WORKSHOP DOCUMENTATION

Working towards the Calculation and Use of a Living Income Benchmark in Agricultural Commodities

A Practitioners' Workshop hosted by ISEAL and GIZ

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Contact:

Kristin Komives

ISEAL Alliance
T +44 (0) 20 3246 0066
E kristin@isealalliance.org
W: www.iseal.org

Sophie Grunze

Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ)
T +49 6196 79 1099
E sophie.grunze@giz.de
W: www.giz.de

Introduction, workshop objective and content

Inspired by the dynamic living wage discussions in the garment sector, the living income debate is gaining more and more attention on the agenda for many development actors. Both living wage and living income are concepts that can be employed to explore what it would take to achieve a decent standard of living for households. While the idea of a living wage is applied to workers whose households depend on the income of his or her employment, living income is discussed in the context of farmers and other small entrepreneurs whose households depend in their income on their own entrepreneurial activities. Despite the increasing interest in living income, the concept remains poorly defined. There is interest in agricultural supply chains in using a living income benchmark to set goals and/or analyze possible strategies for improving farmer incomes, but there is no clear vision on how to do this.

The goal of the workshop was to bring together researchers and practitioners with some familiarity with the living income discussions to work together on moving towards more clarity on the living income concept and its uses, and to more consensus on definitions and methodologies. The discussion has been taken off from a short concept note prepared by ISEAL Alliance, GIZ and the Sustainable Food Lab. The workshop objectives were:

- Understanding and articulating interests, potentials and concerns
- Clarifying and agreeing on concept and framework
- Exploring what implementation would mean in terms of resources
- Determining a way forward

The first day started with identifying and understanding the needs for a living income concept as well as concerns from different stakeholder perspectives. Fostering a common understanding, the concept as elaborated in the concept note beforehand was presented and discussed in working groups on 1. living income benchmark, 2. crop income benchmark and 3. farm economics model.

The second day focused on different ways of applying the living income concept in the field as well as defining a way forward.

The results from the workshop were incorporated into the updated discussion note (attached). Main discussions and outcomes are additionally summarized in the following paragraphs.

Needs, interests and concerns for a living income concept

The discussion around “living wages” in the garment sector has paved the way for likewise drawing attention to the situation of self-employed smallholder farmers facing equally miserable work and low income situations. Many stakeholders, including companies, have shown more and more interest in estimating living income for the farmers in their supply chains and using this information to help assess how to improve farmer livelihoods.

The following interests in the concept were mentioned during the workshop:

- The living income (LI) approach provides the opportunity to draw more attention to the issue of economic sustainability. This dimension of sustainability has been partly neglected in the past, bearing the risk of “certifying poverty”.

- The LI approach provides a holistic view on the entire farming and household system, instead of drawing attention to (cash) crops only.
- In comparison to (international) poverty lines, the LI concept takes into account the local context based on which a decent standard of living is defined. LI benchmarks furthermore can provide data which may not have been available or accurate for certain regions until now.

The following needs were mentioned:

- There is the need to clarify and harmonize methodological questions as well as how to operationalize the concept and to integrate it in existing sustainability initiatives. A close linkage between the living wage and the living income approach is needed to assure consistency and avoid duplicating efforts.
- Existing poverty benchmarks (incl. their methodology) should be compared to gain a better understanding of the advantages and disadvantages of each of them.
- Close cooperation with southern stakeholders, including farmer representatives, governments etc. needs to be envisaged.
- It needs to be further elaborated in how far other dimensions of sustainability, as for example social aspects (working conditions etc.) could be included into the concept.

The following concerns were mentioned:

- Scalability of the concept, e.g. as a requirement within a standard system, was questioned, especially with regard to the feasibility to deliver and prove requested results on a broader scale.
- The LI concept does not address household inequality and income distribution between household members.
- The variety of living conditions of rural populations is inadequately reflected: the living income approach has been discussed mainly with reference to farmers, and thus does not capture the whole scope of income earners in rural areas.
- Possible unintended negative impacts: Increasing prices for agricultural products with the aim of increasing farmer income and worker wages may lead to relocation of companies to other, cheaper locations or switching to mechanization, leaving many people unemployed behind.
- Availability and accuracy of data remains a challenge for many regions.

Towards a common understanding

Living Income Benchmark:

Starting from the living wage definition agreed by the standard system's living wage collaboration[1], the group arrived at the following proposed definition of living income during the workshop:

[1] The remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of

Proposed Definition for Living Income

A living income is the net income* of a household** earned/generated under conditions of decent*** work, sufficient to enable all members of the (average) household to afford a decent standard of living.

