The Living Income Community of Practice Living Income Event Day 1: Comparing actual incomes to living income benchmarks: exploring methodological questions

GIZ Offices, Bonn, 30th January 2019



Introduction to the session

With the LI benchmark defined, the next question is how to measure against the benchmark?

- What are our methodological options for calculating
 - Actual income
 - The gap to living income
- Is guidance required, and what should this guidance be?
- To help answer this, lets reflect on some actual use cases...

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The Panel



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Comparing Actual Incomes to Living Income Benchmarks: *Exploring Open Methodological Questions*



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KIT Study

https://www.kit.nl/project/ demystifying-cocoa-sector/

Income gap analysis

https://www.living-income.com (Resources)





Measuring a wage gap is relatively easier than measuring an income gap

workers

- LW and LI benchmarks are conceptually similar but practically very different to measure against.
- LW = pp/month. Once benchmark is set:
 - Analyze company payroll data
 - Value in-kind benefits
- LI = hh/year

Living Wage Report Ghana, Lower Volta Area, 2017, Banana sector)



Income data is challenging to collect

Ideally we need to know:

- How much each household member contributes to total household income
- How many sources of income and what these are:
 - livestock, small businesses, laboring on others farms, salaried employment, remittances... and of course crop production
- Net income of each crop produced:
 - Land under each, yield, total production
 - Activities done, costs of inputs and hired labour
 - Prices
- Contribution of each income source to total household income (share)
- Value of own production consumed

Income can be misreported

(World Bank, Handbook on Poverty and Inequality)

- Recall error (Respondents forget about items they sold / money received in the past year)
- Don't know (Respondents may genuinely not know, or be inaccurate due to poor record keeping)
- Not informed (Respondent may not be sufficiently informed of income received by other hh members)
- Reluctant (has reasons not to disclose, e.g. taxman, illegal)
- Not accounted for (i.e, not "cash earned"): livestock value risen, in-kind value of produced and consumed by the household, remittances.

Unit of analysis: Per year or per month or per person per day?

- We strongly advise on household per year
- Rural households have strong cash fluctuations over the year, therefore a *per month* representation is not appropriate, since if suggests some stability
- Per person per day is much trickier than it sounds:
 - Adult equivalencies can be different across countries
 - It brings the comparison to the poverty lines
 - Methodological choices can make a big difference:
 - From the same (avg) household per year: \$1.16 or \$7.89 (See KIT chapter 12)

Value of money over time and space

- Any income-based comparison needs to take into account value of the money over time
- Countries have their own Consumer Price Index (CPI) which can be used to adjust local prices over time
- To compare values between countries, it is better to use Purchase Power Parity (PPP) exchange rates than market exchange rates
 - It could be more appropriate to compare in terms of percentage of the living income benchmark, which is currency-free

Value of production consumed at home

- Rural household consumed part of their crop and livestock produce.
- Since the Living Income Benchmark includes market costs of buying 100% of the food consumed at home, production consumed at home should be priced at market value.
- This is, however, extremely hard to estimate given:
 - Multiple crops
 - Poor records
- In the reports we attempt to make some rough estimations

KIT's strategy for each country gap analysis

(no country comparison)

- Create segments/clusters
- Calculate net **Annual** cocoa income:
 - Production * farm gate price
 - Minus hired labour costs
 - Minus input expenses
- Calculate total Annual household income:
 - Net cocoa income
 - Share of cocoa income into total income
- All calculations in local currency, then:
 - Use CPI to convert to 2018 values
 - Use the same exchange rate as the LI Benchmark
- Alternate versions with value of production consumed at home

Ghana: percentage above the benchmark



N (All) = 934, N (Male, typical) = 595, N (Male, large) = 195, N (Female) = 144, bin size = 500

Côte d'Ivoire: percentage above the benchmark



N (All) = 343, N (Male-headed, typical) = 247, N (Male-headed, large) = 83, bin size = 500

Living Income Benchmark → uses of the Living Income Benchmark

- With the benchmarks defined, the next question is how to use the benchmark:
 - 1. measure the **gap** to the Benchmark
 - 2. how to close the gap
- Neither are easy questions to answer, and how to go about it depends:
 - on information at hand (or possibilities to acquire new information)
 - use cases