

# FAIRTRADE LIVING INCOME STRATEGY

## LIVING INCOME GOES BACK TO FAIRTRADE'S ROOTS

**Fairtrade envisions a world in which all producers can enjoy secure and sustainable livelihoods, fulfil their potential and decide on their future.** Fairtrade's Theory of Change has sustainable livelihoods as its ultimate goal, to achieve through trade on equitable terms.

Income and sustainability are closely related. In order to enjoy sustainable livelihoods, small-scale farmers and workers need to earn sufficient income for a decent standard of living, so they can send their children to school, eat nutritiously throughout the year, have some savings for unexpected setbacks, retain future generations in farming and allow elders to retire with dignity. Aiming for this, Fairtrade has developed its living income strategy for smallholders and a living wage strategy for hired workers.

Fairtrade is built on the principle of long-term trading relationships that share the benefits of trade more equally. Fairtrade Minimum Prices are set to ensure the costs of sustainable production are covered and to provide farmers a safety net against price drops in the world market. However, Fairtrade's continuous monitoring and learning has shown that more is needed to lift smallholders out of poverty. Therefore, Fairtrade's Living Income Strategy revisits the pricing models to include a margin that allows small farmers to make a decent livelihood.

In addition, the Fairtrade Premium is a powerful instrument to seed-fund producer-led initiatives to improve farmers' livelihoods, based on strategic assessment of investments geared towards increased farm profitability and sustainable producer organizations.

Empowering farmers to take control over their lives is a fundamental aspect of Fairtrade's approach to sustainable livelihoods. By strengthening their organizations and building their capacity to create value on behalf of their members, smallholders are able to achieve economies of scale, be efficient business partners and drive impact.

*Living income is defined as sufficient income generated by a household to afford a decent standard of living for the household members.*

*Elements of a decent standard of living include: food, water, housing, education, health care, transport, clothing, and other essential needs, including provision for unexpected events.*



# FAIRTRADE LIVING INCOME STRATEGY

## THE FAIRTRADE LIVING INCOME ROADMAP

The general objective of Fairtrade's Living Income Strategy is to **create an enabling environment and develop tools that support Fairtrade certified smallholders to progress towards a living income**. Making progress towards a living income means bridging the gap between current farmer incomes and a living income.

Farmers who do not earn the net income needed to provide a decent livelihood for their family are unable to reinvest in their farms. Therefore they cannot uphold adequate productivity levels, causing yields to decline (or remain low). As a consequence, the farmer gets trapped in a vicious circle of poverty.