* Net income = Total income minus all costs

** Household = Group of people (often family) living under the same roof and pooling resources (labour, income and assets)

*** Decent = ILO definition (e.g. FAO definition of decent *rural* employment): *Decent rural employment is defined as work that provides a living income and reasonable working conditions. It refers to productive and dignified work that enables people – whether self-employed or wage labourers – to provide for themselves and their families, while also ensuring their safety and health at work and providing them with opportunities to voice their concerns. Decent rural employment opportunities ensure a living wage, security in the workplace, access to social protection and respect for fundamental human rights.*

- The **term "income"** within the living income concept seems to be partly misleading. While the term suggests a need to look at the revenue and costs structures of the household, its calculation is actually based on needs, and involves estimating what it would cost to afford a decent standard of living. Accordingly revenues and costs related to farming as a business (e.g. investments costs) are not taken into account in the living income benchmark calculation itself. Instead they are considered within the farm economics model.
- Income can be calculated per person, per earner, per household. It was decided to keep living income as a **household concept.** The main reason behind is that a household usually has to cater for dependent persons who cannot earn wages or income on their own and who have to be looked after by those household members who are able to work and who feel responsible for them. Usually, these dependents are children or other immediate relatives, but this does not have to be always the case.
- No ultimate consensus was reached on the **time unit for measuring household-level living income**, if it is about a yearly, monthly, weekly or daily income. However it was suggested that because of the seasonality of agricultural work, the base should be a yearly unit that can be further broken down into smaller units (monthly, weekly, daily).
- **In kind or cash contribution** e.g. by governments or companies such as free schooling, medical care etc. need to be taken into account. Depending on whether those contributions are available for the whole region or only for a group of farmers/workers, they should be either considered in the calculation of the living income benchmark (valid for a whole region) or the farm economics model (as part of the household income).
- The workshop participants agreed that a living income according to the decency concept also needs to include an indication about the **work required to achieve the living income,** allowing time to rest, be sick or be on leave.

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living include food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events.

Crop income benchmark

The challenge with using a living income benchmark in the context of farming is that many of the actors concerned about farmer welfare have little direct influence over total household income. The idea behind a crop income benchmark is to have an income target for a specific crop that is derived from the living income benchmark (just as a living wage calculation is derived from the cost of a decent standard of living for a household). This 'crop income benchmark' would provide a target for the revenue that a household should be able to earn from a single crop. The problem is that there is still no consensus about how much we can reasonably expect a single crop to contribute to total household income. To arrive at a convention for how to measure the expected contribution of a crop to living income, following options were presented:

1. Look at the average contribution of the crop to household income in that area (e.g. households on average earn 60% of total household income from that crop);

2. Look at the (average) percentage of land dedicated to the target crop and

3. Calculate of the needed return to labour (e.g. income required to ensure that farmers earn living wage for hours dedicated to farming)

The discussion demonstrated clearly the need for further elaborating the idea behind a crop income benchmark, and the difficulties of arriving at a convention. The weaknesses and limitations of measuring the expected contribution of a crop to living income based on all three options presented were clearly highlighted:

1. Relying on the average contribution of the crop to household income has the disadvantage of not reflecting the potential for the target crop to represent a larger proportion of household income, for example if productivity would increase.
2. Rely on the percentage of land dedicated to the target crop: The conceptual challenge with this approach is that crop income is not the only income the household has. The household may also have livestock, wage labour or other sources of income, which are unrelated to land area, and make also grow multiple crops in a single area of the farm (e.g. intercropping).
3. Rely on a calculation of the needed return to labour: For each crop, one could calculate the hours invested and the net income needed if each hour were to be remunerated at this target. This approach is appealing because of its conceptual similarity to the living wage benchmark, but it has the disadvantage of being complex and requiring a lot of data. Especially data on labour hours is often not available, inadequate, or highly variable. Additionally the limited availability of labour must be taken into account.

While the idea of defining a crop income benchmark may seem appealing to organizations whose interventions are limited to one (cash) target crop, it may be make more sense to use the farm economics model to derive an understanding of what a crop could contribute to household income, instead of creating a specific crop income benchmark.

Farm economics model

Starting from a basic farm economics model (see Annex 1), the group discussed whether elements of the model would need to be changed or enhanced to make it useful for understanding and modelling the determinants and elements of farm household income.

- Defining elements to be included into **production costs** can range from a few basic operational input costs to more complex models which consider fees, taxes, opportunity costs etc. The challenge lies within finding a balance between accuracy and available resources. Incorporating a broader range of cost factors would help value production costs adequately and to assure that households are not forced to consume or sell their assets over time to cover these costs.
- Following **variables/elements** need to be included accurately within the farm economics model: **Received subsidies** or **in-kind contributions** for production (e.g. seedlings, fertilizer) should be deducted from the production costs, while subsidies including **remittances or in kind services** related to the needs of the household (e.g. free school or medical services provided in a community) should be included as an additional income if the costs related to those goods and services were considered in the living income benchmark assumptions (see above). Further costs to be reflected adequately are **services** provided by farmer associations, extension services etc.
- How to include **opportunity costs for labour** provided by the household into the production costs has been a controversial point of discussion. Considering the costs of labour provided by the household (opportunity costs) can be useful if for example one wants to explore the economic performance of the farm or a certain crop and compare it with other investment opportunities.
- It is important to recognize **assets** (which can be e.g. premises of household, land, livestock or also perennial crops). Income can be "frozen" or accumulated in assets. Assets that have been accumulated over years may be liquidized within a short period (e.g. livestock). The change of asset value within a given period of time therefore needs to be considered within the farm economics model.
- The **time dimension** (changes over time) needs to be taken into account sufficiently. Income can vary greatly over time, e.g. through fluctuation of crop yields or prices. To capture yearly income variations adequately, it can be helpful to use averages from several years. Furthermore it was suggested to include a business margin (e.g. risk and reinvestment margin) into the model to smooth changes over time.
- A **guidance document** on the farm economics model clarifying terms, definitions and including guidance for data collection as well as income calculations, would be useful as a support document.

