# Introduction to the Living Income Concept in the context of Agricultural Commodities

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Inspired by the dynamic *living wage* discussions in the garment sector, the *living income* debate is gaining more attention on the agenda of leaders in the public and private spheres. The concepts of 'living wage' and 'living income' are both about achieving a decent standard of living for all. The idea of a living wage is applied in the context of hired workers (in factories, on farms) while living income can apply to any income earner. Finally, unlike the case of living wage, there is not yet a shared definition of 'living income', how exactly to calculate a benchmark, and the possible usage of such a benchmark.

This short note is the outcome of a workshop on Living Income hosted by GIZ and ISEAL in February 2015. The paper is meant to be used as a basis for further discussion to better define this concept and explore its usefulness in particular in the context of small scale farming. The authors welcome your comments and contribution to this joint effort.

## <u>Getting terms straight: what do we mean by living income?</u>

The momentum created around "living wages" in the garment sector among others has paved the way for working on the living income concept. The Living Income working group is building on the Living Wage methodology developed by Richard and Martha Anker in the framework of the ISEAL living wage working group[1]. Whereas living wage is a benchmark for one source of income (remuneration received by a worker), we propose living income as a benchmark for total household income. The definition proposed is:

> **The "Living income" is the net income of a household earned/generated under conditions of decent work, sufficient to enable all members of the household to afford a decent standard of living".** Elements of a decent standard of living thereby include: food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events.

<u>Where by:</u>
- **The net income** is the total income from all sources after taxes. The farm income is one component of total household income and it is revenue from crop sales – associated costs.
- **The household** is made up of all of those who: 1) normally live in the residence; and 2) usually live in the residence, even though they may be temporarily absent on the day of the interview for reasons such as work, vacation, illness, school, etc. Count domestic servants who live in the residence for most of the year.
- **Decent rural employment** is 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.

[1] The ISEAL living wage working group involves 6 sustainability standards namely FSC, Fairtrade, SAI, UTZ

Living income benchmarks are not based on the situation of any specific farming household. They are a calculation of what an average sized household with an average number of household workers, would need to earn in order to cover the cost of a decent standard of living in a specific location. In this sense, a 'living income benchmark' is a normative target based on the situation of a typical farming household in a particular area.

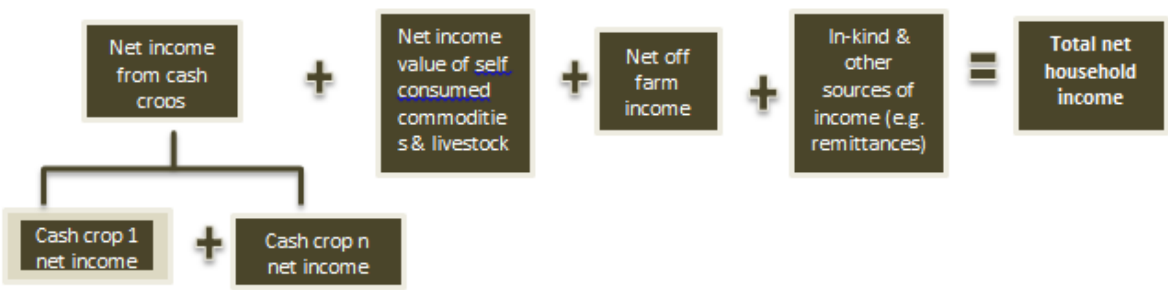
To understand whether smallholder farmers are actually earning a 'living income', living income benchmarks should in first instance be expressed as cash required per household, so that they can be compared to (average) total household incomes of farming households. Total household income for a small scale farming household may come from multiple sources – on-farm income sources (farming or livestock activities) and off-farm income sources (e.g. wage work). Farming families often also grow their own food or timber, which can cover some of the costs of food and housing. It is likely that the net income from each individual crop or activity is not sufficient income to afford a decent standard of living for the household.

## Putting living income benchmarks to use

Living income benchmarks can be used for a variety of different purposes:

- **Assessing Risks and Monitoring Change:** The benchmark can allow for estimating the gap between current income and living income and monitoring change overtime of specific farming households, or a whole farming sector, and these benchmarks.
- **Setting Targets:** The Benchmarks can be used to set targets for specific interventions and different actors of the supply chain.
- **Modeling and Strategizing**: The living income benchmarks complemented with a basic farm economic model would allow for identifying how much variation in different key variables such as  land area, price, or productivity affects farmers' incomes.

The last two potential uses require more than the benchmark itself. They require information on current household income composition and value, cost of production, farm or crop incomes and an understanding of the economics of farming livelihoods, as captured in the farm economics framework below:




Finally while the household income analysis would allow for assessing the gap between living income and current income levels of farms, it is not sufficient for a full assessment of household livelihood and resilience. More elements would need to be incorporated for such analysis including an analysis of income distribution, assets and possibly food security.