prices are different from region to region
- Where this leads to too high prices for buyer, consultations with government and stakeholders about obstacles in the chain
- When these problems cannot be solved, reflections whether farmer should not change to other crops / source of income

- For individual buyer difficult to pay higher price than others
- So consensus in the chain is necessary with all stakeholders that Living Income can and must, be included in producer price
- Local government has to agree
- Local government and NGO’s can stimulate and organise these stakeholders’ meetings

Who can use the LI/FP method

- The methodology can be used by all who want small farmers to earn a LI
  - Policy makers
  - Companies
  - Ngo’s
  - Farmers cooperatives
  - Consultants

Further information

- Guide How To Calculate Fair Prices
  - https://www.researchgate.net/publication/310133756_Guide_How_To_Calculate_Fair_Prices

- Towards an integrated approach for project analysis for small farmers: the Living Income / Fair Price method
  - https://www.researchgate.net/publication/307560414_Towards_an_integrated_approach_for_project_analysis_for_small_farmers_the_Living_Income_Fair_Price_method

Thanks for your attention

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Living Income Community of Practice

1. **Provide guidance on metrics and measurement**
2. **Understand the gap** between actual and living incomes
3. Identify and discuss **strategies for implementation**
4. Facilitate and **strengthen this community of practice** on living income

Open community of practice. Welcome participation

'LIVING INCOME' REFERS TO THE INCOME LEVEL REQUIRED FOR A HOUSEHOLD IN A PARTICULAR PLACE TO HAVE A BASIC BUT DECENT STANDARD OF LIVING.

http://www.isealalliance.org/LivingIncome

http://www.sustainablefoodlab.org/performance-measurement/tools-resources/living-income/

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Living Income

Living Income Webinars

Upcoming webinar:

Thursday 23rd February 2016 - 2.30PM - 4PM GMT
Fair Price Methodology - Infobridge Foundation

Past webinars:

Webinar No. 11: Cocoa Action Farmer Economic Model

Webinar No. 10: Household economy approach - Rainforest Alliance

Webinar No. 9: Workshop Key Messages and Next Steps

Exploring what is a decent standard of living for households in the context of any income earner

There is growing interest among many supply chain actors in understanding whether smallholder farmers are actually earning a 'living income' and, if not, what it would take to get them there. The Food Lab, GIZ and ISEAL are co-hosting a series of learning events to better explore two connected themes on living income:

1. A common definition and methodology for Living Income Benchmark
2. Approaches to assessing actual farm and household incomes, and modeling the impact of different interventions.

The first theme is building on the ISEAL Global Living Wage Coalition's work to establish a common methodology for Living Wage Benchmarks: the second focuses on how different organizations assess actual farmer and household incomes through

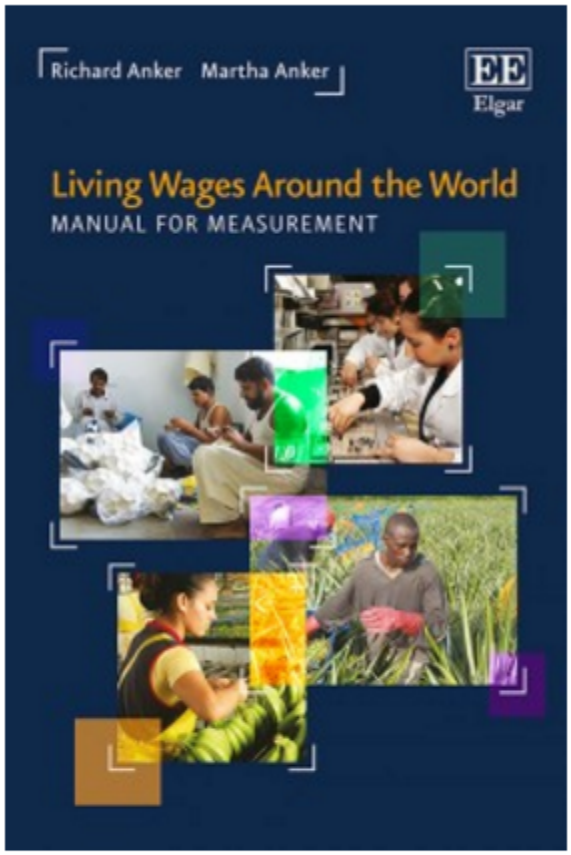
Agenda

- Introductions
- Fair Price methodology
- Q&A
- Closing remarks
- Update – Living Wage manual
- Open discussion: Updates from participants/ topics for upcoming webinars

Time for Q&A

Photo © UTZ

Anker's methodology on Living Wages



Living Wages Around the World
Manual for Measurement

Richard Anker, Senior Research Fellow, Political Economy Research Institute, University of Massachusetts, Amherst, formerly with the International Labour Organization and Martha Anker, Independent Researcher, formerly of the World Health Organization and the School of Public Health and Health Sciences, University of Massachusetts, Amherst, US

This manual describes a new methodology to measure a decent but basic standard of living in different countries and how much workers need to earn to afford this, making it possible for researchers to estimate comparable living wages around the world and determine gaps between living wages and prevailing wages, even in countries with limited secondary data.

Look inside

Recommend to librarian

http://www.e-elgar.com/shop/living-wages-around-the-world

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Webinar series in 2017

›Calculating actual income. The experience of GIZ in the tea sector (Malawi)

› Other ideas?

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Living wage

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

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Questions? Email us at:

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And remember to add your upcoming, ongoing and finalised studies to the Sustainability Impacts Learning Platform

http://www.sustainabilityimpactslearningplatform.org

Tobago hillside © Jerry Rabinowitz, 2002, Rainforest Alliance

Thanks!

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