Applying the living income concept

The following paragraphs summarize the discussion on the potential use of the concept:

Fairtrade currently is undergoing a revision of its price setting methodology. If and how it would be feasible and beneficial to integrate the living income into the ongoing process and price calculations more generally needs to be evaluated carefully. The lack of scalability may limit the inclusion of the LI concept into the standard requirements.

For **Fairfoods'** advocacy work the living income concept can help to understand the complexity of farmers´ income, identify the gaps between current and a living income, develop cases as a basis for influencing the policies and practices of global food and beverage companies and governments.

Ethical Tea Partnership (ETP) together with Oxfam has published a report on Living wages in Malawi. Recently they have built up a large coalition for a roadmap by 2020 for Malawi with the objective to redistribute the value along the value chain and create additional value on the field. Furthermore ETP together with GIZ is setting up a LI/LW project.

For **FSC** the living income concept could be a suitable approach to strengthen the smallholders' position within the standard scheme. Cost of living could be calculated in a participatory way at community level fostering empowerment and creating ownership. Once defined, it can be integrated into the community forest management plan. Unlike discussed so far, the concept would be applied on a community instead of household level.

Next steps & agreements

1. **Further involvement & collaboration of stakeholders:**
   - Stakeholder analysis of potential interested organisations & involvement in the further discussion on the concept (GIZ/ISEAL)
   - All stakeholders on international level are encouraged to actively involve local stakeholders (including farmer representatives) at pilot sites and in events taking place in the regions

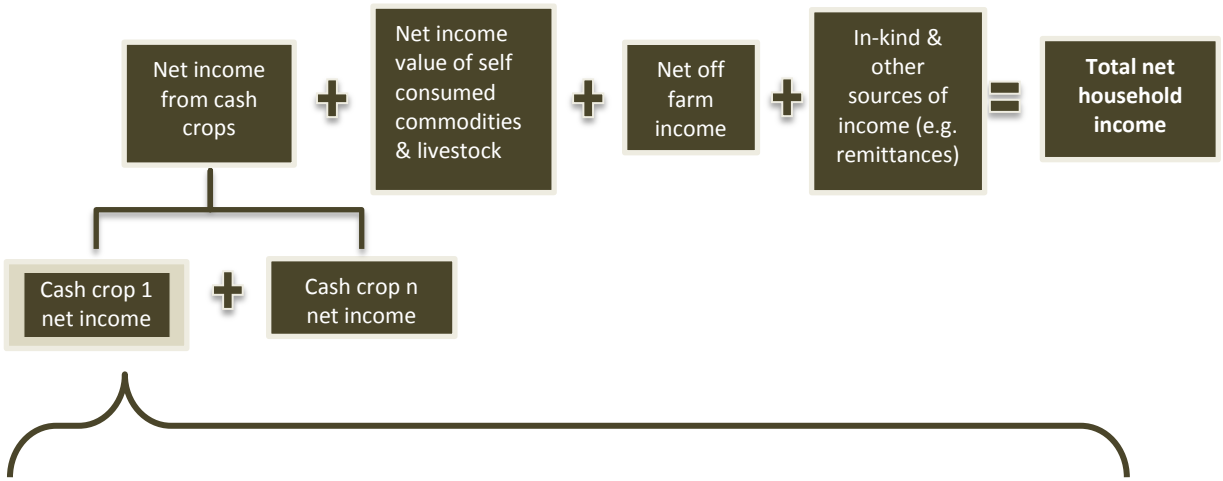
2. **Improvement of methodology:**
   - Integrate results from the workshop into the discussion note (GIZ/ISEAL/SFL)
   - Development of info sheet (2 pages) on living income (ISEAL/GIZ/SFL)
   - Set up working groups to foster discussion on more specific topics (set up by ISEAL/GIZ)
   - **Proposal only:** Development of a guidance document for the Farm Economics Model, clarifying terms, definitions and including guidance for data collection as well as income calculations.

3. **Piloting/testing of the methodology and sharing learnings:**
   - Different organisations have already planned or are implementing pilot projects related to living income. A list of the ongoing projects will be provided (ISEAL/GIZ)
   - Organisations are encouraged to share their learnings. An adequate format needs to be elaborated

4. **Coordination & follow-up meeting:**
   - Find organization that coordinates the process in the long run
   - Verify the options for a virtual space for feedback and sharing experience
   - Follow-up workshop/event on LI at the end of 2015/beginning 2016 (GIZ will check on funding possibilities)

Annex 1: Farm economics model (risk & re-investment margin not included)

Composition of household income in a given period



Example for the income composition of one activity: