



FAIRTRADE LIVING INCOME PROGRESS REPORT

Photo: Sean Hawkey

Introduction

Achieving Living Incomes for Fairtrade producers is at the heart of our mission and at the top of our agenda. In 2017 we developed Fairtrade's first Living Income Strategy and outlined a roadmap for making tangible progress towards living incomes. For this to materialize, we rely on coordinated efforts of many actors across the supply chain: from farmers themselves and their own organizations to brands, retailers and governments. As the best-known ethical trade scheme in the world, Fairtrade stands at the forefront when it comes to moving the conversation forward and creating a favourable policy environment for living incomes. Over the past year, we've made important strides in developing and implementing interventions and tools to raise the bar.

This report brings you up to speed with what we've been doing of late and our plans in relation to living income. We hope you enjoy reading this first issue and we look forward to hearing your feedback.

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SETTING LIVING INCOME REFERENCE PRICES

Fair prices have always been a fundamental aspect of fair trading terms and play a critical role in Fairtrade's Living Income Strategy. A sustainable price is a precondition for farmers to be able to make a decent living, and Fairtrade actively advocates for the need to pay decent prices as part of a holistic approach to living incomes for smallholder farmers. Central to this effort is the concept of Living Income Reference Prices.

Living Income Reference Prices are, in the first place, instrumental in raising awareness of the need for sustainable prices to enable living incomes. Secondly, they inform price setting for Fairtrade and other actors committed to sustainability.

In 2019, we applied the concept to determine Living Income Reference Prices for cocoa and vanilla. We will draw on the learnings from these examples to come up with a standardized methodology and assess how the concept can be institutionalized across all product categories. Below is a summary of our key achievements to date.

What is a Living Income Reference Price?

The Living Income Reference Price concept is derived from the universal human right of everyone who works to a just and favourable remuneration, ensuring an existence worthy of human dignity. Hence, a full-time farmer should be able to make a living income from his or her farm revenue.

A Living Income Reference Price is based on the following key parameters:

1. Cost of a decent standard of living (living income benchmark)
2. Sustainable yields (productivity benchmark)
3. Viable farm size (to fully employ the available household labour)
4. Cost of sustainable production (in order to achieve the above mentioned yields)

A price that allows an average farming household with a viable farm size and a sustainable productivity level to earn a living income can thus be calculated with the formula: price x volumes produced = cost of decent living + cost of production, or:

$$\text{Living Income Reference Price} = \frac{\text{cost of decent living} + \text{cost of sustainable production}}{\text{viable land area} \times \text{sustainable yields}}$$

Living income reference prices for cocoa from Côte d'Ivoire and Ghana trigger positive change

In September 2019, Fairtrade announced revised Living Income Reference Prices for cocoa of US\$2,200/MT at farm gate in Côte d'Ivoire and US\$2,100/MT in Ghana. *(Click below for the explanatory note)*. Already, chocolate brands such as Tony's Chocolonely, Belvas and Oxfam Fair Trade, as well as the retailer REWE, have committed to paying the voluntary Fairtrade Living Income Reference Price for the cocoa used in all or part of their range of chocolate products. Going forward, Fairtrade will integrate voluntary payments of the Living Income Reference Price in pilot projects with committed, forward-looking commercial partners *(see Section 3 on 'Living income pilot projects')*. In doing so, we aim to demonstrate that paying higher prices is a critical driver to achieving living incomes.

We have reasons to believe that the establishment of Living Income Reference Prices for the two major cocoa producing countries has also contributed to the introduction of a mandatory Living Income Differential (LID) by the governments of Ghana and Côte d'Ivoire for the coming harvest season.

Living Income Reference Price for Cocoa Explanatory Note

Living income reference prices established for vanilla

On request from the [Sustainable Vanilla Initiative](#) and funded by Ben & Jerry's, Fairtrade International carried out a case study in order to establish Living Income Reference Prices for vanilla from Madagascar and Uganda. The report was published in September 2019.

'Anything but Plain: Exploring sustainable vanilla prices to achieve a living income for farmers' *(Click below for the full article)* sheds light on several vital issues around farmer livelihoods. It examines the current income for typical growers in both countries, the cost of a decent standard of living for households in vanilla-growing communities and the price needed for vanilla farmers to afford that.

