

The Living Income / Fair Price methodology

Presentation to the Living Income
Webinar on the calculation of
'fair' prices

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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

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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:

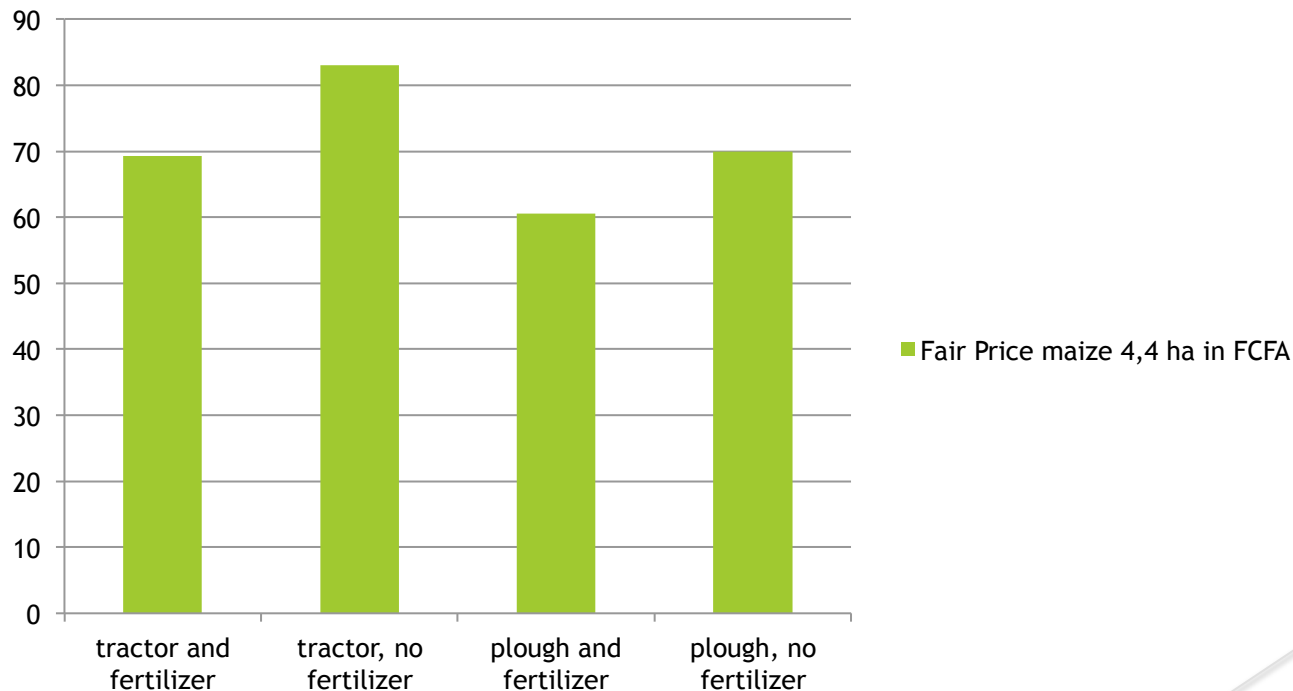
| | Cost/ha (FCFA) |
|--------------------------|----------------|
| ▶ Maize | |
| ▶ tractor and fertilizer | 181500 |
| ▶ tractor, no fertilizer | 118750 |
| ▶ plough and fertilizer | 142500 |
| ▶ plough, no fertilizer | 79750 |

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
- ▶ $FP = (LI + \text{production cost}) / \text{production}$
- ▶ 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)

Fair Price maize 4,4 ha in FCFA



| | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--------------------|-------------------------------------------------------------------|
| Family size | 7,9 | | |
| of which adult earners | 4,4 | | |
| Working days/yr | 275 | | |
| LI/yr | | XOF 572.892 | |
| <i>LW/working day</i> | | 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 b. maize: plough and fertilizer |
| Investments / repayments (interest and depreciation) | | | |
| 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 umbrella 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 cultivation e.g. with/without fertilizer and/or improved seeds)

| | a | b |
|------------------------------------------------------|----------|----------|
| Investments / repayments (interest and depreciation) | | |
| Inputs | | |
| Hired labour | € 102,90 | € 102,90 |
| Field operation costs | | |
| Harvest and post harvest costs | | |
| Transformation costs | | |
| Storage, Handling | € 18,68 | € 30,11 |
| Fertilizing | | € 84,23 |
| Costs of the umbrella organization | | |
| Taxes | | |
| Other | | |
| Total product | € 121,58 | € 217,24 |

a. maize: plough no fertilizer
b. maize: plough and fertilizer

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 income | a | b |
| Home grown food | € 10,67 | € 10,67 |
| Labour (working for own account) | € 9,85 | € 9,85 |
| 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 |

