



The Role of Governments in Enabling Living Income in Global Agriculture Value Chains

Guidance for public policy makers

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The authors would like to thank the many experts that were consulted. The responsibility for the analysis and any inaccuracy lies exclusively with the authors.

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Table of content

FOREWORD BY SVENJA SCHULZE, GERMAN FEDERAL MINISTER FOR ECONOMIC COOPERATION AND DEVELOPMENT	5
FOREWORD BY MEXICAN MINISTER FOR AGRICULTURE AND RURAL DEVELOPMENT, SANTIAGO JOSE ARGUELLO CAMPOS	6
PART 1: INTRODUCTION AND EXECUTIVE SUMMARY	7
1.1 Introduction	8
1.2 Who is this Guidance for?	10
1.3 Living Income Movement to Date	11
1.4 Role of Governments in Enabling Living Income in Global Agriculture Value Chains	12
1.4.1 Overview and summary of part 2	13
1.4.2 Overview and summary of part 3	13
1.5 Moving Forward	14
PART 2: HOW CAN SUPPLY-SIDE RELATED PUBLIC POLICIES SUPPORT A LIVING INCOME?	15
2.1 Why Use the Living Income Methodology?	16
2.1.1 Poverty Alleviation	17
2.1.2 Economic Development	18
2.1.3 Overarching Value of a Living Income Strategy	19
2.2 How to Adopt a Living Income Strategy	20
2.2.1 Measuring an Income Gap	20

Table of content

2.3 Closing the Income Gap	27
2.3.1 When Agriculture Cannot Deliver Living Incomes	27
2.3.2 Identifying Complementary Investment and Incentive Programmes	28
2.3.3 Production and Services	30
2.3.4 Markets & Value Chains	30
2.3.5 Coordination	30
2.3.6 Policy & Regulation	30
2.3.7 Investment	31

PART 3: **HOW CAN DEMAND-SIDE PUBLIC POLICIES SUPPORT A LIVING INCOME? 35**

3.1 Introduction	36
3.2 Case studies	38
3.2.1 Public Procurement	38
3.2.2 Human Rights and Environmental Due Diligence Policies	42
3.2.3 Unfair Trading Practices	46
3.2.4 Multi-Stakeholder Initiatives	49

IMPRINT 53



Svenja Schulze has been the Federal Minister for Economic Cooperation and Development of the Federal Republic of Germany since December 2021. Previously, from March 2018 to December 2021, she was the German Federal Minister for the Environment, Nature Conservation and Nuclear Safety.

This publication comes at a time of great challenges to sustainable world trade, with enormous disparities of opportunity, wealth and power across global supply chains. The ongoing COVID-19 pandemic, as well as Russia's war against Ukraine, are further exacerbating this situation. In this setting, eradicating poverty and ensuring food security continues to be one of the greatest global challenges. Yet, it also plays a central role for sustainable development.

Living incomes and wages in global supply chains are key to securing decent livelihoods worldwide. They are human rights in themselves. However, they are equally a precondition for fulfilling other human rights. Not addressing Living Incomes and wages in global supply chains would make it impossible for a large part of the world's farmers and workers to be lifted out of poverty. Reaching the Sustainable Development Goals of the 2030 Agenda for Sustainable Development would not be possible. For instance, how can we expect smallholder farmers to apply more environmentally friendly agricultural practices, if they do not receive a Living Income with which to pay for nutritious food, education and essential medical services for their own families? Moreover, when it comes to Living Incomes for smallholder farmers, women often do not have fair access to the family income earned from crops. And when it comes to living wages for workers, there still is a persistent wage gap between men and women.



In January 2021, Germany signed a Joint Declaration regarding Living Wage and Living Income with the Netherlands. It calls for Living Income and wages to be included in European Union policy concerning sustainable value chains and beyond.¹ In addition, the governing parties of Germany agreed upon the goal of "living wages worldwide" in their Coalition Agreement last December.

With the present publication, the German Federal Ministry for Economic Cooperation and Development (BMZ) would like to make a targeted contribution to Living Incomes in agricultural global supply chains. The aim is to provide policy-makers worldwide with concrete guidance and examples for policy regarding both production and consumption. The cross-cutting nature of this topic requires that a diverse set of stakeholders, for example from the private sector, civil society and governments, work together. Our shared commitment to living wages and incomes is important for preventing human rights violations.

Svenja Schulze
Federal Minister for Economic Cooperation and Development, Germany

¹ German Federal Ministry for Economic Cooperation and Development (BMZ) & Ministry for Foreign Trade and Development Cooperation of the Netherlands, Joint declaration on Living Wage and Living Income, 2021.
https://www.idhsustainabletrade.com/uploaded/2021/02/joint_Declaration_NLD_DEU_270121.pdf



The Mexican Ministry of Agriculture and Rural Development (SADER) is committed to ensure that farmers reach a decent and prosper livelihood. Smallholder farmers are critical members of our society and as a government, we play an important role in strengthening agricultural sectors by serving the most vulnerable.

Climate change, Covid and an unstable market environment make it difficult for many smallholder farmers to cover their costs of production, let alone make a Living Income. As a major producer of many high-quality agricultural goods for our national and export markets, we have a critical role to support our citizens and collaborate with partners to create a sustainable agricultural sector. This guidance document and introduction to Living Income is important to ensure that governments and other stakeholders are aligned in these efforts.

As member of the International Coffee Organization, Mexico is engaged in the Coffee Public-Private Taskforce, including the dialogue and work on living and prosperous income in the coffee sector, which has seen hardships for our farmers.



Understanding the costs of living in rural areas and the actual incomes of our coffee farmers is a first step to ensure a sustainable coffee sector. For us this also includes good agricultural practices, better distribution of value across the supply chain, governance, stronger institutions, productivity, and diversification among other things. We are on a continuous improvement pathway to ensure inclusion of all coffee farmers, to reach economic and environmental resilience.

We encourage others to read this document as a starting point in your engagement process.

I take this opportunity to send you a greeting from Mexico.

Sincerely,
Ing. Santiago J. Arguello Campos

Part

1

INTRODUCTION AND EXECUTIVE SUMMARY

- 1.1 Introduction
- 1.2 Who is this Guidance for?
- 1.3 Living Income Movement to Date
- 1.4 Role of Governments in Enabling Living Income in Global Agriculture Value Chains
- 1.5 Moving Forward

Introduction and Executive Summary



1.1 INTRODUCTION

Smallholder farms make up the majority of farms worldwide, feeding our global population and producing high value cash crops. The world's estimated 500 million smallholder farmers produce upwards of 30% of the world's food² and are a majority of the world's poorest citizens, often living below the World Bank extreme poverty line³. Studies have shown the powerful impact that effective agricultural development policies can have on poverty alleviation and wealth creation, with the most effective government policies including trade, tax and tariff policies as well as subsidy regimes for agricultural inputs and risk management⁴.

In recent decades a number of trends have emerged in global supply chains of food and agricultural goods. The demand and necessity of supply chain transparency has increased, Environmental, Social, and Governance (ESG) reporting standards are requiring more corporate action on human rights and the environment, and consumers have demanded better living and production conditions of those supplying and producing our food. Yet, what these trends mean for smallholder farmers is impacted by their local and national regulatory environment and the quality of their market access. In many situations smallholder farmer poverty persists due in part to the complexity of farming systems and the many actors within food supply chains, the increased strain of climate change and most recently the Covid-19 pandemic. These effects are further exacerbated in many situations for women, youth and minority groups.

The concept of “[Living Income](#)” has become mainstream as a quantifiable target that defines an aspirational level of decency, also called costs of a “decent living”⁵. Living Income applies the concept of a living wage (applicable to an employed worker) to a self-employed farming household and is defined as the net household income needed for a farming household to afford a decent standard of living⁶. Beyond quantifying a decent standard of living across different geographies, Living Income strategies are being developed to define the roles of different actors and provide strategies to “close the income gap” between actual incomes and a Living Income, a milestone toward a more equitable and prosperous food supply chain. Living Income is also seen as a critical component of human rights and environmental due diligence linked to the right for fair remuneration and right to an adequate standard of living enshrined in the UN Declaration on Human Rights.

There is no “one size fits all” solution for poverty reduction and achieving Living Incomes. The contexts, politics, cost of a decent living, and farming systems differ between agricultural products and countries, as well as within countries. Governments, industry, retailers, traders, farmers, financial institutions, multi- and bilateral organisations, donors, civil society, labour/ trade unions and cooperatives all play a role in building pathways to prosperity, with Living Income as an important milestone.

2 Ricciardi, et al. 2018. FAO. <https://www.sciencedirect.com/science/article/pii/S2211912417301293>

3 Castañeda et al. 2016. World Bank. <https://documents1.worldbank.org/curated/en/187011475416542282/pdf/WPS7844.pdf>

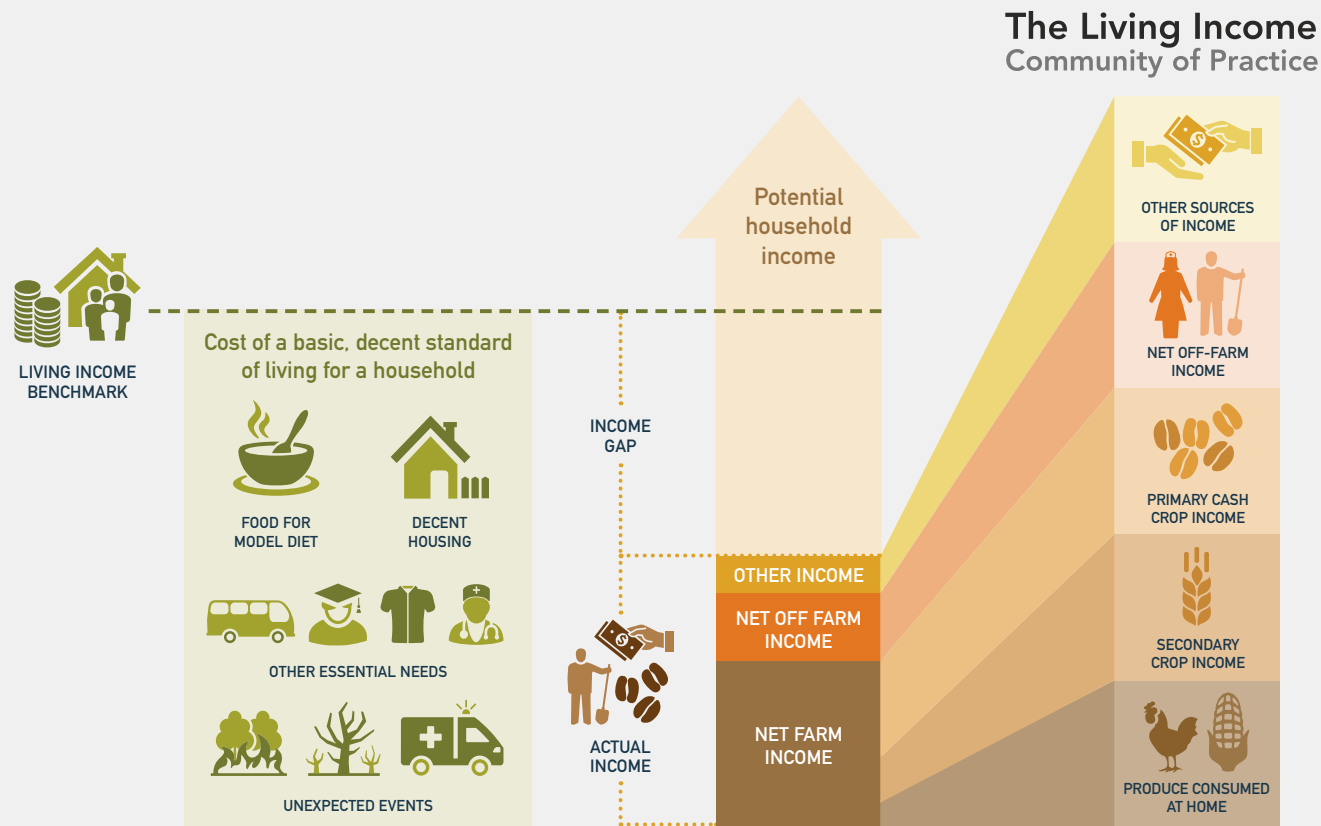
4 Aidenvironment. 2018. Strategies to close the Living Income gap of smallholder farmers. https://c69aa8ac-6965-42b2-abb7-0f0b86c23d2e.filesusr.com/ugd/0c5ab3_bf337bc0c1a746c990ba003c8f5f9325.pdf

5 Oxfam. 2021. Living Income: From Right to Reality. https://www.living-income.com/files/ugd/0c5ab3_011246d66581447b960b03ba12dcb79d.pdf

6 Living Income Community of Practice. 2016. <https://www.living-income.com/the-concept>

THE CONCEPT

The Living Income Story



For more information and to join the community visit:
www.living-income.com
 Contact: livingincome@isealalliance.org

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Figure: The concept of "The Living Income Story"

1.2 WHO IS THIS GUIDANCE FOR?

This publication was created for policy-makers interested in providing support to smallholder farmers in an effort to close the gap between actual incomes and a Living Income in agricultural value chains.

The document provides considerations and guidance in relation to both production (supply-side) and consumption (demand-side) public policies. Production (supply-side) guidance has been developed by the Sustainable Food Lab, a U.S. based non-governmental organisation (hereafter: NGO) and co-facilitator of the Living Income Community of Practice, and Dr. Hendrik Hänke, independent consultant & researcher in rural development, Living Income, livelihoods and sustainable development. Our efforts in the Living Income movement have focused primarily on creating common guidance and understanding of the topic as well as sharing best practices to “close the gap”. We have framed our guidance by providing examples in countries that produce a significant amount of food and other

agricultural products with a majority of farmers defined as smallholder farmers. The consumption (demand-side) public policies have been developed by the Fair Trade Advocacy Office, a Brussels-based Fair Trade movement initiative. We have focussed on policies by the EU and its Member States, believing that the analysis will also be useful for non-EU countries.

Our aim is not to present any existing policy as a “best practice” or to be “copied and pasted” into other jurisdictions. More modestly, we hope this publication will provide food for thought and, perhaps, inspiration to public policy-makers around the world that wish to take action to ensure that all farmers, regardless of their position in a value chain, receive a Living Income.



1.3 LIVING INCOME MOVEMENT TO DATE

The concept of a Living Income was originally conceptualised by civil society organisations, building on the living wage movement, focused on improving the livelihoods of vulnerable populations of independent, informal workers and small farmers. In 2015, a number of civil society organisations and industry partners came together to found the global exchange platform, the [Living Income Community of Practice](#) (LICOP) to jointly agree on common definitions and best practices in measurement and strategy. The LICOP built on the foundations of the [Global Living Wage Coalition](#) (GLWC) to recognize the globally applicable way of determining Living Income benchmarks using the [Anker Methodology](#). The GLWC has published Living Wage/Income benchmarks and reference values in over 43 countries. Other benchmark studies have been published by other entities such as the Living Income Community of Practice, or national commodity-specific studies. The best source of globally available benchmarks is the [ALIGN Tool database](#).

Organisations like [Heifer International](#) have designed similar benchmarks and use Living Income as an organising principle in their work. Fairtrade International has established a [holistic roadmap towards Living Incomes](#), as part of its core strategic goals, and designed a [Living Income Reference Price](#), as a crucial enabling component to achieve Living Incomes (see spotlight in [Considerations for Producer Governments](#) section). The industry platform, the Sustainable Trade Initiative (IDH), has also recently launched a [Living Income Roadmap](#) with an industry steering committee to provide building blocks for companies to take action on the topic.

As companies recognize the business case of strengthening their value chains, international companies like Unilever, Philip Morris, ALDI, and Nestlé have made commitments toward securing or enabling a Living Income for smallholder farmers. Additionally, brands like Ben & Jerry's and Tony's Chocolonely are pioneers of the concept, helping to inform consumers and pressuring their peers.

Multi-stakeholder groups have arisen to tackle sector wide issues and share best practices to improve farmer incomes. There is widespread recognition that companies and NGOs must work hand in hand with producer governments and consumer governments to make long-term systemic changes. In the 2021 UN Food Systems Summit, the topics of Living Income and Living Wages were top of mind for many of the government delegates.