Field data was collected in both countries to calculate the cost of a decent standard of living, which – after discounting the food grown for home consumption – comes to around €5,300 per year per household in Madagascar and €6,500 in Uganda. Target productivity levels and viable farm sizes were defined through stakeholder consultation. Based on these

figures, Living Income Reference Prices for green vanilla at farm gate were estimated at €16.60/kg and €15.60/kg for Madagascar and Uganda respectively. The price model is based on a typical diversified farm, growing cash crops like cocoa and coffee as well as rice and other food for household consumption, taking into account the maximum manageable vanilla plot size to fully deploy the available household labour force. Crop diversification is therefore encouraged for enhanced farm resilience and food security.



Vanilla producer from Madagascar. ©Fairtrade International

The Living Income Reference Price study helps vanilla stakeholders – farmers, companies, governments and service providers – to better understand what is needed for farmers to reach a decent standard of living. The reference prices, indicating what farm gate price is required to enable living incomes, aim to contribute to stabilizing the vanilla market which suffers from extreme price volatility. The study was well received by the vanilla sector, including the members of the Sustainable Vanilla Initiative.

Anything but Plain: Exploring sustainable vanilla prices to achieve income for farmers

Groundwork for living income reference prices for coffee underway in several origins

With the global market price for coffee hovering around US\$1/lb (per pound) throughout most of 2019, many smallholder farmers have found themselves obliged to sell their coffee below cost and those who can – especially the younger generation - are abandoning coffee in search of alternative livelihood opportunities. Although the Fairtrade Minimum Price of US\$1.40/lb provides an important safety net for coffee farmers during price crisis to help them keep their heads above water, it is not enough to enable them to achieve a living income. But what could be considered a sustainable price?

In 2019 we introduced farm records in coffee cooperatives across Colombia, Peru, Nicaragua, Guatemala, Honduras, Mexico, Uganda, and Indonesia. The intention was to collect and analyse full-year records of their farm expenditures, revenues, and labour occupation and establish a baseline in the second half of 2020. This baseline of current productivity and farm incomes in the various coffee origins is needed to understand the specific reality of coffee producers in each country context and subsequently define viable farm sizes, sustainable yield levels and associated costs of production to achieve those yields.

Multi-stakeholder roundtables will be convened in Colombia, Uganda, and Indonesia to analyse and discuss baseline results and build consensus around these key variables for establishing Living Income Reference Prices. Introductory meetings have already taken place with the Sustainable Coffee Platform of Indonesia and members of the Uganda Coffee Platform to make them aware of the project and sense-check their interest in participating. The feedback has been overwhelmingly positive.

INTRODUCING FARM RECORDS TO BUILD ENTREPRENEURIAL SKILLS AND GATHER BETTER DATA

Keeping records to improve farm profitability

The Fairtrade Living Income Strategy is a holistic approach towards sustainable livelihoods for smallholder farmers. Besides sustainable pricing and market development, it also involves pathways to make farms more resilient to climate and price shocks, improve efficiencies and attain sustainable yield levels.

Technical assistance for adopting good agricultural practices to increase productivity and optimize farm profitability is only effective when farmers have the entrepreneurial skills that enable them to understand how certain efforts and farm investments will pay off. Therefore, we have developed simple tools and training materials to build basic farm management capacity.

The farm book of records

Managing a farm as a small-scale enterprise requires a basic understanding of farm economics. Most Fairtrade smallholder farmers don't keep records of their farming costs or sales and don't have the appropriate tools or the required skills to calculate farm profits. To address this challenge and to obtain more accurate data on the actual costs of production and incomes, Fairtrade has developed record-keeping tools for coffee and banana farmers to record their farm expenditures and sales revenues. The tools are meant to facilitate better decision-making and planning to optimize their farm incomes.

The record book is designed to be easy to use, but group training and intensive individual follow-up coaching is required to develop a habit of record-keeping and ensure it is done correctly. A 'Training of Trainers Manual' was developed to guide lead farmers – or technical staff at the cooperatives for example – who are training their peers on how to use the tool and raise awareness about the importance of keeping records.

The manual also highlights the relevance of considering gender aspects when providing the training. The approach is to involve all adult household members in the exercise of record-keeping to ensure that every farm activity is captured. The aim is to encourage more inclusive decision-making in household economics, where women often have little say. And, in doing so, help to foster more equitable gender relations within the household.