15 days LW/day*working days

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

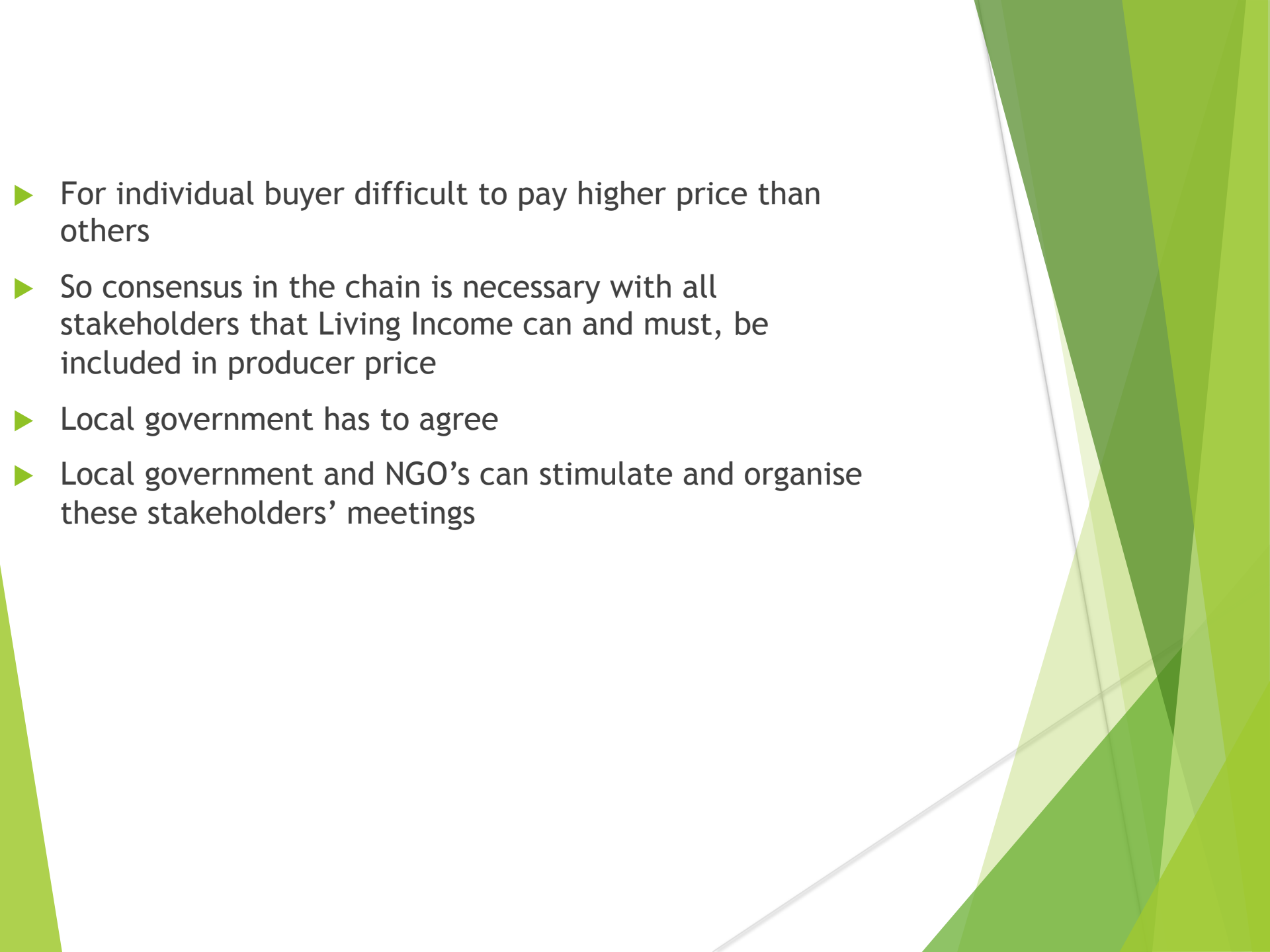
Effects of raising producers share on consumer prices



| | 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 |
| <i>Total production costs</i> | 50 | | 70 | | 70 |
| Transport | 8 | 15% | 11 | 15% | 8 |
| <i>Subtotal</i> | 58 | | 81 | | 78 |
| Shipping and Handling | 12 | 20% | 16 | 20% | 12 |
| <i>Subtotal</i> | 69 | | 97 | | 89 |
| | | | | | |
| country of destination | | | | | |
| Transport and handling costs | 3 | 5% | 5 | 5% | 3 |
| Storage | 3 | 5% | 5 | 5% | 3 |
| <i>Subtotal</i> | 76 | | 106 | | 96 |
| Profit importer | 15 | 20% | 21 | 20% | 15 |
| <i>Subtotal</i> | 91 | | 128 | | 111 |
| Costs and profit retailer | 27 | 30% | 38 | 30% | 27 |
| <i>Subtotal</i> | 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

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- ▶ 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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