SPOTLIGHT

MULTI-STAKEHOLDER INITIATIVES FOCUSING ON LIVING INCOME

- [Living Income Community of Practice](#)
- [Coalition of Action on Decent Work and Living Incomes and Wages for All Food Systems Workers](#)
- [Alliance on Living Income in Cocoa](#)
- [International Coffee Organisation's Technical Workstream on Living-Prosperous Income](#)
- [Sustainable Coffee Challenge Well-being & Prosperity Collective Action Network](#)
- [Global Tea Coalition/Ethical Tea Partnership](#)

More information on Multi-Stakeholder Initiatives can be found in both the supply-side and the demand-side guidance. The Demand-side policy section in particular offers guidance on the suitability of government-enabled Multi-Stakeholder initiatives to address Living Incomes, providing examples of additional existing platforms.

Months of pre-Summit work resulted in a high level, global coalition: the Coalition on Decent Work, Living Incomes and Wages for all Food System Workers ([DWLIW](#)). The DWLIW Coalition is led by the International Fund for Agricultural Development, CARE and the International Labor Organization, with strong support from the World Business Council on Sustainable Development. The DWLIW coalition is a coalition of the willing working to accelerate a substantial increase of impactful actions by stakeholders across food systems, aligned for collective impact on the livelihoods of food systems workers. It aims to pursue its goal by promoting labour and human rights and increasing opportunities for decent and productive employment within the agri-food sector, including achieving 100% Living Incomes and wages. The coalition is open to any nation-state government to join.

1.4 ROLE OF GOVERNMENTS IN ENABLING LIVING INCOME IN GLOBAL AGRICULTURE VALUE CHAINS

Why is Living Income Relevant to International Public Policy Frameworks

The objective of enabling Living Incomes for farmers in global value chains⁷ will not be achieved by relying on voluntary company approaches or NGOs alone. Against the context of imbalances of power and lack of transparency in global value chains, the complexity of agricultural factors such as small and decreasing land sizes, low productivity and prices being paid to producers not matching the cost of sustainable production⁸, governments have a key role to play in developing the policy infrastructure for agriculture to be profitable for current and future generations.



With smallholder farmers producing a third of the world's food,⁹ achieving Living Incomes in global agricultural value chains is an essential element of numerous public policies at both production and consumption level, especially on development co-operation and transition

to sustainable food systems. Living Income is at the core of realising numerous Sustainable Development Goals such as No Poverty, Zero Hunger, Gender Equality, Decent Work and Economic Growth, Reduced Inequalities, Sustainable Production and Consumption, Climate Action and Partnerships for the Goals.¹⁰ Implementing Living Income policy will not only contribute to the achievement of these goals but also increase the chances of the long term environmental, social and economic sustainability of measures introduced.

Assuring Living Incomes is a stepping stone in ensuring respect for human rights along global value chains, as well as in enabling producers to cope with the consequences of climate change and adjust production practices to limit them. Living Income constitutes a direct precondition for the fulfilment of rights to just and favourable conditions of work¹¹ but also to an adequate standard of living encompassing access to adequate housing, health care, adequate food, clothing, and necessary social services.¹² There is a considerable gender gap in agricultural value chains where women own a smaller share of all agricultural land than men and women reported owners are less likely than men to have a legal and/or formal land title.¹³ Furthermore, the household income derived from joint work on family crops will often be managed by men, making the rest of the household members completely dependent on their decisions.¹⁴ Accordingly, a gender responsible approach to Living Incomes can also significantly contribute to the achievement of gender equality.

Living Income as a link to the ability of a person to exercise their civil and political rights as enshrined in the Universal Declaration as well as the International Covenant on Civil and Political Rights. There is also a connection between the absence of Living Incomes and increased instances of forced labour¹⁵ and environmental destruction such as deforestation.¹⁶ Living Income is quite simply at the core of a multitude of international development goals and public policy frameworks national governments all over the world have agreed to work towards.

⁷ Le Basic. Who's got the power: Tackling Imbalances in Agriculture Supply Chains. November 2014. <https://fairtrade-advocacy.org/our-work/key-topics/power-in-supply-chains/>

⁸ TruePrice, Trucost. The external costs of banana production: A global study. https://files.fairtrade.net/publications/2018_CostsBananaProduction.pdf

⁹ FAO. 2021. Small family farmers produce a third of the world's food. [FAO - News Article: Small family farmers produce a third of the world's food](https://www.fao.org/news/story/en/detail/country/Small-family-farmers-produce-a-third-of-the-worlds-food)

¹⁰ Sustainable Development Goals. [THE 17 GOALS | Sustainable Development \(un.org\)](https://www.un.org/sustainabledevelopment/)

¹¹ UDHR, Article 23; ICESCR, Article 7.

<https://www.ohchr.org/en/instruments-mechanisms/instruments/international-covenant-economic-social-and-cultural-rights>

¹² UDHR, Article 25; ICESCR, Article 11. <https://www.ohchr.org/en/instruments-mechanisms/instruments/international-covenant-economic-social-and-cultural-rights>; V. Nelson, O. Martin-Ortega, M. Flint. 2020. Making Human Rights Due Diligence Work for Small Farmers and Workers.; Ruud Bronkhorst. 2021. The Economics of Human Rights: Using the Living Income/Fair Price Approach to Combat Poverty.

¹³ FAO. 2018. The gender gap in land rights. [The gender gap in land rights \(fao.org\)](https://www.fao.org/land-tenure/publications/2018-gender-gap-in-land-rights/)

¹⁴ Melanie Landthale, Amanda Satterly, Neeti Katoh n.d. Working Together for Gender Equality METHODOLOGY, RESULTS, AND ACTION. [How to use \(ico.org\)](https://www.fairtrade-advocacy.org/our-work/key-topics/power-in-supply-chains/)

¹⁵ Cockayne James. 2021. Synopsis, Developing Freedom: The Sustainable Development Case for Ending Modern Slavery, Forced Labour and Human Trafficking.

¹⁶ Fair Trade Advocacy Office, Fern, IUCN NL, Rainforest Alliance, Solidaridad, and Tropenbos International. 2021. Including smallholders in EU action to protect and restore the world's forests. [Briefing-paper-Including-smallholders-EU-action-final.pdf \(fairtrade-advocacy.org\)](https://www.fairtrade-advocacy.org/our-work/key-topics/power-in-supply-chains/)

1.4.1 WHAT IS THE ROLE OF PRODUCTION (SUPPLY-SIDE) GOVERNMENTS?

As Living Income Benchmarks and Reference Values are conducted and Multi-Stakeholder initiatives have formed in sectors like coffee, cocoa and vanilla, various governments have engaged on the topic. In Cote d'Ivoire and Ghana government agencies have come together to establish a Living Income Differential for cocoa exports from their countries, and are actively discussing this approach with neighbouring Nigeria. In coffee growing regions like Brazil, Peru, Mexico and Colombia, governments have been strongly involved in measuring the gap between actual incomes and a Living Income, as well as implementing long-term strategies to close the gap.

Governments have a central role in establishing the enabling environment in which farmers can operate profitable and sustainable farms. In countries of high poverty, this is a critical role in poverty alleviation and developing opportunities for all farmers to earn at least a Living Income.

Many of these enabling factors are interconnected and must be tackled with multiple stakeholders. Whether it be to establish national sector improvement plans, convene actors across their countries or advocate for higher world prices for their goods, the public sector is at the heart of the work. The Guidance that follows provides (1) the case for adopting a Living Income strategy and (2) how to adopt a Living Income strategy. The later providing details on measuring income gaps and potential strategies to close the gap using the Aidenvironment's Sector Transformation Framework¹⁷. Part 2 will provide examples of work to-date led by governments and Multi-Stakeholder Initiatives, as well as potential solutions and ideas for the future.

GO TO PART 2 »

GO TO PART 3 »

1.4.2 WHAT IS THE ROLE OF CONSUMER (DEMAND-SIDE) PUBLIC POLICIES?

The European Union and its Member States have adopted in recent years different types of public policy measures that can contribute, to enabling Living Income in agriculture global value chains, such as rules and policies on public procurement, Unfair Trading Practices in agri-food supply chains and on Human Rights and Environmental (or Corporate Sustainability) Due Diligence. In addition, various national governments have enabled the setting up of Multi-Stakeholder Initiatives (MSIs) to bring together supply chain actors around key sustainability objectives, including Living Income for farmers.

The case studies that follow in part 3 dive deeper into the strengths and weaknesses of these policy mechanisms to create the conditions and incentives for farmers to earn Living Incomes.



¹⁷ Molenaar, J.W. and Kessler, J.J. (2021). Sector transformation: A systems approach to transforming commodity sectors. Aidenvironment, Amsterdam. <https://www.aidenvironment.org/gallery/sustainable-sector-transformation-theory-and-practical-guidelines/>

1.5 MOVING FORWARD

This publication offers various examples that could provide inspiration for the country-specific or thematic public policies that governments can take to enable Living Income by farmers in global agricultural value chains.

In addition, public policy makers interested in developing effective measures to improve farm incomes and prosperity are encouraged to take steps such as:

- ✓ Identifying high leverage options for their particular national context. Considering those agricultural sectors with high value for the country, either in terms of significant land use and/or value generated from production and sales. Overlaying these sectors with those crops that also have high visibility and value among consumers and branded companies can be a strategic starting point. Products that are visible to consumers, either from a food security or sustainability perspective, typically have some engagement from buyers and are already prioritised in public policy.
- ✓ Considering the initiative of Germany and Netherlands on Living Income and Living Wage, which advocates to include Living Wages and Living Incomes in EU policies concerning sustainable value chains.¹⁸
- ✓ Being on the lookout for on-going work by the OECD to develop a Handbook on Living Income and Living Wage on agriculture and textile sectors.
- ✓ Joining intergovernmental organisations active in various sectors such as tea, cocoa and coffee.
- ✓ Joining the global advocacy and learning spaces on the topic of Living Income, for example through the UN and the Coalition for Decent Work, Living Income and Wages or the Living Income Community of Practice.



¹⁸ German Federal Ministry for Economic Cooperation and Development (BMZ) & Ministry for Foreign Trade and Development Cooperation of the Netherlands Joint declaration on Living Wage and Living Income. 2021.
https://www.idhsustainabletrade.com/uploaded/2021/02/Joint_Declaration_NLD_DEU_270121.pdf

Part

2

HOW CAN SUPPLY-SIDE RELATED PUBLIC POLICIES
SUPPORT A LIVING INCOME?

- 2.1 Why Use the Living Income Methodology?
- 2.2 How to Adopt a Living Income Strategy
- 2.3 Closing the Income Gap

How can supply-side related public policies support a Living Income?

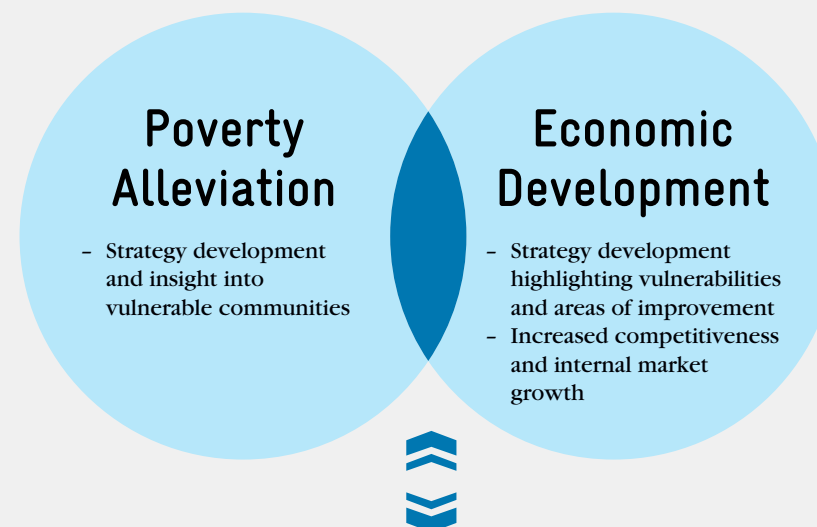
PART 2

2.1 WHY USE THE LIVING INCOME METHODOLOGY?

There are many reasons governments might want to adopt a Living Income strategy or collaborate on a Living Income approach within their agricultural sectors. The two most prevalent and interconnected reasons being poverty alleviation and economic development. A Living Income approach can provide data for strategic planning and continuous improvement, as well as alignment between inter-governmental agencies, and public and private partners on both the current economic status of farmers in different geographic regions and scenarios to close income gaps. Living Income thresholds can also be used in concert with asset based measures such as the Multidimensional Poverty Index¹⁹ as a directional guide to measure, monitor and improve the economic benefits of agricultural programs and policies.



Dual Goals in which Living Income can be useful



1. Framework to understand current investments
2. Increased collaboration and alignment between inter-governmental agencies and ministries
3. Increased collaboration between stakeholders (public and private partners)
4. Climate proofing agricultural value chains and protecting natural resources
5. Improved data for strategic planning & continuous improvement metrics

Figure 1

19 1. UNDP. 2021. The 2021 Global Multidimensional Poverty Index (MPI) <https://hdr.undp.org/en/2021-MPI>

2.1.1 POVERTY ALLEVIATION

There are myriad approaches to measuring socio-economic status of farming communities, including living standards surveys, multidimensional poverty index and asset-based approaches like the Human Development Index. In a Living Income approach, the focus is on understanding the income levels of households across key agricultural production areas. A Living Income approach allows a household analysis of how far above or below families are to a “decent standard of living”. Information is then used to estimate economic development risk levels and better target policies towards mitigating the risks these families face and reducing the gap between actual income levels and a Living Income.

While national poverty lines and absolute poverty levels (e.g., World Bank \$1.90 US/day) in many cases indicate the basis to “survive”, Living Income recognises that meeting the costs of a “decent living” supports people to escape poverty (SDG 1) and thrive. For example, Living Income addresses and goes beyond the simple calorie count of “zero hunger” (SDG 2) by including the nutritious, low-cost diets recommended by the FAO/WHO in the calculation of the costs of decent living. Living Income is, more aspirational and visionary than conventional measures of poverty and hunger, and provides a rigorous methodology, but a Living Income Benchmark is only the minimum threshold for a decent life. Living Income is not the goal, but rather a starting point on the pathway to prosperity.

Poverty Lines and Living Income Benchmarks

Poverty lines are generally lower than Living Income estimates, though this could vary depending on methodologies used for poverty estimation. In general, poverty lines focus on basic needs baskets while Living Income estimates are about a basic but decent standard of living.

An income ladder is a good way to visualize the various benchmarks for a particular location.

This Living Income Gap Estimator, created by GIZ, provides an income ladder and helps visualize the gap between actual incomes and a Living Income. You can learn more about measuring an income gap on page 20.

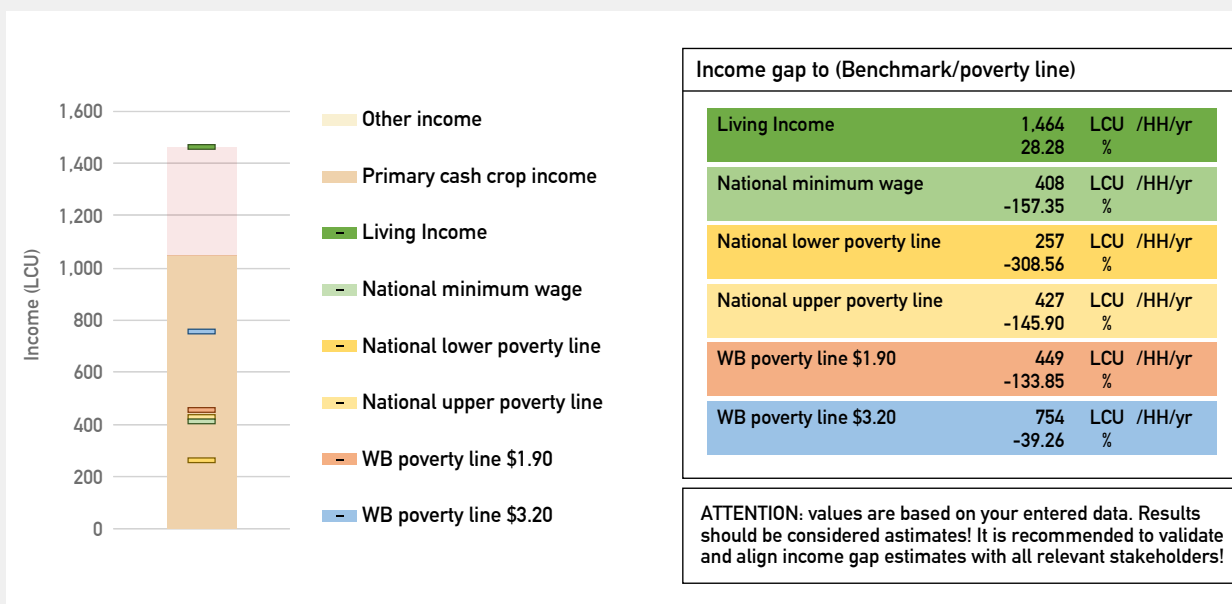


Figure 2: GIZ Living Income Gap Estimator (2022)

Farmer livelihoods and Living Income are integral parts of the sustainable agricultural supply chains demanded by governments, civil society, industry and consumers. The provision of a decent standard of living is a central aspect of basic human rights (including farmers) as per the UN Human Rights (Article 25). Widespread poverty and inability to earn a Living Income leads to low farm investment and low production, often fueling a social-ecological trap cycle which can reinforce unsustainable agricultural practices. Rural families who don't earn a Living Income are also more likely to keep their children on the farm to work, migrate to find better work or resort to undesirable coping strategies such as clearing forests for income. The use of a Living Income Strategy can help shine a light on farmers and vulnerable communities who are currently not making a Living Income, and provide strategic direction for where investments are needed to close the gap.

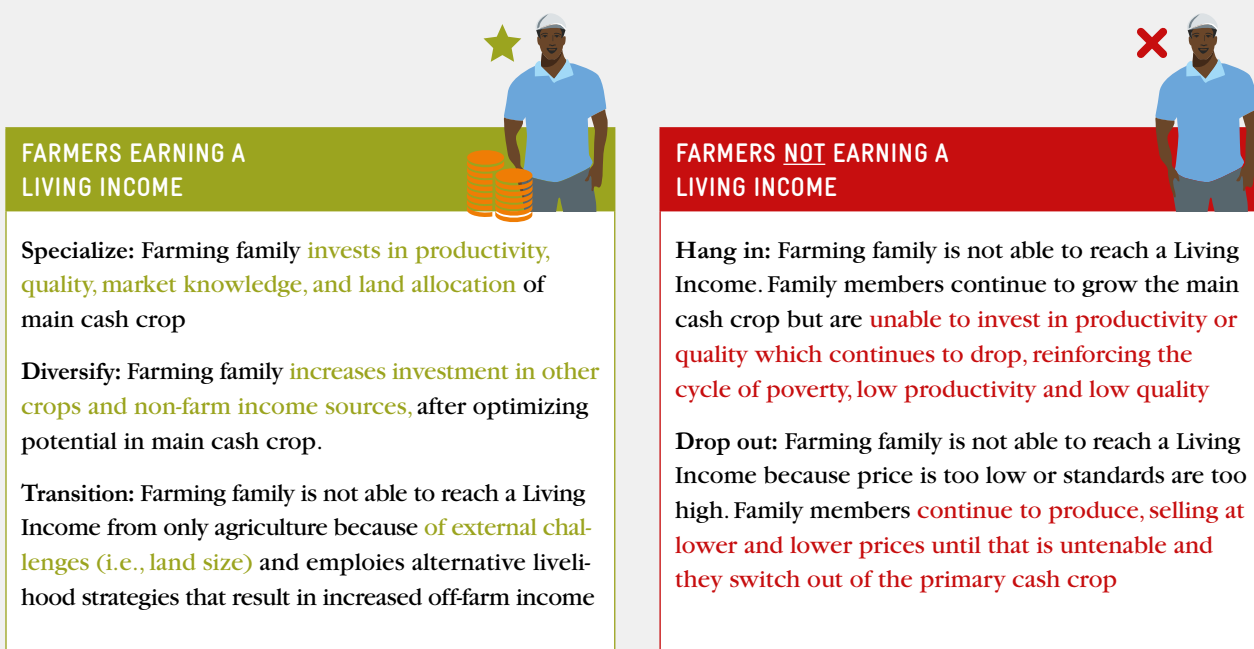


Figure 3: Farmers earning a Living Income; Source: Sustainable Food Lab

2.1.2 ECONOMIC DEVELOPMENT

The central role of governments is to create enabling environments through policies and incentives in agriculture, as a means to economic development. Farmers are the central engine of rural economic development, contributing considerably to state income, taxes, food security, and overall economic development in most countries. However, actual farmgate prices are often too low to support a decent living for smallholders; combined with low productivity, the effect can be unprofitable farms that must be subsidised by farmers' unpaid/paid work, and/or government programs. Living Income should enable farmers to invest in their farms and livelihoods. Higher incomes lead to higher productions, savings and spending, all of which contribute to the health of the economy. And this reduces supply management risks and could lower public costs associated with poor economic health (i.e. poor nutrition, child morbidity, strain on health services, abandonment of farms/immigration etc).

Living Income, as a starting point on the pathway to prosperity also ensures resource security. Preventing farmers from leaving their farms and communities and encouraging younger generations to become farmers and build vibrant rural communities.

A Living Income Strategy can help during price negotiations. Production cost information can guide governments as they exert influence over farmgate and/or market prices, as well as develop policies for affordable finance, inputs and services. Transparent data can help build trust in price negotiations and lead to longer-term commercial relationships.

2.1.3 OVERARCHING VALUE OF A LIVING INCOME STRATEGY



1) Framework to understand current investments:

Governments and their partners will continue to invest in farming communities, both to improve economic development and decrease poverty alleviation. A Living Income strategy provides a framework to ask if investments and policies are indeed adding up to provide a decent standard of living.



2) Increased collaboration between inter-governmental agencies:

National governments can utilise a Living Income approach to help harmonise strategies and data between agencies and ministries. This is also increasingly important as funders, development organisations and companies look to partner on efforts and expect clear and concise communication and interconnected policies and frameworks from government officials.



3) Increased collaboration between stakeholders:

Funders, certifiers, companies, development organisations, and governments are adopting Living Income in their farmer livelihood improvement strategies, particularly those in tropical commodity sectors (e.g., cocoa, coconut, coffee, cotton, palm, tea, and vanilla). Based on baseline studies (i.e., on actual income and farmer productivity), Living Income can guide strategies for target incomes and farmer prosperity in various geographies of a country, and governments with harmonised approaches will be able to better collaborate with funders.



4) Climate proofing agricultural value chains and protecting natural resources:

Companies, funders and development organisations are interested in reducing environmental impacts and when farmers are fairly remunerated and are farming efficiently, they are more likely to steward their land and natural resources. With certification and positive impact data, there is potential for sustainable agricultural products to be positively differentiated in the marketplace and contribute to additional income for farmers. But, without a profitable farming system, many smallholder farmers will not be able to meet the requirements of these service agreements, losing out on additional income and potentially making environmentally harmful choices in an effort to stay profitable.



5) Improved data for strategic planning & continuous improvement metrics:

A Living Income Strategy includes information on the costs of a decent standard of living, as well as the composition of actual incomes. This rich data can be used throughout any government agency to help inform strategy, highlight vulnerable communities and individuals and build a pathway for continuous improvement.

2.2 HOW TO ADOPT A LIVING INCOME STRATEGY

As previously mentioned, governments might have many reasons to adopt a Living Income strategy, but there is not (to-date) clear guidance and examples where a Government has adopted a Living Income strategy and achieved total Living Income for all smallholder farmers. Also, there is no “one size fits all” solution. Governments, companies and NGOs

have worked together for years to eradicate poverty with mixed outcomes; and a Living Income Strategy is a fairly new, holistic approach with new data, studies and lessons learned published every day. Below is guidance to first (1.) measuring an income gap and using the data to create strategies to (2.) close the income gap:

2.2.1. MEASURING AN INCOME GAP

A Living Income Strategy requires an Income Gap Analysis using: 1. **Benchmark for a decent standard of living** and 2. **Actual Income Assessment**. This process includes understanding crop production, farmgate prices, production costs, and farmers’ household composition

as well as information on the cost of a decent standard of living. Across one country, multiple Benchmarks and Actual Income Assessments might be required due to multiple cash crops and variances in costs across regions. Information about the globally comparable methodology of a Living Income can be found on the [Anker Research Institute website](#).

The Living Income Story

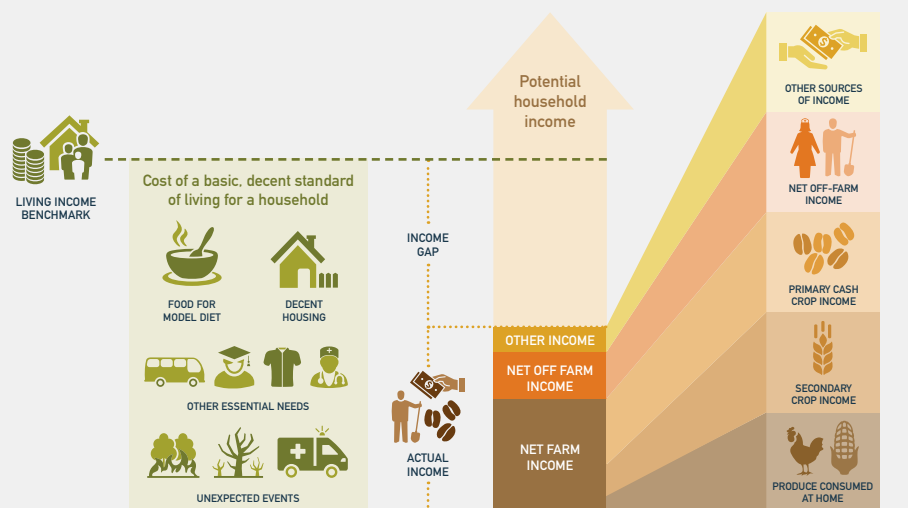


Figure 4: The Living Income Story visualises the benchmark and actual income components and a potential “income gap”

Understand the Gap

Benchmarks are used with data on actual income to understand “the gap” for a typical farmer or segment of farmers



Figure 5: Understanding the Living Income Gap

For both the calculation of a Benchmark and Actual Income Assessment, it is important for governments to be active participants in the process. Many governments have critical data points to help triangulate when collecting new pieces of data, and they might have strong connections with stakeholders throughout the value chain who should be included during the process. Whether a government is leading the effort to measure an income gap, or collaborating with partners it is important to first understand:

- **Use case** – What is the purpose for measuring the gap? What are you trying to understand or achieve by measuring it? Beyond the income gap, are you looking to explore other things with the data?
- **Operational context** – What are key income determinants for farmers in their location? What are the norms and practices that determine income revenues and related costs within their context?
- **Starting point and capacity** – What income-related data do you have/already exists? Do you have the capacity to collect the data? What is your budget and timeline? Could you team up with other stakeholders, if yes with whom (researchers, certifiers, NGOs)?
- **Who should be involved:** The contexts, politics, cost of decent living, and farming systems differ between agricultural commodities and countries and within countries. Governments, industry, traders, financial institutions, multi- and bilateral organisations, donors, civil society, labor/trade units, cooperatives, and farmers all play a role in building pathways to prosperity, with Living Income as an important milestone.

Use cases and the data collected in order to satisfy them are not necessarily mutually exclusive. For example, collecting data to get a one time estimate of the gap has direct value. It can be used to frame action and measure continuous improvement.

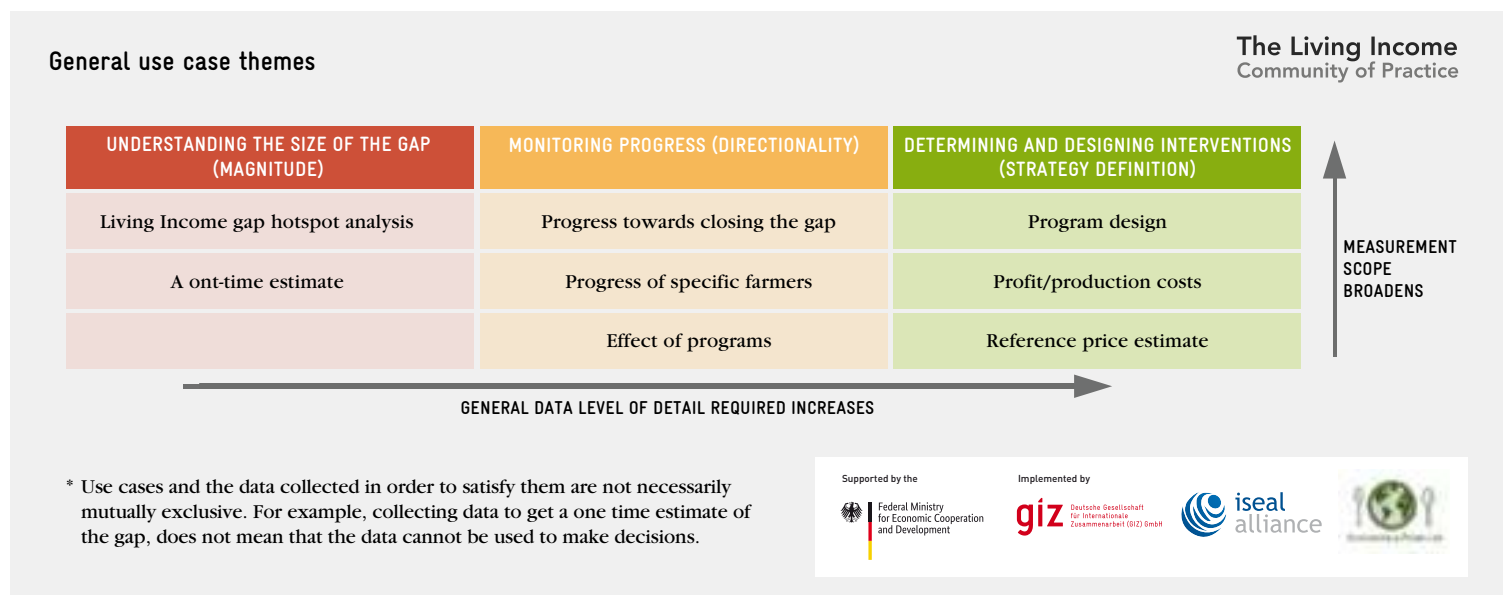


Figure 6: Use Case for Measuring a Living Income Gap

A. Living Income Benchmarks

A Living Income Benchmark calculates the cost of a basic decent standard of living for a household. It is typically used to compare cash needs and actual incomes for producer households in a particular geographic location. A Living Income benchmark allows governments to demonstrate progress on poverty alleviation using a globally recognised and standardised methodology that can be used to make comparisons across regions.

Over the last decade, stakeholders in global food value chains have come together to complete benchmarks in many locations. To date Living Income/Wage Benchmarks and Living Income Reference Values have been created by the [Global Living Wage Coalition](#) and the Anker Research Institute in over 43 countries. Many other benchmark studies exist via the [Living Income Community of Practice](#), the [ALIGN Tool](#) and international commodity-specific studies, e.g. through [Fairtrade International](#) or [Heifer International](#).

If a Living Income benchmark is not available for agricultural regions or a government does not have the resources to calculate one, a comparison of actual incomes can also be done using the widely accessible [World Bank poverty lines](#) and/or the national poverty lines calculated by government statistics offices.

It is recommended that the World Bank poverty lines are adjusted for the purchasing power parity (PPP) in a particular country and currency, and that rural and urban national poverty lines are examined for the variables included. Many countries do not include all costs of living in their poverty line calculations and are only based on an extrapolation from the costs of food.

It is important to recognise that the methods used to calculate poverty lines are based on actual expenditures required for families to survive and are not intended to represent the cost of a decent standard of living, as the Anker method does.

Once a Living Income benchmark is established, it can be used to inform a variety of conversations and/or decisions, depending on the user's needs. For governments developing a Living Income strategy, this is helpful for understanding how large the income gap is between producers' actual incomes and the Living Income benchmark, and thus to develop strategies to close that gap.

Living Income Benchmark High Level Breakdown



Figure 7: Living Income Benchmark Visualization

B. Actual Incomes

Actual net Incomes can be categorised into 3 areas:

- Net farm income
- Net off farm income
- Other income

For some primary cash crops (cocoa, coffee, vanilla) or staple crops (maize, rice, sorghum), income data might already be available or there might be a stakeholder group interested in collaborating on measuring actual farmer incomes. National statistics departments and census records data can be useful sources of data if current.

Further guidance on measuring actual incomes can be found on the Living Income Community of Practice website [here](#).

Actual Income Composition

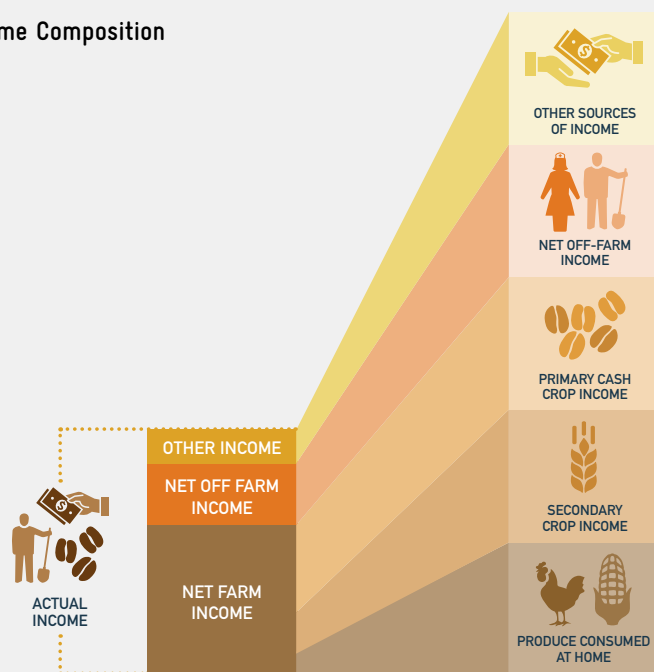


Figure 8: above graphic shows the actual income, to be compared with a Living Income benchmark to measure the gap

Additional Resources in Measuring Farmer Income

Working with National Statistics Department on Agricultural Census and/or Living Standards Surveys

In many countries, agricultural surveys, household surveys, as well as income and expenditure surveys are done in four- to eight-year intervals. Such data can inform Living Income studies/benchmarks, particularly in household composition and the actual costs of living, but also income, expenditures, food security, farming systems, and farm sizes. Living Income is not culture- or commodity-specific, but rather a geographic concept to define the costs of a decent standard of living in a particular place. Knowledge of where the target population is located is required as regional and geographical differences exist, particularly between urban and rural regions, but also between different rural regions of agricultural production.

Link to National Expenditure Surveys or Agricultural Census

In many countries, Living Income studies can be estimated through existing national surveys. For example the Brazilian Poverty and Expenditure survey (POF) or the “National Quality of Life Survey” in Colombia²⁰ can be used to estimate costs of decent living as they include data on average household sizes, food costs, housing, education, transportation, and communication. However, most consumption or expenditure surveys are based on actual food expenditures, which often do not correspond to nutritious diets and/or are based on insufficient food intakes. In the Anker method, food costs are sampled through a model diet based on low-cost, nutritious food. Anker & Anker (2018) then calculates the food costs of that model diet based on food costs that can either be locally collected or taken from secondary data.

For example, in Uganda, the National Household Survey²¹ and Agricultural Survey²² provides information about household sizes and composition, in-kind income through production of subsistence crops, and cash expenditures (e.g., for education, medicine and food), which are all central for Living Income estimations. Yet, most of these statistics are not sector-specific; consequently, additional data is needed. Basic additional variables needed for establishing and informing Living Income policy in agricultural commodity supply chains are: yield, price, farm size (target crop), cost of production, and income diversification²³.

²⁰ DANE, 2016

²¹ UBOS, 2020. The Uganda National Household Survey. https://www.ubos.org/wp-content/uploads/publications/09_2021Uganda-National-Survey-Report-2019-2020.pdf

²² UBOS and MAAIF 2018: Annual Agriculture Survey 2018. https://www.ubos.org/wp-content/uploads/publications/AAS_2018_Report_Final_050620.pdf

²³ IDH. 2021. Roadmap on Living Income <https://www.idhsustainabletrade.com/roadmap-on-living-income/>

SPOTLIGHT

BRAZIL-CONDUCTING AN INCOME GAP ASSESSMENT TO IMPLEMENT STRATEGY

Brazil is the largest coffee producer and exporter globally. In Brazil, the Global Coffee Platform is supporting an independent study to establish Living Income benchmarks in Brazil's main coffee producing regions²⁴. In addition, the Collective Action Initiative on Social Well Being, in partnership with CecaFé and InPacto is conducting a study on the actual incomes of Brazilian small and medium scale coffee farmers, costs of production, and Living Income gaps based on the Living Income study by Barbosa et al. (in press). This study will serve as a baseline on Brazilian farmers currently reaching a Living Income, income gap presence and size (8, Table 1). Moreover, this study can be used by the overall coffee sector to design appropriate support on the enabling environment for Living Income.

Farmers with too small land sizes and/or insufficient productivity might need (governmental) support to reach a Living Income (possibly in cooperation with other private/public actors). Using information already available and

the forthcoming studies, the government could identify farmers who do not reach the Living Income, tailor specific programmes to their needs, and effectively target extension service for these farmers (5, Table 1).

In Brazil there is also a national “coffee fund”, FUNCAFÈ, with an annual budget of >\$1.3 billion USD (10, Table 1). FUNCAFÈ has a focus on loans for coffee stakeholders in Brazil. Parts of FUNCAFÈ could be transferred into a special livelihood/Living Income fund to support improvements in productivity (1, Table 1), receiving price premiums through certifications or premium coffee specialisation for these farmers (6, Table 1).

The Ministry of Agriculture (with a key role in policies for coffee production, regulation, and FUNCAFÈ management), the Brazilian Coffee Exports Council (CECAGE), the Coffee National Council (CNC) and the Global Coffee Platform (GCP) could be key institutions in Brazil to lead the dialogue and advise Living Income policies in PPPs and/or Multi-Stakeholder Initiatives.

²⁴ Barbosa et al., in press. Coffee Regions Living Income Regional Reference Values for Brazil June 2021. Anker Living Wage and Income Research Institute.

SPOTLIGHT

ECUADOR-LINKING TO MINIMUM WAGE AND LIVING STANDARDS SURVEYS

Ecuador is one of the biggest banana and flower exporters globally and is an important cocoa origin. Ecuador introduced a minimum wage, the *Salario Digno*, that every employer is required to pay by law to all employees. Both, *Salario Digno* and Living Wage/Income are based on a “cost of living” approach and go beyond one-dimensional poverty lines. Living Wage/Income and *Salario Digno* are methodologically slightly different, although both include education, healthy diets and housing for a typical household. The *Salario Digno* benchmarks are determined annually by the Ministry of Labour (El Ministerio del Trabajo). In 2022, the *Salario Digno* was approximately \$447 USD per month²⁵ (with small regional differences), while Living Wage was calculated to be approximately \$475 USD per month in the banana growing regions²⁶. Workers with formal contracts on farms/plantations have a legal right to *Salario Digno*, which is strictly controlled. The *Salario Digno* is fairly high compared to minimum salaries in the neighbouring countries of Colombia and Peru.

²⁵ Ministerio del Trabajo. República del Ecuador.
<https://www.trabajo.gob.ec/wp-content/uploads/downloads/2022/03/ACUERDO-SALARIO-DIGNO-2021.pdf>

²⁶ Global Living Wage Coalition. Living Wage for Rural Ecuador. 2022.
<https://www.globallivingwage.org/living-wage-benchmarks/living-wage-for-rural-ecuador/>

SPOTLIGHT

PERU: LINKING A NATIONAL COFFEE PLAN TO LIVING INCOME

Peru ratified their 2018-2030 National Coffee Plan of Action (PNA) which lays out the country's vision to increase coffee exports, improve crop quality and enhance sustainability. Coffee is a major source of income and jobs for more than 200,000 rural families, and an estimated 2 million Peruvians are involved in the coffee production chain. A decent standard of living is tied to the ability of these farming families and related businesses to improve coffee production. Since 2020, The Ministry of Agricultural Development and Irrigation (MIDAGRI) has been leading the country's involvement in the International Coffee Organisation Public Private Taskforce, which has a goal of economic resilience with Living Income as a milestone on the path to prosperity (8, Table 1). The government, with support from UNDP, is partnering with leading coffee stakeholders and non-governmental organisations to embark on collaborative research to define a Living Income benchmark for major coffee growing regions of the country (8, Table 1). This research is being linked to the National Coffee Action Plan agendas at the regional level in the 'Coffee Technical Roundtables' in San Martín, Cajamarca and Cusco (9, Table 1). The regional groups are discussing how their priority actions have a direct impact on improving the incomes of small farmers and closing the gap to a Living Income. Once there is better knowledge of the income gaps of different farmer types in these regions, there will be tailored strategies to close these gaps (8, 9 & 10, Table 1) and the learnings will be shared to the global ICO Taskforce for other coffee origins to learn from (8, Table).

SPOTLIGHT

INTERNATIONAL COFFEE COUNCIL-A MULTI-STAKEHOLDER INITIATIVE CONDUCTING LIVING INCOME BENCHMARKS

The International Coffee Council, and its secretariat the International Coffee Organisation (ICO), have developed a Multi-Stakeholder initiative, the Public-Private Taskforce (composed of coffee producing and consuming countries, the industry and observers), and launched 5 Technical Workstreams, aimed at improving coffee prices and coffee farmer livelihoods. The Technical Work Streams of Living-Prosporous Income and Market Transparency are in the process of creating shared protocols for measuring the key economic indicators across coffee growing regions necessary to understand farmer income. Combined with a goal to complete Living Income Benchmarks in all ICO Producing Countries, the ICO has a goal to use this analysis to close income gaps for target producers in at least 50% of the ICO producing countries by 2030.

2.3 CLOSING THE INCOME GAP

After measuring an Income Gap, governments may choose to support farming households through the creation of policies and strategies to “close the income gap”. These policies and strategies might be developed nationally to target multiple agricultural sectors, or might be created directly through commodity groups, with more nuanced detail to the targeted crop. To develop any Living Income strategy or policy, governments should engage with other stakeholders (private, development, research, NGOs, and farmers) and ensure that robust data is available to guide strategy and policy development.

To tailor policies based on a Living Income lens, it is essential to develop a baseline of actual farmer income and agricultural productivity and to establish minimum productivity and minimum land areas necessary to reach a Living Income for farmers. To do so, farmers could be clustered into groups based on strata such as land area, productivity, income diversification, poverty etc. as these farmer clusters might require different strategies and policies. Under-served groups should also be identified such as youth, women and minority groups during this process.





2.3.1 WHEN AGRICULTURE CANNOT DELIVER LIVING INCOMES

The empirical evidence shows, e.g., that some farmers are highly unlikely to reach an Living Income via agriculture alone because their current land sizes are too small, production is insufficient, and/or farmgate prices received are too low²⁷. Agricultural policies will have varying impacts for different types of farmers and there may be a need to develop specific policy solutions for those who have the capacity to increase their land sizes and productivity, and implement GAPs (“Specialisation”, Fig. 9) as well as those who do not. Other farmers might achieve a Living Income through agricultural and/or income diversification, thus, simultaneous investments in other activities might be needed.

27 Waarts et al., 2019; Balancing the Living Income challenge: Towards a multi-actor approach to achieving a Living Income for cocoa farmers, <https://research.wur.nl/en/publications/balancing-the-living-income-challenge-towards-a-multi-actor-approach>
Waarts et al. 2020, A Living Income for smallholder commodity farmers and protected forests and biodiversity: how can the private and public sectors contribute? https://knowledge4policy.ec.europa.eu/publication/living-income-smallholder-commodity-farmers-protected-forests-biodiversity-how-can_en
Fairtrade International & Hänke, H. 2019: Living Income Reference Prices for Vanilla from Uganda and Madagascar. <https://www.fairtrade.net/library/living-income-reference-prices-for-vanilla>
IDH, 2021. Strategy Handbook: Task Force for Coffee Living Income (TCLD) – Report Full. <https://www.idhsustainabletrade.com/uploaded/2020/02/strategy-handbook.pdf>

There Are Multiple Pathways to Prosperity

In any one supply chain there might be multiple ways to close the Income Gap depending on assets goals.

Status Quo	Specialization	Diversification	Transition
	 <p>Farming family invests in productivity, quality, market knowledge and land allocation to main cash crop.</p>	 <p>Farming family increases productivity and quality of main cash crop, while investing in other crops with viable markets.</p>	 <p>Farming family is not able to reach a living income from only agriculture because of external challenges (i.e. land size) and employ alternative livelihood strategies that result in off-farm income.</p>

Inclusion first: Abandoning farmers who need to transition is not part of a living-prosperous income strategy..

Figure 9: Multiple Pathways to Prosperity

A general policy recommendation is to support complementary or alternative livelihoods for farmers who will not realistically reach a Living Income through agriculture alone (“Transition”, Fig. 9). Investing in off-farm employment opportunities, vocational training, and education are helpful to farmers who need to transition. Investments in local value chains, agricultural input subsidies, agricultural training, extension services and infrastructural improvements can also help farmers throughout the value chain reduce their Living Income gap. In general, both specialization and diversification will only yield results if prices remain stable and demand is present/increasing (policies can support on these issues).

2.3.2 IDENTIFYING COMPLEMENTARY INVESTMENT AND INCENTIVE PROGRAMMES

Understanding root causes of why smallholders do not achieve a Living Income and identifying strategies to overcome them can be a complex endeavour. To facilitate this process, Aidenvironment presents a framework which unpacks an agricultural sector or system into ten distinctive and interconnected components, influenced by the broader context. The figure shows these ten components which can be a starting point to identify root causes of systemic issues and to identify and prioritise strategies to overcome them. In order to address root causes in one component may require to address root causes in another component. For example, promoting farm diversification will require services which can support farmers to make this transition and market actors which offer reliable and fair incentivized trading conditions.

As multiple complementary strategies often are needed, the coordination component requires particular attention. The goal of promoting a Living Income sector-wide requires strong coordination, alignment and collaborative action of stakeholders. Without these, many individual investments will likely be undermined and have difficulties to scale and/or sustain over time.

The sector transformation framework builds on many years of work with multiple partners, and has been used and documented in a number of agricultural sectors. Case studies in Indonesia and Cote d'Ivoire can be found [here](#).

Source: Molenaar, J.W. and Kessler, J.J. (2021). Sector transformation: A systems approach to transforming commodity sectors. Aidenvironment, Amsterdam. (see [link](#))

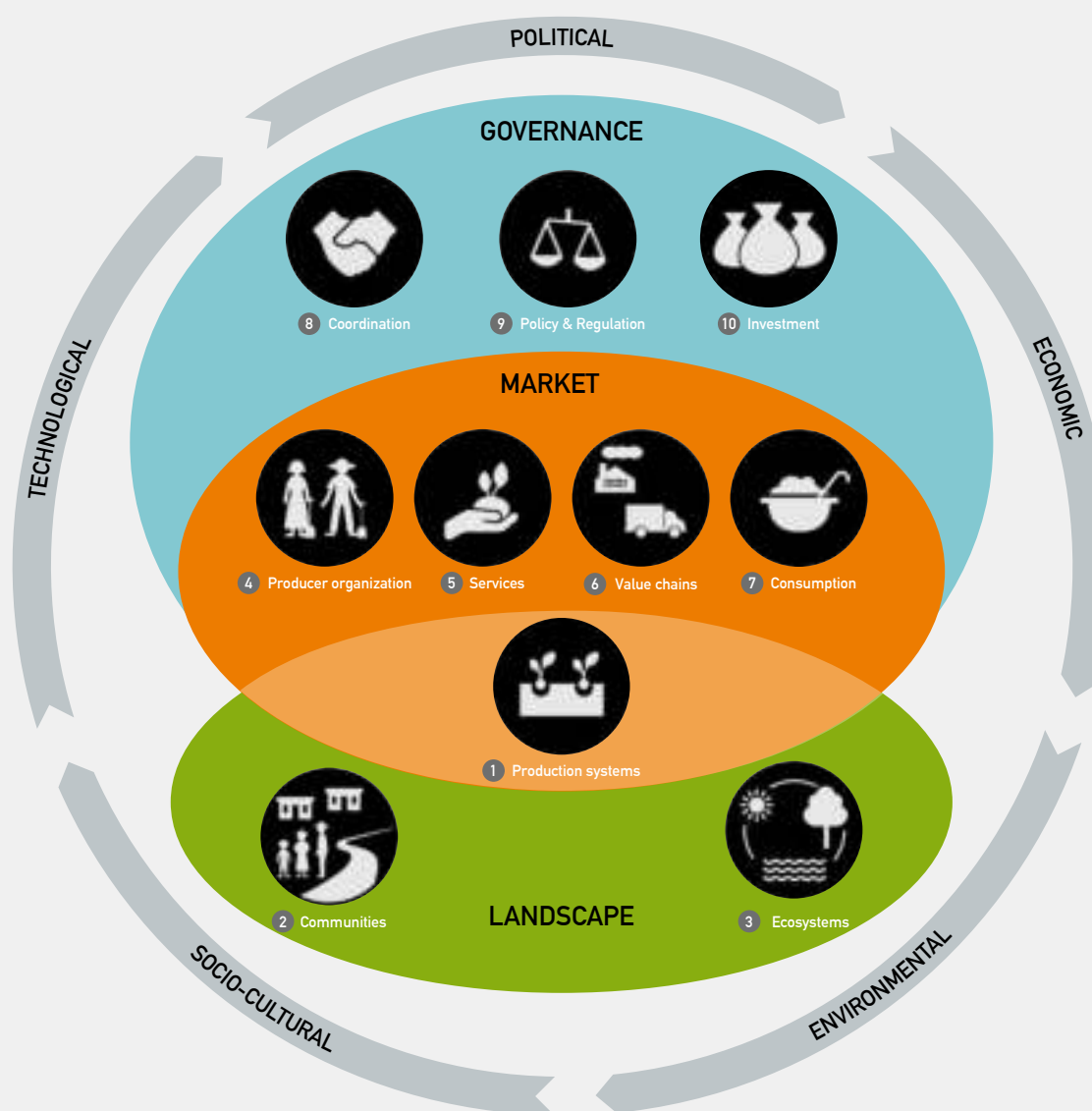


Figure 10: The five broader context factors and the ten sector system components for sector transformation; Source: Molenaar & Kessler 2021²⁸.

28 Molenaar, J.W. and Kessler, J.J. (2021). Sector transformation: A systems approach to transforming commodity sectors. Aidenvironment, Amsterdam. <https://www.aidenvironment.org/gallery/sustainable-sector-transformation-theory-and-practical-guidelines/>

The sector transformation framework by Aidenvironment is particularly relevant for Living Income. Key enabling factors and policies within the framework include: production (1), services (5), markets/value chains (6), coordination (8), policy & regulation (9) and investment (10).

In Table 1 below are examples of factors (in key system components following Figure 8) which can be shaped through policies and incentives that help to enable Living Income for farmers. Many of these enabling factors and policies are interconnected and must be addressed with multiple stakeholders.

Living Income Enabling Factors







PRODUCTION  1	SERVICES  5	MARKETS/VALUE CHAINS  6	COORDINATION  8	POLICY & REGULATION  9	INVESTMENT  10
<ul style="list-style-type: none"> ▶ Improve agricultural production systems ▶ Access to arable land ▶ Efficiency/reduce production costs ▶ Adapt to climate change 	<ul style="list-style-type: none"> ▶ Extension services (GAP, inputs, planting material) ▶ Strengthen farmer organisations (e.g. transfer of knowledge, finance, affordable credit, decision making, empowerment) ▶ Support in farmer professionalisation (e.g. farmer field/business schools) ▶ Financial services 	<ul style="list-style-type: none"> ▶ Risk sharing and producer support ▶ Contract farming and long-term trade relationships ▶ Direct, efficient and transparent value chains (reduce transaction costs and create traceability) ▶ Fair pricing and trading practices (e.g. premiums and certification for quality and/or private voluntary sustainability standards) 	<ul style="list-style-type: none"> ▶ Sector dialogue, sustainability initiatives & PPPs ▶ Establishment of income benchmarks & production costs, baselines on farmer poverty/Living Income gaps ▶ Revival/Rejuvenation programmes for crops ▶ Learning & monitoring ▶ Market promotion ▶ Governance bodies 	<ul style="list-style-type: none"> ▶ Enable legal frameworks for LI->human rights ▶ Land use rights/tenure policies ▶ Taxes and trade tariffs ▶ Minimum wages ▶ Minimum farm-gate price setting and stabilisation funds ▶ Promote sustainable value chains ▶ Tax advantages for those who invest in farmer livelihoods ▶ Price stabilisation funds ▶ Shared decision making ▶ Cooperative laws ▶ Regulation governing the services sector 	<ul style="list-style-type: none"> ▶ Research in production systems, planting material (adapted/climate smart) ▶ Extension services ▶ Agricultural subsidies ▶ Access to affordable credit ▶ Invest in infrastructure (roads, irrigation, storage and rural development) ▶ Income diversification, education, vocational training, off-farm income ▶ Price stabilisation fund
See Example: Brazil and Uganda Spotlight	See Example: Brazil, Uganda and Honduras Spotlights	See Example: Brazil and Uganda Spotlights	See Examples: International Coffee Association, Brazil, Uganda and Spotlights	See Example: Ecuador, Uganda, Honduras, Cote d'Ivoire and Ghana Spotlights	See Example: Brazil and Uganda Spotlight

Table 1: Living income enabling factors based on the sector transformation model by Aidenvironment (2021)



2.3.3 PRODUCTION AND SERVICES

Production systems (1, Table 1) and services (5, Table 1) can be substantially shaped through coordination (8, Table 1), policies (9, Table 1) and investment (10, Table 1). This includes improvements of agricultural production systems and farming efficiency (1, Table 1). Locally adapted extension services are crucial to improve yields, for knowledge transfer (GAPs), and to adopt climate-smart farming practices and planting material. Support in farmer professionalisation e.g. through farmer field and business schools have shown promising results all over the world²⁹. Governmental services can also include the strengthening of farmer organisations to facilitate collective action and reduce transaction costs (5 & 6, Table 1).



2.3.4 MARKETS & VALUE CHAINS

Improving markets and value chains (6, Table 1) can be achieved through promoting and enabling outgrower schemes, and contract farming may increase farm income and profitability by reducing middleperson involvement, improving prices for farmers, and facilitating transfer of knowledge and resources. Higher profits through contract farming may be achieved through increased productivity, efficiency, and product quality while building trust and long-term relationships between farmers and buyers. Contract farming facilitates risk-sharing arrangements between farmers and companies and often offers premium pricing to farmers through programmes supporting social/environmental standards and certification (6, Table 1).



2.3.5 COORDINATION

Many of the challenges that need to be overcome to enable farmers to earn a Living Income are interrelated and require action from more than one actor. Investing in traceability and transparency (8, Table 1) is a key task to enable Living Income along with linking producers, companies, and consumers more directly. Governments can also lead and/or support Living Income gap studies and establish baselines on farmer poverty to inform sector-wide discussions on how farmers could achieve a Living Income. Sustainability initiatives and/or sector transformations facilitated through public-private partnerships (PPPs, 8, Table 1) are amply evidenced, as is the potential for civil society and the private sector to complement the PPPs with resources, knowledge, experiences, and competencies. In many settings, long-term poverty has impeded farmers' ability to invest in their farms to such an extent that the sustainability and supply of agricultural commodities is threatened (e.g., low productivity of aged cocoa and coffee trees and use of uncertified, vulnerable and low-yielding varieties). Renovation/ Rehabilitation programmes for crop and value chain sustainability undertaken in cooperation with (inter-) national universities, research and farmer organisations, the private sector, and donors could reverse this trend (8, Table 1).



2.3.6 POLICY & REGULATION

Governments can enable a supportive environment for Living Income through establishing legal frameworks (9, Table 1) and encouraging learning within and between sectors and countries. Clear land tenure rights and allowing access to arable land is key to supporting farmers in improving their productions and long-term investments which is often necessary for farmers to achieve a Living Income (9, Table 1). Governments can design policies on minimum wages so that hired workers can afford a decent standard of living, however, governments can also set minimum farmgate prices for agricultural commodities. These can be based on costs of production, reference prices and others (see [Fairtrade Living Income Reference Price Spotlight](#)).

²⁹ Gesellschaft für Internationale Zusammenarbeit (GIZ). 2021. Farmer Business School (FBS). <https://www.giz.de/en/downloads/giz2021-en-farmer-business-school.pdf>



2.3.7 INVESTMENT

Many of the above measures require substantial investments. Agricultural subsidies and credits (for mechanisation, irrigation, trees, seedlings, inputs, climate-smart strategies) are viable investments to support Living Incomes (1, 2, 10, Table 1). Living Income benchmarks include a 5% margin for savings (for unforeseen expenses or shocks). Access to credit and affordable finance for target farmers remains a key obstacle to improving agricultural production in many locations. To support farmers and promote access to savings, financial programming for farmers such as savings groups, bank account access support, digital payment platforms, and farmer business schools should be considered³⁰ (2, 4 & 5 Table 1). Similarly, investing in farmer groups and cooperatives (2, 4, 10) alongside infrastructure decreases farmers' transaction costs by enabling many small, scattered farmers to market and transport certain crops jointly (e.g., for coffee, cocoa, and vanilla). Although not included in the table, price stabilisation funds such as for coffee in Brazil (Funcafé) or in Costa Rica (ICAFFE) are also viable instruments to provide insurance/stabilisation for farmers against price decreases and shocks. To sustain farming and remain competitive, governments need to invest into research of agricultural production systems, planting material and climate smart farming. Many of such investments can have a direct and positive impact on farmers and reduce Living Income gaps.



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³⁰ Living Income Community of Practice. 2016. <https://www.living-income.com/the-concept>

More examples of what governments have done or could do to enable Living Income are illustrated in the spotlights below.

EXAMPLE EXAMPLE

EXAMPLE INTERVENTION: UGANDA

Uganda has several development and sustainability policies in place which tackle minimum salaries for employees, poverty reduction programmes for farmers, and policies addressing SDGs. Also, there have been different Living Income projects and studies in the country, i.e., on vanilla³¹ and Arabica coffee³².

Uganda, the origin of Robusta coffee, is home to approximately 1.7 million smallholder coffee farmers³³, most of whom live below the poverty line. A necessary Living Income of \$4,029 – 5,636 US per household per year³⁴ through Arabica coffee alone is unrealistic. Indeed, most Ugandan coffee farmers earn an average coffee income of around \$500 US and total cash income of less than \$1,000 US per year per household³⁵. Average field sizes of 0.2 ha³⁶ are small and actual coffee yields are far below attainable yields in Uganda. The number of productive trees per hectare is too low, and ageing of coffee gardens and unproductive varieties lead to substantial yield gaps (approximately 70%³⁷).

Likewise, there are many scattered smallholders, a weak infrastructure, many intermediaries, and high transaction costs which lead to low farmgate prices for farmers.

For policy design that might support Living Incomes of Ugandan farmers, we draw on the sector transformation model 4 (Figure 8) and examples of Living Income enabling factors (Table 1).

To increase farm sizes, land reforms are necessary which also includes legalising, reinforcing, and safeguarding land rights (9, Table 1). Official data shows that around 80% of Uganda's land is arable but only 35% is being cultivated³⁸ (1 & 9, Table 1). Yet, to boost profitability and reduce Living Income gaps, efficiency of coffee farming and value chains needs to be improved (6, Table 1), along with strengthening farmer cooperatives and organisations (4, Table 1). Initiatives to rejuvenate coffee trees are urgently needed (8 & 9, Table 1) with improved, high-yielding, climate-smart varieties (1 & 5, Table 1) for interested farmers with the potential to achieve a Living Income. Another important challenge to reach a Living Income is access to finance for farmers including access to suitable (affordable, fair) financial products as well as access to financial literacy trainings.

To do this, governments should cooperate with certifiers, companies, researchers, NGOs, farmer unions, and coordinate PPPs, possibly actors from the financial sectors could also play an important role (8, Table 1).

Uganda might also cluster its farmers according to the likelihood of reaching an Living Income or agricultural productivity level, and tailor needs-oriented extension services and interventions (5 & 10, Table 1). For those who are unlikely to reach the Living Income or the poverty line through agriculture alone, (simultaneous) investments in other income-generating activities, vocational training, and education is recommended (10, Table 1, see also Figure 9). Traders sometimes tend to provide services to the best performing farmers, thus, governments and donors should provide services to the poorer farmers. To address equity issues, these recommendations should be funded and implemented simultaneously.

31 Hänke, Hendrik & Fairtrade International. 2019. Living Income Reference Prices for Vanilla from Uganda and Madagascar. <https://www.fairtrade.net/library/living-income-reference-prices-for-vanilla>

32 Social Shift. 2021. Sustainable Living Incomes Uganda. Benchmark study and report. <https://www.shiftsocialimpact.com/slbenchmarkreport>

33 UCDA. 2019. [Country Coffee profile: Uganda.](#)

34 Social Shift. 2021. [Sustainable Living Incomes Uganda. Benchmark study and report.](#)

35 True Price & Fairtrade International. 2019. Assessing coffee farmer household income. https://trueprice.org/wp-content/uploads/2015/04/Assessing-Coffee-Farmer-Household-Income_2017-002.pdf

36 UCDA. 2019. Country Coffee profile: Uganda. https://ugandacoffee.go.ug/sites/default/files/2022-03/Uganda%20Country%20Coffee%20Profile_1.pdf

37 Wang et al. 2015. Evaluating coffee yield gaps and important biotic, abiotic, and management factors limiting coffee production in Uganda. *European Journal of Agronomy* (63) 1-11. <https://www.sciencedirect.com/science/article/abs/pii/S116103011400135X>

38 UCDA. 2019. [Country Coffee profile: Uganda.](#)

EXAMPLE

EXAMPLE INTERVENTION: HONDURAS

Gender Equality and Living Income are complex and require targeted interventions, but they are also strongly linked. Honduras National Coffee Council - [CONACAFÉ](#) announced in March 2022 the creation of a gender specific policy in their coffee sector. Working with multiple stakeholders, including the [International Alliance of Women in Coffee](#), the policy was created through a participatory approach³⁹. The new gender policy is the first of its kind from a coffee producing government and has four pillars:

- 1) Strengthening coffee institutions and organisations in addressing social and gender inclusion.
- 2) Increasing and improving access to services and resources for women and youth in the sector.
- 3) Developing and strengthening the leadership capacity of women and youth working in the sector.
- 4) Integrating key actors and partnerships into the conversation on gender and social inclusion issues, to create awareness, coordinate actions and promote change.

This policy, including the direct access to services and resources, provide women and youth with a level playing field. This policy has a direct link to Living Income, providing often underserved populations with direct services and support (5 & 9, Table 1)⁴⁰. The announcement also follows the research and development of a “[Gender Transformative Strategies](#)” report created by Oxfam Business Advisory Service for the International Coffee Organisation, which provides further linkages between gender equality and Living Income.

³⁹ Rikolto. 2022. Honduras: The first country to approve a policy on gender equality for the coffee sector. <https://www.rikolto.org/en/news/honduras-first-country-approve-policy-gender-equality-coffee-sector>

⁴⁰ International Coffee Organisation. 2022. Communication from the Government of Honduras. https://www.ico.org/documents/cy2021-22/cd-2402e-communication-honduras.pdf?utm_source=Members+%26+Observers&utm_campaign=78d98c0449-Press+Release+Hurricanes+lota+and+Eta+%28E%29_COPY_01&utm_medium=email&utm_term=0_296757b589-78d98c0449-422175406&m_c_id=78d-98c0449&m_c_id=c9377207e6

EXAMPLE

EXAMPLE INTERVENTION: FAIRTRADE'S LIVING INCOME REFERENCE PRICE

An example of minimum farmgate prices is the Living Income Reference Prices (LIRP) for Fairtrade-certified products. The central question Fairtrade asks in this price model is, “What is the price needed for a given crop for a farmer to reach an Living Income assuming that they implement Good Agricultural Practices and the crop absorbs the available household labour?”⁴¹. Fairtrade has established LIRPs through independent studies for cocoa from Ghana and Cote d'Ivoire, vanilla from Madagascar and Uganda, coffee from Colombia and Indonesia, and coconut from Sri Lanka (forthcoming). A full list of Living Income Reference Prices established by Fairtrade International can be found [here](#).

There are however trade-offs when considering pricing standards within a country. Sector wide approaches are essential for avoiding loss of market competitiveness for a country that is setting higher minimum prices or standards. This includes improving international commodity governance and sector coordination, international platforms, initiatives, and/or PPPs.

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

Figure 11: Fairtrade International's Living Income Reference price model

⁴¹ Fairtrade International. 2019. Fairtrade Living Income Reference Price model. https://files.fairtrade.net/2019_FairtradeLivingIncomeReferencePrice_Model.pdf

EXAMPLE

EXAMPLE INTERVENTION: LIVING INCOME DIFFERENTIAL IN COCOA

The case of the West African governments of Côte d'Ivoire and Ghana are a current day example of major production origins developing economic policies to shift global value distribution in the cocoa commodity market. The two governments came together in 2019, building off the 2018 Abidjan Declaration, to form the institution known as the Côte d'Ivoire – Ghana Cocoa Initiative (CIGCI), which serves to coordinate common interests and align economic policy between the two cocoa giants, placing the cocoa farmer and his/her income at the centre.

Among the Initiative's priorities is the consolidation of a Living Income Differential (LID) price mechanism, announced by both countries in 2019, which adds a \$400 per metric ton differential to the export FOB price for all dried cocoa beans sold. The purpose of the LID is to ensure that cocoa farmers and their households earn a decent standard of living, and that broad economic prosperity is built for cocoa farmers across both countries. The LID price mechanism was designed to achieve a minimum floor price of \$2,600 FOB per tonne, enabling the farmer to earn a minimum of 70% of the floor price, that is, \$1,820 FOB per tonne. The analysis completed to create the LID was based on data from the two cocoa producing countries.