During 2019, farm record books were rolled out among over 2000 coffee farmers in 37 Fairtrade producer organizations across seven countries and three continents.



ventes du cacao	combien de kilos avez-vous vendu?		quantité totale de kilos par mois	prix pour kilo (CFA)	revenue
Octobre	20	35	55	825	45,375
Novembre	50	50	100	825	82,500
Decembre					
autres revenus liés au cacao (p.ex. primes)		Prime Fairtrade			8,000

The record book was adapted for cocoa farmers with low literacy levels for the living income pilot projects in West Africa (see *Living income pilot projects section*). A prototype of the tool was trialed in KAPATCHIVA cooperative in Côte d'Ivoire. Technical staff from the cooperative and selected farmers were trained to fill out the record book and test it for a period of a month. The tool was found to be adequate, user-friendly and was reasonably well-understood. For a wider roll-out of the tool, project funding will be needed.

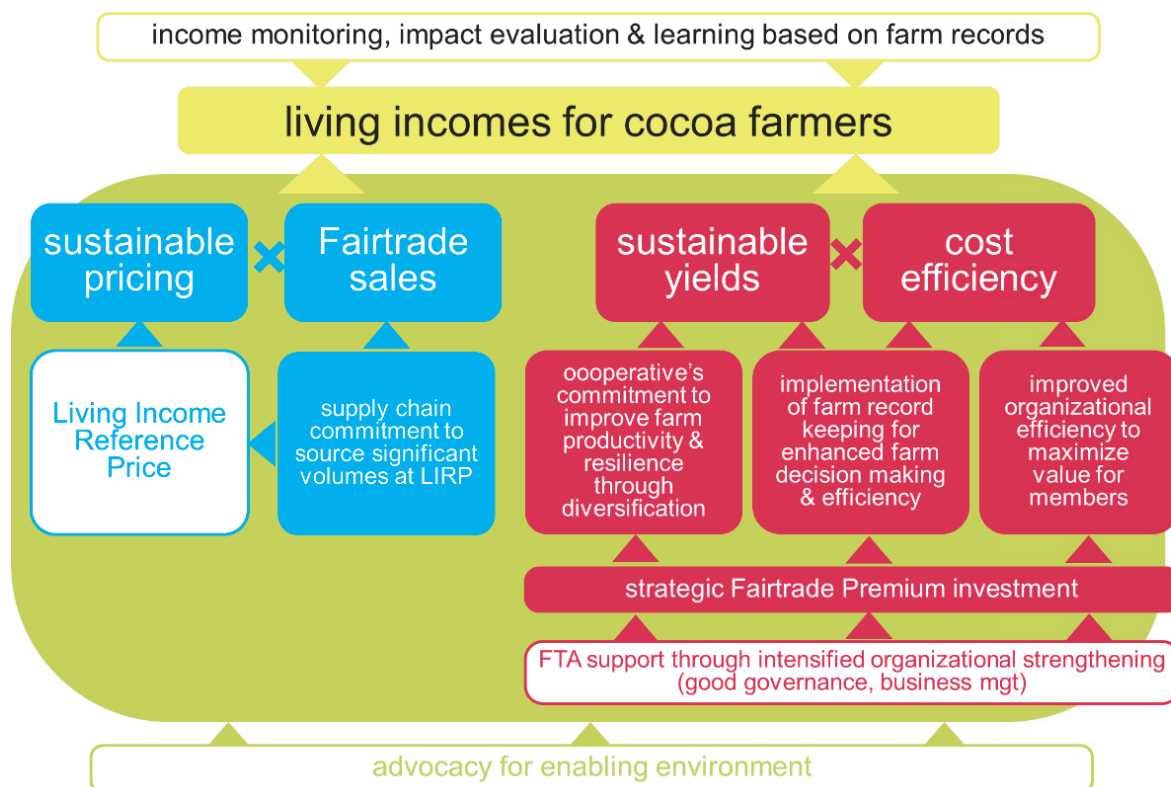
LIVING INCOME PILOT PROJECTS

Validating the living income strategy in practice

Commercial partners volunteering to pay the Living Income Reference Price have been invited to work with us on pilot projects to implement and monitor the effectiveness of Fairtrade's holistic living income approach. Evidence generated through these pilots is intended to prove the model and validate the assumptions underlying the strategic framework, needed to scale-up implementation and significantly improve the incomes of cocoa farmers.

The pilot projects in question are also an opportunity to engage with commercial partners in an innovative way to achieve shared objectives of making progress towards living incomes through equitable partnerships between cooperatives and their buyers.

Living Income pilot projects are a reflection of the holistic roadmap towards living incomes and consist of a price component (commitment to source a significant volume of cocoa at the Living Income Reference Price); a sustainable yields component (to reach the target productivity and diversification levels); organizational strengthening delivered through the West Africa Cocoa Program (WACP), and strategic Premium investment within robust monitoring, evaluation and learning framework.



So far, Dutch chocolate brand Tony's Chocolonely and German retailer REWE have signed up to pilot our holistic living income approach in Cote d'Ivoire and Ghana. Besides, a number of other commercial partners in Belgium (Oxfam Fairtrade, Belvas, Galler, Colruyt) and Germany (LIDL) are partially implementing the living income roadmap in their respective supply chains, most of which include the payment of a price differential.

"As a founding member of the Sustainable Cocoa Forum, the REWE Group has been committed to the cultivation of certified cocoa for many years. Since 2014, we've been cooperating with the Fairtrade cocoa programme. Our joint project in Ghana is a logical next step for us to expand our commitment to Fairtrade. We believe that living incomes are the basis for meeting the far-reaching challenges in the cocoa sector".

– Marcel Weber, General Manager of REWE Group's own brand
– national and international –

"Lidl committed to have all its chocolate supply sold accordingly to the sustainable standards of UTZ, Rainforest Alliance and Fairtrade. The goal was achieved in 2016 and, 2 years later, in 2018, Lidl signed Beyond Chocolate. As a result, Lidl invited stakeholders around the table to develop a first initiative around Living Income in the chocolate sector. Rikolto and Fairtrade were involved since the beginning and, after 2 years, a first product was born under the name Way To Go: a chocolate bar for which an extra premium, on top of the Fairtrade Premium, is paid to substantially move towards a Living Income. Today Way To Go chocolate bars can be found in Belgium and Netherlands and other countries will follow soon".

– Philippe Weiler, Head of Sustainability at Lidl Belgium and Luxembourg

Besides the price component, the pilot projects are focusing on sustainable farming practices, efficient farm management, and income diversification. Implementation of productivity-related interventions has primarily driven the cooperatives, who receive support from Fairtrade Africa to develop the required capacity for delivering adequate services to their members.

The design phase of each pilot project starts with a participatory needs assessment in order to identify the specific areas that require attention in the target cooperative. For this purpose, a needs assessment toolbox was developed. It consists of a scorecard that follows the logic of the living income indicator framework, a series of focus group discussions (with cooperative leadership, technical staff and lead farmers, delegates, male members, female members, and young people) and individual household interviews. Tailored project interventions are then defined to address the priority needs based on the scorecard results. In 2019, Living Income needs assessments were conducted in CAKIB and Konongo Society in Côte d'Ivoire.

For the projects with Tony's Chocolonely, LIDL and REWE, a baseline survey and gap analysis of actual household incomes, productivity and diversification levels versus target values, as well as of cooperative service delivery to members, is currently underway. The baseline will provide insights into the key living income indicators, as a point of departure in a longitudinal impact assessment of Fairtrade's living income pilot projects. The baseline covers a representative sample of producer households across the four targeted cooperatives.

The indicator framework for the baseline aligns with the living income theory of change and the same will be used for future monitoring of progress towards living incomes and validation of the assumptions underlying the Fairtrade Living Income Reference Price model. Baseline results are expected by April 2020. Farm records will be used for measuring farm income improvement over time.



Philippe Weiler, LIDL Belgium's Head of Sustainability, shows Kuapa Kokoo farmers how they market the Way2Go bar.



Way2Go project visit to Ghana with Bram Markey (Rikolto), Bettina von Reden (Fairtrade Germany) and Philippe Weiler (LIDL Belgium).

LIVING INCOME PILOT PROJECTS

Lobbying for the right to a living income

Enabling government policies and ambitious sector commitments are essential to create a level playing field for the drastic measures required to achieve living incomes at scale, such as higher commodity prices.

Advocacy for an enabling environment constitutes the third pillar of the Living Income Strategy, next to sustainable pricing and sustainable yields. A small living income advocacy working group was created to articulate around living income as a human right and develop an advocacy action plan to influence governments, industry platforms, and civil society, so that enabling conditions are put in place. *(click on our position paper below)*.

By speaking with one voice we reinforced Fairtrade's position: Fairtrade staff and product experts worldwide were instrumental in shaping the agendas and formulating objectives and performance indicators of the German, Swiss, Belgian and Dutch multi-stakeholder initiatives for sustainable cocoa, as well as the overarching Alliance for Sustainable Cocoa. This allowed our living income narrative to resonate on influential platforms, such as the World Cocoa Conference and the International Coffee Organization. Both declared global commitments to enabling living incomes.

Meanwhile, the **Fairtrade Advocacy Office (FTAO)** aligned at the EU level. Important pieces of research were commissioned to explore regulatory options for sustainable procurement by the European Union and to look into the loopholes in competition law that could make it possible to discuss prices as part of sector agreements.

Fairtrade Africa, in turn, proactively engaged the Ivorian and Ghanaian governments in the lead up to their **announcement of the floor price**, which later converted into a Living Income Differential. As a result of this decision, all buyers will have to pay an extra US\$400/MT on any cocoa they buy from October 2020, regardless of the market price. This will guarantee a minimum farm gate price of US\$1,820 to all cocoa farmers. This is an important step in closing the income gap in the major cocoa-producing countries.

Finally, awareness around the right to a living income was raised among the general public through several campaigns featuring the need for sustainable pricing, such as the **'67 cents'** campaign by Fairtrade Belgium, **'She deserves'** by the Fairtrade Foundation and the pop-up **'Break the System'** in the Netherlands.

In November 2019, Fairtrade co-hosted **'The Only Way is Up'**, the first-ever international living wage and living income conference, which took place in Rotterdam, the Netherlands. A mixed attendance from different industry sectors, civil society and governments, and inspiring presentations and debates made the sold-out conference a success, with a clear call to action by all stakeholders to make living incomes and living wages happen.

Deputy Director-General for International Cooperation at the Netherlands Ministry of Foreign Affairs, Birgitta Tazelaar, publically acknowledged the need for Living Income Reference Prices in her speech and supported the Ivorian and Ghanaian initiative to increase cocoa prices.



Carla Veldhuyzen van Zanten presents Fairtrade's Living Income Strategy at the 'Only Way is Up' Conference in Rotterdam in November 2019

Advocating for living income - our common narrative

"Living wages and incomes sound great. But without detailed calculations of what they mean in practice for product prices, this is barely more than a philanthropic catchphrase. It has to be more than that. Living wages and incomes are a human right – and this means they have to be quantified."

– Birgitta Tazelaar, Deputy Director-General for International Cooperation at the Netherlands Ministry of Foreign Affairs

WHAT'S NEW IN 2020?

Updating the Fairtrade living income strategy

While Fairtrade International is defining its overall strategy for the coming years, it is evident that work towards living income will continue to have a prominent position. Therefore, it is time to pause and reflect on the experiences from the early years of implementing the living income roadmap and align with the new strategic direction of the system. In order to ensure a future-proof Living Income Strategy and enable implementation at scale, we need to capitalize on our learnings, address the challenges, take on board newly gained insights and build on relevant external developments.

By reviewing our Living Income Strategy, we seek to revisit our initial assumptions, evaluate the feedback received from key stakeholders and analyse how emerging developments in the sustainability sector can be integrated, in order to stay ahead of the game and maintain our leadership position in the living income arena.

For this purpose, we have revived the Living Income Working Group and we hosted a series of webinars to discuss the critical strategic themes at the end of March 2020.

Seeking broader endorsement of living income reference prices

After a process of harmonization of our Living Income Price models with Tony's Chocolonely – so far the only large Fairtrade brand committing to sourcing all their cocoa (7,000 MT approximately) at this price - and in order to pursue broader acceptance of the concept of Living Income Reference Prices in general, we are seeking formal endorsement of our model by the Living Income Community of Practice.

Wider endorsement of the model will be necessary to allow the implementation of sustainable prices at scale. It will, for instance, strengthen our lobbying for inclusion of the payment of Living Income Reference Prices as performance indicators in sectorial agreements or government policies. For this, we are refining our model and exploring potential further alignment with a newly developed living income price model by the German Agency for International Cooperation (GIZ).

Strengthening the gender focus

The gender focus for living income implementation will be further strengthened in 2020 by integrating farm management and household economics module into the Women's School of Leadership (WSOL) programme and ensuring participation of female leaders from the cooperatives in the pilot projects at the WSOL.

Going digital

Fairtrade received a grant from GIZ to evolve the physical record-keeping tool into a digital farm management application. This will be developed in 2020.