Whilst consensus remains among stakeholders on the need to improve farmers' income, since the launch of the price mechanism, market prices have fallen, and country differentials (so called country premium) have decreased significantly to the point of

offsetting the \$400 LID. The market actors' reaction to the LID is defeating the purpose of the new price mechanism and the minimum floor price of \$2,600 FOB has not been achieved. Despite this, member countries have sought to deliver value to farmers by paying above the targeted 70% of achieved average FOB.

The LID price mechanism is a foundational element in the development of a trajectory to deliver decent income to cocoa farmers. There is a clear opportunity to build on this, and stakeholders must come together in an economic pact to consolidate the price mechanism, establish a minimum export price, align common objectives and drive transformation of the current cocoa sector into a prosperous and sustainable one that places the farmer and his/her income at the centre.



Alex Assanvo, Executive Secretary, Côte d'Ivoire-Ghana Cocoa Initiative (2022)
email: info@cighci.org

Part

3

HOW CAN DEMAND-SIDE PUBLIC POLICIES SUPPORT
A LIVING INCOME?

- 3.1 Introduction
- 3.2 Case studies



How can demand-side public policies support a Living Income?

PART 3

3.1 INTRODUCTION

Public policy makers have a wider array of demand-side (or consumption) policy options to enable Living Income in agriculture global value chains. These options can be classified in (partially-overlapping) public policy categories:

- Regulating the market
- Raising the bar of corporate behaviour
- Supporting supply-side public policy initiatives
- Unlocking the power of public and private finances
- Promote good practices
- Incentivising sustainable consumption

In this publication, we have decided to focus on 4 examples of what EU and its Member States have put in place that can, under certain conditions, serve as enablers of Living Income in agriculture global value chains:

- Rules on public procurement
- Rules on Human Rights and Environment Due Diligence
- Rules against Unfair Trading Practices
- Government-enabled Multistakeholder Initiatives

Using a SWOT analysis framework (Inherent Strengths, Weaknesses of the policy tools and identification of some External Opportunities and Threats), we wish to



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help answer the question of to what extent each of these policy instruments is a suitable tool to promote Living Income of farmers in global value chains, as well as offering some recommendations to relevant policy-makers on how to maximise their impact.

OVERVIEW OF CONSUMPTION (DEMAND-SIDE)

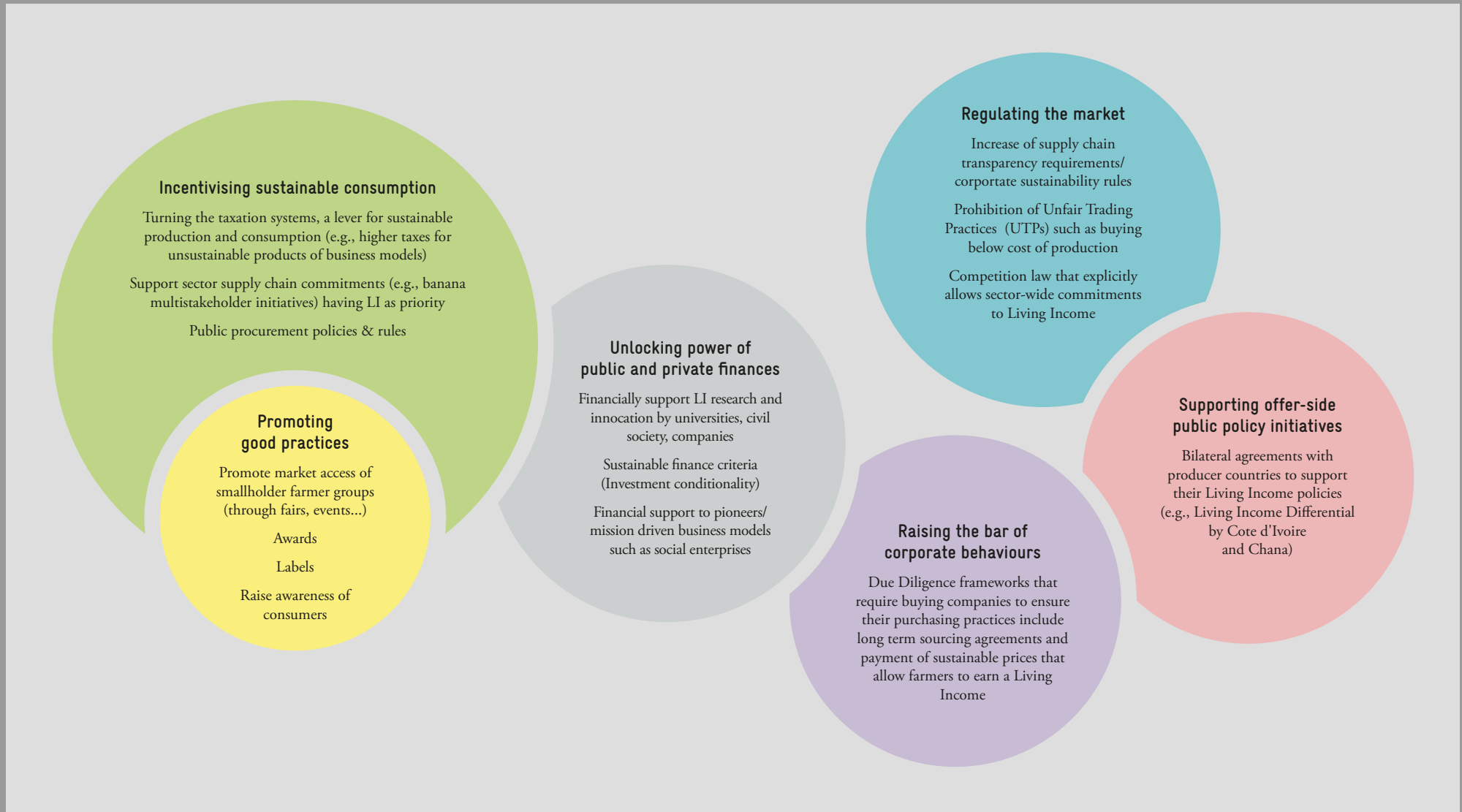


Figure 12: Fair Trade Advocacy Office. Overview of consumption (demand-side) public policies to enable Living Income in agriculture global value chains

3.2. CASE STUDIES

3.2.1. PUBLIC PROCUREMENT

This case study describes to what extent public procurement (laws, policies, strategies, and practices) is a valid tool for European governments and the EU to promote Living Income for farmers in global value chains. It is not a general analysis on sustainable or responsible public procurement.

Public Procurement (PP) refers to the process by which public authorities, such as government departments or local authorities, purchase work, goods or services from companies. The significant role of public procurement in national economies (about 12% of the GDP in OECD Countries) means public procurement can be a useful market lever to promote the achievement of the UN 2030 Agenda and its Sustainable Development Goals⁴² and the UN Guiding Principles on Business and Human Rights (UNGPs).⁴³

According to the UN Food and Agriculture Organisation (FAO), public food procurement can promote '*wider long-term changes in the food chain (e.g. changes in agricultural practices or the creation of markets for small-scale producers who are often marginalised by the forces of globalisation)*'.⁴⁴

Link to Living Income

Even if the EU Public Procurement rules (Directive 2014/24/EU)⁴⁵ do not explicitly refer to Living Income of farmers, they enable public authorities to include sustainability considerations into their public procurement processes, such as giving additional points to products of "*fair trade origin, including the requirement to pay a minimum price and price premium to producers*". Despite this favourable legal framework, the percentage of public contracts including social and Fair Trade considerations is still limited.

⁴² United Nations. Sustainable Development Goals. Promote public procurement practices that are sustainable, in accordance with national policies and priorities.

⁴³ The UN Guiding Principles on Business and Human Rights (UNGPs) make clear that every state has the duty to protect people against abuses of their human rights by companies or other business actors. A key element of this duty is that public authorities must ensure human rights are respected wherever they enter commercial transactions with businesses, which includes public procurement and contracting out of public services.

⁴⁴ <https://www.fao.org/3/cb7960en/cb7960en.pdf> See also Position of the World Food Program on the benefits - in terms of economy and resilience - of local and regional food procurement policies. Stefani, G., Tiberti, M., Lombardi, G.V., Cei, L., & Sacchi, G. (2017). Public food procurement: A systematic literature review. International Journal on Food System Dynamics, 8(4), 270-283.

⁴⁵ The most relevant provisions of the Directive are 2014 Directive Recitals 1, 41, 47, 91, 93, 95, 96, 123 and Article 2(22), 18(2), 42(3)(a), 43, 68, 70. The text is available from <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32014L0024> and the transposition texts into national law from <https://eur-lex.europa.eu/legal-content/EN/NIM/?uri=celex:32014L0024>



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SWOT Analysis: How suitable a tool is public procurement in the EU to promote Living Income in GVCs

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ▶ EU rules (henceforth the “Directive”) allows giving extra points in award criteria and contract performance clauses to products “of fair trade origin”, requiring payment of minimum price and price premiums to primary producers (Recital 97) ▶ Directive allows rejecting abnormally low bids. EC buying social guide (2nd edition⁴⁶) recommends in those cases “seek an explanation” from the bidders and verify compliance with relevant social and labour standards 	<ul style="list-style-type: none"> ▶ Sustainability criteria remain voluntary, while “lowest price” option remains fully legally possible (and is often the default) ▶ Lack of knowledge by public buyers of value chains and the situation of small-holder farmers, which will in most cases be several tiers removed from the public buyers. ▶ Unlike award criteria, using contract performance conditions is weak given they do not allow ex-ante compliance checks allows failure to comply with the requirements often to go unnoticed, as the directive does not require mandatory monitoring system for contract performance conditions ▶ The provisions on contract performance clauses in the EU Directive (Annex X) refer to core ILO conventions, but not the Bill of Human Rights (which would include the right to just and favourable remuneration) 	<ul style="list-style-type: none"> ▶ Public procurement is increasingly recognised as a strategic instrument to achieve societal objectives ▶ Possible case law of EC guidance to confirm whether or not Fair Trade criteria can be also used in technical specifications (and not “only” in award criteria and contract performance clauses) ▶ Possible revision of EU Directive during the next European Commission term ▶ EU food systems Farm to Fork strategy includes commitment to develop mandatory sustainable food criteria⁴⁷ ▶ Public buyers could be obliged to do risk-mapping or ask their suppliers to do it 	<ul style="list-style-type: none"> ▶ Increasing focus on green procurement (environmental sustainability) ▶ Lack of legal definition or official benchmarks of Living Incomes easily usable by public procurers ▶ Insufficient training on the implementation of risk assessments in product categories and tenders. ▶ Likely resistance to move away from ‘lowest price approach’ (industry and some member states). ▶ Lack of knowledge by public buyers of all subcontractors and their practices, undermining their capacity to identify and assess human rights and sustainability risks⁴⁸ ▶ Risk of piecemeal interventions: volumes and long-term contracts are important to tackle Living Incomes

⁴⁶ European Commission, Buying Social Guide (2nd edition, 2021). See section 4.9 (page 79 in the English version) [DocsRoom - European Commission \(europa.eu\)](https://ec.europa.eu/economy_finance/docs/buying-social-guide-2nd-edition-2021.pdf)

⁴⁷ The EU Farm to Fork Strategy identifies as action point to ‘Determine the best modalities for setting minimum mandatory criteria for sustainable food procurement to promote healthy and sustainable diets, including organic products, in schools and public institutions’. We understand the European Commission wishes to address this in the context of a legislative proposal on sustainable food systems to be published in 2023.

⁴⁸ These challenges are based on the World Bank Group’s Report, ‘A Global Procurement Partnership for Sustainable Development’, URL: <https://www.worldbank.org/en/events/2022/01/06/a-global-procurement-partnership-for-sustainable-development-an-international-stocktaking-of-developments-in-public-proc>

Recommendations

To individual public contracting authorities

- » Include Fair Trade criteria in the technical specifications and/or award criteria and contract performance clauses to guarantee that a certain share of products are of Fair Trade origin⁴⁹.
Instead of spot contracts, privilege framework agreements, that cover multiple deliveries during a certain period of time. Frameworks agreements allow to build a long-term dialogue with suppliers and to keep track of progress over time. In Malmö (Sweden), the use of framework agreements to promote circular economy was an effective way to ask suppliers to increase commitments in the circular economy's direction over time. A similar continuous improvement approach could be used to achieve progress on Living Incomes⁵⁰.
- » Set mandatory requirements and award criteria asking companies to adopt mechanisms to increase the transparency and the human rights and environmental due diligence of the supply chains linked to the subject matter of the contract. Use “Human Rights and Environmental Due Diligence” (HREDD) to put in place in their own procurement processes and require it from their suppliers.
- » Systematically investigate abnormally low bids to check if they cover costs of production including Living Income.

To EU Member States

- » Put in place Fair Trade mandatory criteria for certain categories of products, like it is the case in Italy since 2020⁵¹.
- » Provide contracting authorities help-desks like [Engagement Global Sustainability Compass](#) and practical tools, such as trainings, toolboxes, analysis of how sustainability and Fair Trade labels contribute to Living Income, on the basis of existing guides on Fair Trade labels⁵².
- » Organise policy dialogues to engage relevant stakeholders on how to promote Living Income through public procurement, following the example of the Union of Public Purchasing Groups in France (UGAP – Union des groupements d’achats publics), which engaged with trade unions early in procurement processes to receive inputs on issues such as labour rights or collective agreements. Similar dialogues could be organised to ensure Living Incomes for farmers in global value chains.

⁴⁹ Article 43 of the Directive, in line with European Court of Justice case-law ([Case C-368/10: European Commission v Kingdom of the Netherlands](#)), allows contracting authorities to refer to a label, as a way of proof of compliance with criteria, provided they meet certain conditions and that equivalent ways or proof are also accepted.

⁵⁰ Beyond buying: how can the circular economy principles feed sustainable public procurement policies and practices? Alice Sinigaglia, Fair Trade Advocacy Office, 2021 <https://fairtrade-advocacy.org/wp-content/uploads/2021/07/Circular-PP.pdf>

⁵¹ The Italian Ecological Transition Ministry adopted in April 2020 mandatory minimum sustainability requirements for food and catering in public procurement, including requiring that all bananas and pineapples served in schools across Italy must be Fair Trade and Organic, and all chocolate must be Fair Trade, for example. More information [I Criteri ambientali minimi | Ministero della Transizione Ecologica \(mite.gov.it\)](#)

⁵² Commerce Equitable France, International Guide to Fair Trade labels, URL: <https://www.commerceequitable.org/wp-content/uploads/guide-des-labels-anglais-web.pdf>



To the European Union

Review the current 2014 Public Procurement Directive, with a view to:

- » Prohibit lowest price criteria, making only possible in some well-justified exceptional cases.
- » Make price quality, including sustainable criteria, the norm.
- » Add the term “social” to Article 42(3)(a) referring to technical specifications.
- » Refer to all internationally recognised human rights, including a reference to Living Incomes as a precondition for the fulfilment of other human rights.
- » Make it mandatory for public procurers to conduct Human Rights and Environmental Due Diligence (HREDD) and address the direct and indirect impacts of own purchasing practices, including prices.
- » Enable the option to contract authorities to favour suppliers that source themselves from smallholder farmer organisations and social economy actors, such as social enterprises.

When developing “minimum mandatory criteria for sustainable food procurement” as foreseen in the “EU Farm to Fork” strategy, bear in mind that minimum mandatory food procurement criteria must go beyond Green Public Procurement, and consider health but also social sustainability concerns, such as Fair Trade criteria.

3.2.2. HUMAN RIGHTS AND ENVIRONMENTAL DUE DILIGENCE POLICIES

In 2011, the concept of Human Rights (and Environmental) Due Diligence (HREDD)⁵³ was introduced in [the UN Guiding Principles on Business and Human Rights](#) (UNGP), which have crystallised the global consensus that companies have a responsibility to respect human rights. On the basis of the UNGP, HREDD was also integrated in [OECD Guidelines for Multinational Enterprises](#) and [the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy](#). Most EU member states have adopted National Action Plans to implement UNGP and some states have adopted or are in the process of adopting national legislation.⁵⁴ With the aim to support the just transition to a more sustainable future and ensure a level playing field the European Commission has published a [proposal a Sustainable Corporate Due Diligence Directive](#) on 23 February 2022.

Link to Living Incomes

HREDD is a continuous six step process to embed responsible business policies in own operations, identify and assess adverse impacts in operations, value chains and business relationships, cease, prevent or mitigate identified actual or potential adverse impacts, track implementation and results, either provide for or cooperate to provide adequate remedy, and finally, transparently communicate about the process.⁵⁵ It does not directly refer to Living Incomes but if designed in a rights holder centric way, HREDD can be one of the building blocks in reaching Living Incomes in global value chains. If HREDD is conducted in line with UNGPs and OECD Guidelines and the process includes engagement of relevant stakeholders – especially rights holders during the 6 steps of HREDD, Living Incomes, as a salient issue for smallholder farmers, can be included in the scope of HREDD.



SWOT Analysis: How suitable are HREDD frameworks to address Living Income

This section analyses the strengths, weaknesses, opportunities and threats of mandatory HREDD frameworks in the European Union for the realisation of Living Incomes, either at EU level or national legislation for the realisation of Living Incomes in global value chains. The analysis is based on observed and anticipated effects of existing voluntary and mandatory HREDD frameworks and looks at strengths and weaknesses inherent in the structure of the HREDD frameworks as well as opportunities and threats either prompted by HREDD frameworks.

⁵³ While the UNGP only refer to HRDD, 'Environmental' is added in most references under general consensus.

⁵⁴ European Coalition for Corporate Justice (ECCJ). 2021. Corporate due diligence laws and legislative proposals in Europe. <[Corporate-due-diligence-laws-and-legislative-proposals-in-Europe-June-2021.pdf](#) (corporatejustice.org)>.

⁵⁵ Organisation for Economic Co-Operation and Development (OECD). 2018. OECD Guidance for Responsible Business Conduct. <https://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf>

SWOT Analysis: How suitable are HREDD frameworks to address Living Income

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ▶ Purpose to address the gap in corporate impunity for adverse human rights impacts in global value chains, including lack of Living Income. ▶ Covers international human rights standards including the right to 'a just and favourable remuneration' (Art 23 UDHR) and an 'adequate standard of living' (Art 25 UDHR). ▶ Requires risk mapping with prioritisation of most salient risks to rights holders. ▶ Obligation to engage stakeholders and their representatives during the HREDD process, with a special focus on those in most vulnerable situations. ▶ The framework is widely understood as including a revision of own purchasing practices by companies.⁵⁶ 	<ul style="list-style-type: none"> ▶ Can quickly become a tick-box exercise and not reach rights holders in most vulnerable situations. ▶ Possibility for companies to focus on issues that are easy for them to address vs those that are salient for rights holders.⁵⁷ ▶ Cascading compliance obligations upstream without being expected to cover the costs of production. ▶ Could result in exclusion of the most vulnerable and smaller suppliers. ▶ Internationally accepted human rights standards⁵⁸ do not explicitly include Living Incomes. ▶ A gender lens is not inherent to standard HREDD frameworks. ▶ Requires adequate baseline data from the country of the supplier (poverty levels, income, Living Income benchmarks) which are often not available. ▶ Companies might decide to disengage from risky suppliers or regions instead of improving their own conduct and supporting their suppliers in improvement of the situation. 	<ul style="list-style-type: none"> ▶ Counter the race-to-the-bottom by raising the legal requirements on environmental and social issues for all. ▶ Promotion of the understanding that higher standards for human rights and the environment will often come hand in hand with higher prices for the buyers.⁵⁹ ▶ Corporate Sustainability Reporting Directive as the reporting framework will amplify transparency of the process. ▶ Taxonomy regulation assessing sustainability of investments also foresees a role for due diligence in a possible social taxonomy and includes Living Incomes for farmers as one of the possible sub-objectives. ▶ Best business practices on Living Income may emerge and judges may oblige companies to apply them (including minimum prices, long term contracts). ▶ Producing countries may have a legal footing to demand higher prices (such as the Living Income Differential) 	<ul style="list-style-type: none"> ▶ Excessive power of the industry in influencing legislation and its implementation. ▶ Pressure by the industry to only cover Tier 1 and not the entire value chain. ▶ Power imbalances can lead to EU companies to shift costs upstream the value chain and retain added value of due diligence downstream.⁶⁰ ▶ Companies might decide to disengage from risky suppliers or regions instead of improving their own conduct and supporting their suppliers in improving the situation. ▶ Legislation and policies that can limit the effectiveness of HREDD in global value chains such as a narrow and consumer centric application of EU competition rules.

⁵⁶ European Parliament. 2021. European Parliament resolution of 10 March 2021 with recommendations to the Commission on corporate due diligence and corporate accountability, (2020/2129(INL)) [European Parliament resolution of 10 March 2021 with recommendations to the Commission on corporate due diligence and corporate accountability \(2020/2129\(INL\)\) - Publications Office of the EU \(europa.eu\)](https://bit.ly/37aUffi); Lieferkettensorgfaltspflichtengesetz. 2021. Bundesgesetzblatt Jahrgang 2021 Teil I Nr. 46. <https://bit.ly/37aUffi>

⁵⁷ V. Nelson, O. Martin-Ortega, M. Flint. 2020. Making Human Rights Due Diligence Work for Small Farmers and Workers.

⁵⁸ International Bill of human rights and 8 'fundamental' ILO conventions.

⁵⁹ De Brier, et al.. 2020. How much does a miner earn? Assessment of Miner's revenue & Basic Needs study in the DRC.

⁶⁰ Organisation for Economic Co-Operation and Development (OECD). 2021. Costs and Value of Due Diligence in Mineral Supply Chains. <https://mneguidelines.oecd.org/costs-and-value-of-due-diligence-in-mineral-supply-chains.pdf>

Recommendations

In order to build upon the strengths and address the weaknesses and counter the threats, any mandatory HREDD legislation should:

- » Cover the entire value chain to improve Living Incomes, due diligence should cover all human rights and the environmental risks occurring, both, in their own activities, and those resulting from their business relationships, throughout the entire value chain so that smallholder farmers are reached. Covering only the first tier, or specific business relationships within global value chains, is insufficient as it does not address the power imbalances and the unequal distribution of risk and value in global value chains.

See the Norwegian Transparency Law: Own operations and whole value chain (supply chain and non-supply chain business partners) (Sections 3.b. and 4. b.).⁶¹

- » Include purchasing practices at every step, as common bad practices include insufficient lead times, last minute changes to orders, prices that undercut the costs of sustainable production, long payment terms and fraudulent quality complaints. They often make it impossible for smallholder farmers to earn a Living Income already before considering additional costs of HREDD compliance.⁶² Balanced prices should include the costs of Living Incomes coupled with the costs of sustainable production and the costs incurred by suppliers when implementing due diligence.

See German Supply chain law: Article 6 (3) 2: If there are risks identified the company must take appropriate preventive measures. Purchasing practices is mentioned as one preventive measure in their own business area. Development and implementation of appropriate procurement and purchasing practices in order to minimise or prevent asserted risks.⁶³

See EU legislative proposal for Sustainable Corporate Due Diligence: reference to purchasing decisions and pricing practices in Recitals 28 and 30.⁶⁴

- » Living Income as a human right and as a precondition for other human rights and environmental protection and climate change mitigation. Living income is an essential element of the right to just and favourable remuneration⁶⁵ and of the right to an adequate standard of living,⁶⁶ but generally not seen as a Human Right itself. Explicit mention of Living Income would help to ensure that it is included in the due diligence process of companies and that in case a violation occurs, rights holders have a clear claim for compensation. While prices are only one driver of a smallholder farmer's income, guidance should require them to set up time bound implementation plans demonstrating how they are least 'doing their part in ensuring Living Incomes', lowering the gap between actual and Living Incomes.

See EU legislative proposal for Sustainable Corporate Due Diligence: Annex with rights and prohibitions covered by HREDD includes Art. 7 ICESCR and a prohibition of withholding a living wage.⁶⁷

61 Norwegian Transparency Act. 2021. [Act relating to business transparency and work with basic human rights and decent working conditions \(Transparency Act\) - Lovdata](#)

62 Currently 81% of companies do not disclose any evidence demonstrating that they have responsible purchasing practices as found by Know the Chain and Business and Human Rights Resource Centre. 2022.

63 Lieferkettensorgfaltspflichtengesetz. 2021. Bundesgesetzblatt Jahrgang 2021 Teil I Nr. 46. <https://bit.ly/37aUffl>

64 European Commission Proposal for a Directive on corporate sustainability due diligence and Annex. 2022. [Proposal for a Directive on corporate sustainability due diligence and annex | European Commission \(europa.eu\)](#)

65 Universal Declaration of Human Rights (UDHR). Art. 23.

https://www.ohchr.org/sites/default/files/UDHR/Documents/UDHR_Translations/eng.pdf

66 Universal Declaration of Human Rights (UDHR). Art. 25.

https://www.ohchr.org/sites/default/files/UDHR/Documents/UDHR_Translations/eng.pdf

67 European Commission Proposal for a Directive on corporate sustainability due diligence and Annex. 2022.

[Proposal for a Directive on corporate sustainability due diligence and annex | European Commission \(europa.eu\)](#)

» Meaningful consultation and engagement of rights holders, their representatives and civil society organisations. Inclusion of rights holders at each step of the due diligence process is an essential step to guarantee that the risks that are most significant for smallholders are identified, mitigated, and remediated.⁶⁸ The approach to stakeholder inclusion must be intersectional and gender sensitive to ensure that Living Income risks for all members of households are included and effectively addressed. Meaningful stakeholder engagement is characterised by two-way communication and depends on the good faith of the participants on both sides. It is also responsive and on-going and includes in many cases engaging with relevant stakeholders before decisions have been made.⁶⁹

See EP INL on Corporate Due Diligence and Corporate Accountability: Member States shall ensure that undertakings carry out in good faith effective, meaningful and informed discussions with relevant stakeholders when establishing and implementing their due diligence strategy (Article 4).⁷⁰

» Recognise smallholders as a vulnerable group in HREDD processes, as companies tend to address the risks that are most salient for their own operations and not for the rights holders. Particularly small actors situated towards the beginning of global value chains, are often overlooked. See EU legislative proposal for Sustainable Corporate Due Diligence: smallholders as facing particular challenges (recital 49).⁷¹

» Clarify EU competition law rules to enable payment of fair prices. Currently the interpretation of Article 101 TFEU of EU competition law is uncertain and therefore prevents companies from collectively adopting better pricing practices and other sustainability measures. This would be a useful tool to overcome the first-mover disadvantage which often stands in the way towards more sustainable development. See EU legislative proposal for Sustainable Corporate Due Diligence: Article 4 in particular, but also article 7 & 8 can contribute to back our call for more clear guidelines on horizontal agreements between competitors, aiming at the payment of Living Incomes.⁷²

68 Only 9% of companies included workers in their risk assessment as found by Know the Chain and Business and Human Rights Resource Centre. 2022. Closing the gap: Evidence for effective human rights due diligence from five years measuring company efforts to address forced labour.

69 Organisation for Economic Co-Operation and Development (OECD). 2021. Costs and Value of Due Diligence in Mineral Supply Chains. p. 49. <https://mneguidelines.oecd.org/costs-and-value-of-due-diligence-in-mineral-supply-chains.pdf>

70 European Parliament. 2021. European Parliament resolution of 10 March 2021 with recommendations to the Commission on corporate due diligence and corporate accountability, (2020/2129(INL)). [European Parliament resolution of 10 March 2021 with recommendations to the Commission on corporate due diligence and corporate accountability \(2020/2129\(INL\)\) - Publications Office of the EU \(europa.eu\)](#)

71 European Commission Proposal for a Directive on corporate sustainability due diligence and Annex. 2022. [Proposal for a Directive on corporate sustainability due diligence and annex | European Commission \(europa.eu\)](#)

72 European Commission Proposal for a Directive on corporate sustainability due diligence and Annex. 2022. [Proposal for a Directive on corporate sustainability due diligence and annex | European Commission \(europa.eu\)](#)

3.2.3. UNFAIR TRADING PRACTICES

Global agricultural trade has long been characterised by structural power asymmetry. Retailers and brand manufacturers capture maximum value from the trade, and impose terms and conditions which incentivise continued cost cutting and externalise the costs and responsibilities of social and environmental responsibility.

With the objective to improve the protection of farmers – as well as of small and medium sized suppliers – and provide mandatory rules that outlaw certain unfair trading practices⁷³, the EU adopted an EU framework piece of legislation (Directive)⁷⁴ that bans and restricts 16 unfair trading practices (hereinafter ‘UTPs’). This Directive distinguishes between ‘black’ and ‘grey’ practices. Whereas black unfair trading practices are prohibited, whatever the circumstances, grey practices are allowed if the supplier and the buyer agree on them beforehand in a clear and unambiguous manner. As a Directive, EU countries were required to transpose the Directive into national law by 1 May 2021 and apply it six months later.

The present case study is an analysis of the UTPs regulatory model from a specific angle of whether it contributes or not to the achievement of Living Incomes of farmers in global value chains. Other areas or aspects of improvement of the regulatory model have been purposely left out of the scope as not directly contributing to achievement of Living Incomes.

Link to Living Income

The current UTPs regulatory model, as done by the European Union, is not a direct tool to achieve Living Incomes as there is not a strict causality relation between regulation of UTPs and the achievement of Living Incomes. However, it can – indirectly – contribute to farmers achieving a Living Income by restricting behaviour that buyers can have towards suppliers and, subsequently, smallholder farmers as well by having a deterrent effect.

Suppliers see themselves forced to accept orders even when they are not even covering the cost of production; to engage in agreements with buyers changing the terms unilaterally or to accept poor payment terms (to quote some examples). These practices reinforce the

need for suppliers to underinvest in their farms and processing businesses, and put smallholder farmers far from achieving a Living Income and far from being able to implement sustainable agricultural practices.

The UTP regulatory model has identified and assessed some of these trading practices that negatively affect EU and non-EU suppliers and has introduced prohibitions or further requirements to those practices, with which the likelihood of obtaining a Living Income is higher.

Our analysis shows that if the prohibition of buying or selling below the cost of production in the entire supply chain were to be taken up as UTP, there would be a direct causal relationship between achieving Living Incomes and the UTP regulation. Thus, with the current UTPs regulatory model it could be said there is no strict causality as to achieve Living Incomes, but if the model is to be completed, f.e. by introducing the prohibition to sell or buy below production cost, then UTPs regulatory model could be a direct tool to achieve Living Incomes.

SWOT Analysis: How suitable is the UTPs regulatory model to address LI?

This section analyses the strengths, weaknesses, opportunities, and threats of the regulatory model introduced by the European Union to regulate UTPs: directive and consequent national transposition laws.⁷⁵

The analysis is based on observed and anticipated effects of the directive and the national transposition laws.

⁷³ European Commission. 2021. Unfair trading practices in the food chain. https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/market-measures/agri-food-supply-chain/unfair-trading-practices_en

⁷⁴ European Parliament. 2019. Directive (EU) 2019/633 on unfair trading practices in business-to-business relationship in the agricultural and food supply chain. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019L0633&from=EN>

⁷⁵ Transposition is the process of incorporating EU directives into the national laws of EU Member States. Unlike other types of EU legal acts, directives are not automatically applicable throughout Member States but require national laws to incorporate their rules into national legislation.

SWOT Analysis: How suitable is the UTPs regulatory model to address LI?

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ▶ Addresses asymmetries of power between buyers and suppliers. ▶ Increase attention to conditions in global value chains. ▶ Prohibits certain bad purchasing practices. ▶ Actors affected by UTPs can present complaints. ▶ Space for strategic litigation because of the possibility to file complaints 'on behalf of'. ▶ Regulatory model and national transposition law include revision by 2025 or earlier. ▶ Possibility to set fines as a sanction for committing UTPs. ▶ Hard cash sanctions create a deterrence effect. ▶ Some national transposition laws have included prohibition to sell or buy below production cost. 	<ul style="list-style-type: none"> ▶ No clear causality between UTPs and Living Income. ▶ The issue of low prices, the main issue in global supply chains, is not addressed in the Directive. ▶ 27 different transposition laws lead to confusion of suppliers as to what practices are covered and how they can complain. ▶ In Directive, some limitations on actors that can introduce complaints. To be protected, there must be a direct supply relationship between supplier and buyer and also that a supplier's annual turnover must be smaller than their buyer's.⁷⁶ ▶ Enforceable sanctions for actions conducted on B2B relations (exporter could be compensated but smallholder farmers also suffering from UTPs could be left unprotected). ▶ In some cases, fines can be low and thus, behaviour of buyers may not be sufficiently coerced into change. ▶ Gender lens is not inherent to the UTP regulatory model. ▶ List-approach might lead to waterbed-effect: companies just shift to other, unlisted unfair trading practices. 	<ul style="list-style-type: none"> ▶ Revision period may lead to inclusion of ban on selling below production cost in Directive or in national transposition laws.⁷⁷ As well as elimination of thresholds to present complaints (following example of Denmark, France, Spain, Italy and Sweden). ▶ Raise voices of smallholder farmers outside the EU. ▶ Opportunity to raise price discussion and price pressure applied along supply chain (which negatively impact Living Incomes and Living Wages) ▶ Spillover effect over the entire supply chain. ▶ Open space to introduce a similar regulatory model in other sectors (textiles, f.e.). 	<ul style="list-style-type: none"> ▶ Power imbalances in global value chains may result in implementation of UTP regulation that keeps the status quo of farmer unprotection and of prices below production cost. ▶ The European Commission will not put in place any efforts to disseminate information about national transposition laws; leading to risk that lack of information will lead to no complaints being brought forward. ▶ Big technical complaints filed by large corporations might clog the system as a result of some countries removing the threshold of 350 million.

⁷⁶ For example, a worker or trade union knowing that its exporter employer is affected by an UTP cannot present a complaint. It must be the exporter directly.

⁷⁷ Germany will carry out an audit of the possible ban of purchasing below the production cost within the evaluation that will take place two years after the entry into force.

Recommendations

Our analysis concluded that for the UTP regulatory model to be more directly impactful to achieve Living Incomes in global value chains, a direct explicit link with Living Incomes must be established. The current UTP directive for agri-food supply chains did not have as objective the achievement of Living Incomes but aimed at regulating the unfair conduct and imbalances of power between suppliers and buyers; and thus, as it stands, only indirectly contributes to achieving Living Incomes.

Most of the recommendations indicated herein could be taken up on the Commission when revising the 2019/633 Directive and/or could be taken into consideration for introduction of regulation in other non-covered sectors, such as textiles.⁷⁸

» Introducing a general ban of UTPs and conversion of grey UTPs to black UTPs.

Buyers and retailers may still be inclined to increase profit margins to the detriment of their upstream suppliers and it is likely that they will shift to other Unfair Trading Practices (away from those listed in the legislation).⁷⁹ For instance, the German transposition law⁸⁰ forbids certain practices that are considered 'grey UTPs' under the Directive.

» Prohibition (ban) on buying below production cost throughout the entire supply chain

Using a "bottom-up pricing" from the farmer to the consumer and accompanied with measures such as a prohibition to exert pressure. So that big buyers cannot put pressure on farmers doubting the alleged cost of production informed by farmers.

The Spanish transposition law⁸¹ includes prohibition to buy below effective production cost and furthermore, prohibits destruction of value alongside the supply chain. Requiring each operator to pay the immediately preceding operator a price equal to or greater than the cost of production of such product incurred by said operator.

The Italian transposition law⁸² puts a limit to the possibility of selling at prices manifestly below production costs.

Similarly, Croatia establishes the prohibition to sell at a price lower than the purchase price for which product was acquired by the buyer.⁸³

» Introduce ban of double race auctions

Double race auctions⁸⁴ have been linked to severe negative impacts for farmers who see themselves forced to participate in this practice due to the imbalances of power. Banning this would contribute to avoiding cases in which suppliers are taken to sell under the cost of production. The Italian transposition law bans double sided auctions.

» Propose minimum terms in agreements and contracts between suppliers and buyers

As far as possible under Contract Law, the agreements or contracts between supplier and buyer should contain certain minimum terms.

For example, supply agreements or contracts:

- Should include a reference to Directive 2019/633 on UTP in the food supply chain, and the corresponding transposition law as binding norms governing the contract.
- Should not contain any provisions or terms that aim at limiting the property or responsibility of the buyer with the products purchased from the supplier, or share/transfer such responsibility to the supplier.
- Should clearly set the price for the supply of products, and such prices should cover the cost of production of the farmer/supplier (fixed and variable/marginal costs).
- The determination of the product prices should not be made dependent on the success or future sales of the products by the buyer/distributor.

⁷⁸ For textiles, there is currently discussion at EU level as to introduce a UTP directive particularly addressing abusive trading practices for the textile sector.

⁷⁹ Oxfam. 2021. Technical note on the transposition of Directive (EU) 2019/633 n°2. <https://oxfam.box.com/v/TranspositionUTP>

⁸⁰ Bundesgesetzblatt - Federal Law Gazette. 2021. Second Law to Amend the Agricultural Market Structure Law (translated) [Zweites Gesetz zur Änderung des Agrarmarktstrukturgesetzes](#)

⁸¹ Boletín Oficial del Estado - Official State Gazette. 2021. Law 16/2021, of December 14, which modifies Law 12/2013, of August 2, on measures to improve the functioning of the food chain (translated). [Ley 16/2021, de 14 de diciembre, por la que se modifica la Ley 12/2013, de 2 de agosto, de medidas para mejorar el funcionamiento de la cadena alimentaria.](#)

⁸² Gazzetta Ufficiale - Official gazette. 2021. LEGISLATIVE DECREE November 8, 2021, n. 198 (translated) [DECRETO LEGISLATIVO 8 novembre 2021, n. 198](#)

⁸³ Narodne Novine - Official Gazette of the Republic of Croatia. 2021. Law on amendment to the law on prohibition of unfair trade practices in the food supply chain (translated). [Zakon o izmjenama i dopunama Zakona o zabrani nepoštenih trgova kih praksi u lancu opskrbe hranom](#)

⁸⁴ Mechanisms used by buyers to place suppliers against each other in short-notice online auctions, in which they are incentivised to offer their produce at the lowest possible price

3.2.4. MULTI-STAKEHOLDER INITIATIVES

In recent years, various government-enabled Multi-Stakeholder Initiatives (MSIs) on agriculture global value chains have been set up in different European countries⁸⁵, namely cocoa, with the ambition to address some key sustainability issues in strategic agricultural supply chains.

While there is no clear-cut definition or one single model of government-enabled MSIs, they share the characteristic that the state, through various government ministries and agencies, has a role, alongside private sector and civil society actors. The purpose of this document is to draw lessons from this type of government-enabled initiative and identify recommendations on how existing or future MSIs could be respectively strengthened or set up so as to maximise their contribution to achieving Living Income (LI) for farmers in agri-food Global Value Chains (GVCs).

The aim of this document is not to provide a comprehensive analysis of MSIs in general (e.g., those in which governments do not have a role) nor to scrutinise all features of government enabled initiatives (e.g., governance). Our analysis will focus on providing elements on the characteristics and dynamics that would help make government-enabled MSIs a powerful tool to contribute to achieving Living Income in GVCs.

Link to Living Income

Living Income is an important sustainability variable to address the strong economic imbalance prevailing in agri-food GVCs and ensure resilient and stable supply chains. Several MSIs, notably in the cocoa or banana sector, have a priority objective to improve the living conditions and contribute to a Living Income for farming households. While they might be at different stages of maturity with different levels of ambitions, government-enabled MSIs have the potential to catalyse collective action towards Living Income under their umbrella.

⁸⁵ E.g., In the Cocoa Sector: the first national initiative on sustainable cocoa was founded in Germany in 2012 ([GLISCO](#)), followed a few years later by the Swiss ([SWISSCO](#)) and Belgian ([Beyond Chocolate](#)) platforms. The Dutch platform ([DISCO](#)) was launched in 2020 while the most recent one is the [French initiative](#) (2021). An example beyond Europe is [Grow Asia](#).



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SWOT Analysis: How suitable are government-enabled Multi-Stakeholder Initiatives to address Living Income (LI) in GVCs

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ▶ MSIs provide their members a unique Multi-Stakeholder platform to engage in constructive dialogue, address conflicting interests and seek consensus on Living Income relevant topics. ▶ Common floor while leaving the door open to individual higher commitments on LI. ▶ MSIs can foster knowledge exchange (e.g., on how to calculate Living Income and define Living Income Reference Price), peer learning and support members in reaching their commitments. ▶ MSIs may include financing schemes for pilot projects, useful to gain new understanding of structural and/or emerging challenges on the ground, test high impact models and build the business case for LI ▶ Co-financing structure of MSIs enables partners to implement more innovative and risky projects. ▶ Added value of reporting mechanisms on Living Income objectives that are based on a common third-party framework. ▶ MSIs can achieve cost efficiencies in analysis and learning, saving resources to be directed towards origin investments instead of duplicative measurement activities. 	<ul style="list-style-type: none"> ▶ MSIs rarely look at (bargaining) power dynamics, the way value and margins are distributed along supply chains and how this impacts LI. ▶ While price is a major determinant of farmers' income, only a limited number of MSIs have set time-bound and quantified objectives to improve farm gate prices. ▶ Getting buyers, processors, exporters, retailers etc to commit to ensuring higher incomes through volume and price or margin commitments to farmers is a key success factor and often side-lined. ▶ Recurrent absence of farmers and/or cooperatives representatives. ▶ Data collection and aggregation is often done in a non-transparent way, which leads to lack of accountability. ▶ Lack of transparency regarding concrete impacts and scalability of pilot projects. ▶ Restricted donor vs beneficiary relationship with governments. ▶ Lack of transversal business ownership: Companies' teams involved in MSIs (e.g., sustainability teams) are often not the same than the ones having influence on final buying decisions (e.g., procurement or commercial teams). ▶ Lack of entry/membership criteria to assess the goodwill to drive effective change. 	<ul style="list-style-type: none"> ▶ MSIs can help shape healthy markets that realise collective benefits for all actors, incl. smallholders. ▶ MSIs can help overcome the “first mover disadvantage” by creating a level playing field and promoting a sector wide move towards LI. ▶ MSIs have the potential to contribute to evidence informed EU policies and can become supportive and complementarity tools to implement new EU legislation (e.g., on Corporate Sustainability Due Diligence or Deforestation-free products). ▶ MSIs can provide the right framework to discuss and determine key features that would allow members to embed Living Income into core business practices, without resulting in a competitive disadvantage. ▶ Potential for impact at scale and support to sector-wide change if signatories cover a large share of the national production of a commodity. ▶ Benefits arising from the participation of cross value chain stakeholders – market diversification approaches vs traditional focus on individual value chains. ▶ Potential to develop sector wide, cross MSIs coordination systems. 	<ul style="list-style-type: none"> ▶ Perception of risk of compliance with competition law. ▶ Different levels of ambitions and commitments across MSIs landscape may encourage alignment on lowest common denominator, thus slowing or discouraging leadership and innovation. ▶ Absence of internationally accepted legal definition of Living Income and Living Income Reference Prices. ▶ Different calculation and reporting frameworks and methodologies. ▶ Lack of clear accountability may lead to “fairwashing” of unchecked Living Income commitments and continuation of business as usual. ▶ Risk that companies running a government-funded ambitious pilot project continue in parallel to buy the biggest share of their volume at a price that does not allow for a Living Income. ▶ Volatility of national political support given to MSIs. ▶ Ambiguity between MSIs seen as a safe space for members based on transparency vs. the limits to this concept linked to anti-trust policies that prevent displaying confidential or sensitive information about companies' practices including on price.

Recommendations

The following recommendations aim at outlining key features and conditions under which MSIs can effectively contribute to Living Income in GVCs:

Recommendations to MSIs

- » Address Living Income both as an independent target and as a prerequisite to solve other key sustainability issues of agri-food supply chains (e.g., deforestation, child labour). Build a bridge between these different workstreams in terms of research and collection of supportive data showing the evidence of interlinkages, as well as in the design of new sectorial commitments, support programmes and relevant activities.
- » While recognising the multiplicity of factors that may impact Living Income (e.g., land size, yield, cost of production, other sources of income), MSIs should pinpoint purchasing practices, including prices paid to producers, as key determinants of the true commitment of their members in enabling a Living Income for smallholder farmers and at the same time mainstream systems approach to addressing the mix of Living Income levers.
- » Give farmers and their cooperatives, and especially female farmers, a meaningful seat at the table⁸⁶ to improve the balance between top-down and bottom-up approach, contribute to address strong power asymmetries within GVCs and seek better alignment of targets and projects around Living Income with concrete needs on the ground.
- » Mobilise external support: where required, involve neutral third parties to convey and facilitate dialogue between members on most sensitive topics that influence Living Income such as purchasing practices, including price paid to farmers.
- » Better define what role can and should be played by governments diplomatic channels beyond regular bilateral cooperation paths so as to convey producer countries at the table of discussions (e.g., on pricing issues).
- » Don't lose track of strategic focus and added value of MSIs: While the implementation of projects can be a powerful tool, the core of MSIs' raison d'être should remain its convening role, providing the right enabling environment in the pre-competitive sphere to foster consensus amongst peers and create new market dynamics in favour of Living Income.
- » Use the potential of MSIs to push for ambitious and complementary enabling policies at national and/or EU level (e.g., EU Competition rules, Corporate Sustainability Due Diligence Directive or Regulation on deforestation-free products), that put Living Income at the centre of sustainability agendas and assess how MSIs can be put at the service of meaningful sectorial implementation of these new regulatory tools.
- » Increase support to national initiatives on Living Income in producer countries: this applies for instance to existing European Initiatives on sustainable cocoa that should be collecting information about whether their members effectively source cocoa by paying the Living Income Differential (LID) and monitor progress. A strong alignment behind these type of initiatives on price can support producer countries to consolidate them, enhance their resilience to future market developments while helping to build the business case for similar initiatives in other producer countries/commodities.
- » Explore opportunities for joint national communication activities and strategies with contributions from all members, including governmental bodies, focusing on costs of sustainable production allowing farmers to earn a Living Income. Adapted to national market contexts and consumption trends, this could stimulate a demand-driven implementation of Living Income targets.
- » Address duality of members' behaviours to secure impact at scale: Companies involved in ambitious MSIs pilot projects on Living Income should embed this engagement also in their core business model and practices, buying their biggest share of volume at a fair price that contributes to Living Income. Same goes for governments who should ensure ambitious public procurement practices and national/EU regulatory frameworks.
- » Ensure greater complementarity between government-funded programs as well as a strong cross-governmental coordination system, gathering relevant Ministries and Agencies (e.g., Environment, Cooperation, Foreign Affairs, Trade, Consumption, etc).
- » Move away from a one-way donor vs. beneficiary relationship with governments. Instead, governments can use MSIs as a first step and also lever to reinforce their political appetite to champion the right to a Living Income within GVCs and endorse a long-term vision beyond return on investments.

⁸⁶ A Seat At The Table? Ensuring Smallholder Farmers are Heard in Public Private Partnerships. Fairtrade Foundation (UK) 2014 www.fairtrade.org.uk/wp-content/uploads/2020/07/A-Seat-at-the-table-Full-Report.pdf

Recommendations to MSIs Pan-European coordination processes

- » Draw lessons learned from the cocoa sector in which national initiatives have agreed on closer cooperation and alignment by signing an MoU.⁸⁷
- » Scrutinise the potential of a sector-wide European theory of change with Living Income at its centre, recognised as a prerequisite to the fulfilment of other human rights as well as a key enabler for sustainable agricultural practices.
- » Reinforce Government to Government channels of exchange to seek greater political ownership, as well as better coordination and alignment of national contributions to relevant EU legislative processes that could positively impact Living Income in GVCs.
- » Seek open discussions on topics that are best addressed at EU level where the largest share of economic actors in a specific sector can be represented, so as to avoid market fragmentation and foster level playing field (e.g., transparency and value distribution along the value chain, sectoral agreement on floor price, benchmarks on costs of sustainable production or monitoring systems).

Recommendations to the EU

Better exploit the permeability and complementarity of national and EU actions towards Living Income in GVCs:

- » While national MSIs seem better placed to help operationalise technical engagements of their members related to Living Income, the EU can play a vital role by convening as an honest broker at the same table stakeholders from a given sector. The EU is well placed to put in place official policy dialogues with producer countries as well as existing government-enabled MSIs, with the participation of farmers.
- » The EU is at the origin of most present and future policies and legislation applicable to global value chains, such as the upcoming EU Directive on Corporate Sustainability Due Diligence or the Regulation on Deforestation-free products. The EU has therefore the power to create the right enabling environment and dynamics to ensure that Living Income remains a priority when implementing the future EU rules.
- » Seek better alignment between national initiatives and EU regular cooperation mechanisms, as well as EU trade policy instruments and agreements.

⁸⁷ Memorandum of Understanding relating to the collaborative partnership between European initiatives for sustainable cocoa: [MoU European platforms for sustainable cocoa - IDH - the sustainable trade initiative \(idhsustainabletrade.com\)](https://www.idhsustainabletrade.com/)

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