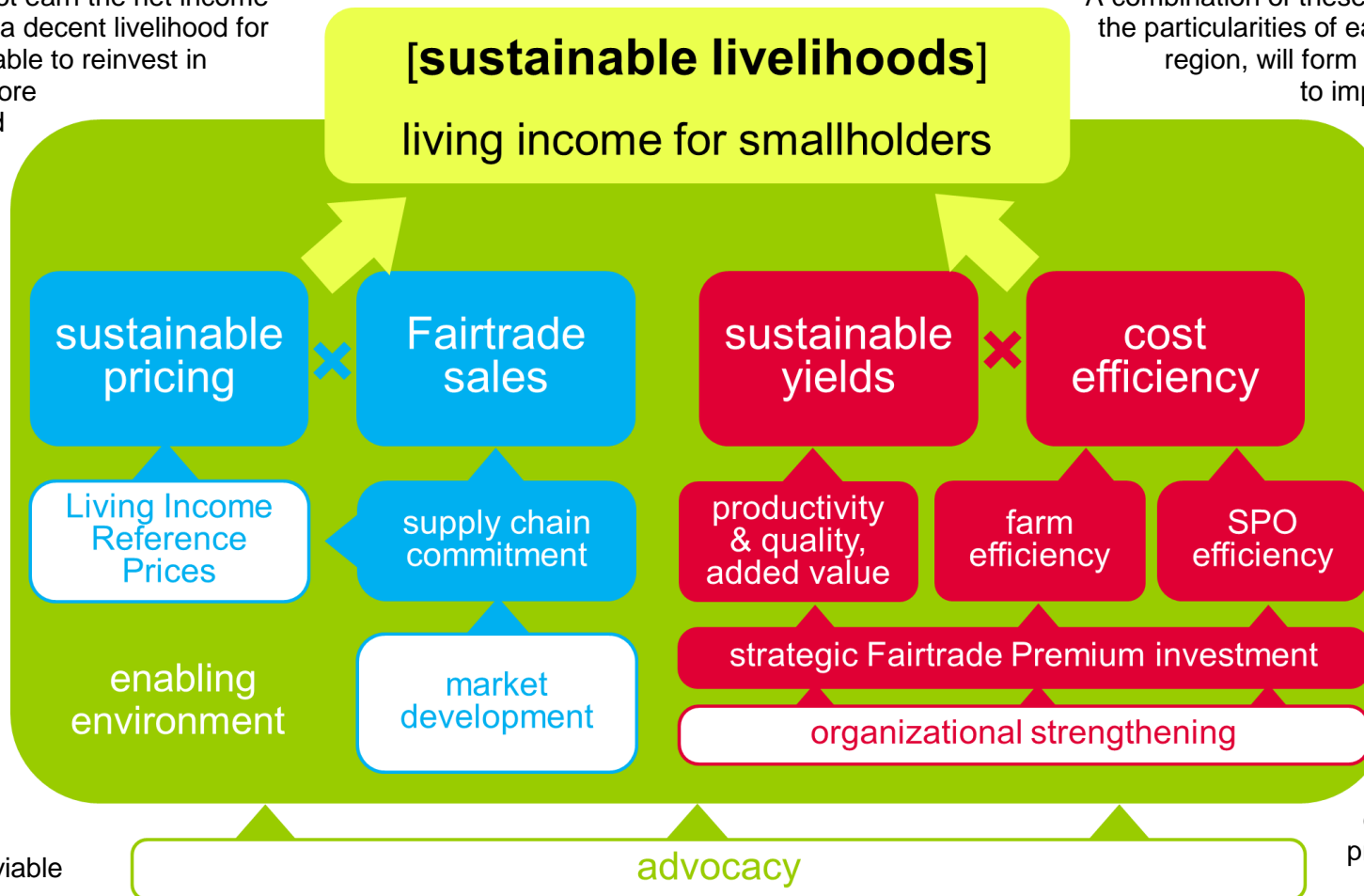
At the same time, farm revenues won't allow a decent pay for hired farm workers and the next generation will opt for more profitable ways of making a living if they get a chance, abandoning the inviable farms altogether.

In order to make significant progress towards living income and invert the poverty trap for smallholders, a holistic approach is required. Higher farm revenues can be obtained through: sustainable pricing, increased sales on Fairtrade terms, increased farm yields from sustainable agriculture and adding value. Costs can be reduced through improving efficiencies at farm and at organizational level. An enabling environment can be created through advocacy action.

A combination of these pathways, tailored to the particularities of each commodity and region, will form bespoke roadmaps to improve farmers' incomes.

As incomes of smallholder farmers increase, a path is enabled to improve the well-being of all family members, as well as the conditions of the workers they employ on their farms.

This way, living incomes make it possible to mitigate unacceptable labour practices, such as child labour, and for entire communities to prosper.



# FAIRTRADE LIVING INCOME STRATEGY

## A LIVING INCOME BASELINE

A farmer household income is usually made up of several farm and off-farm income sources. The Fairtrade Living Income Strategy focus is limited to the cash and in-kind farm income. However, in order to set realistic goals, Fairtrade has defined **a set of basic conditions by which Fairtrade farmers would be expected to make a living income from farm revenues alone.**

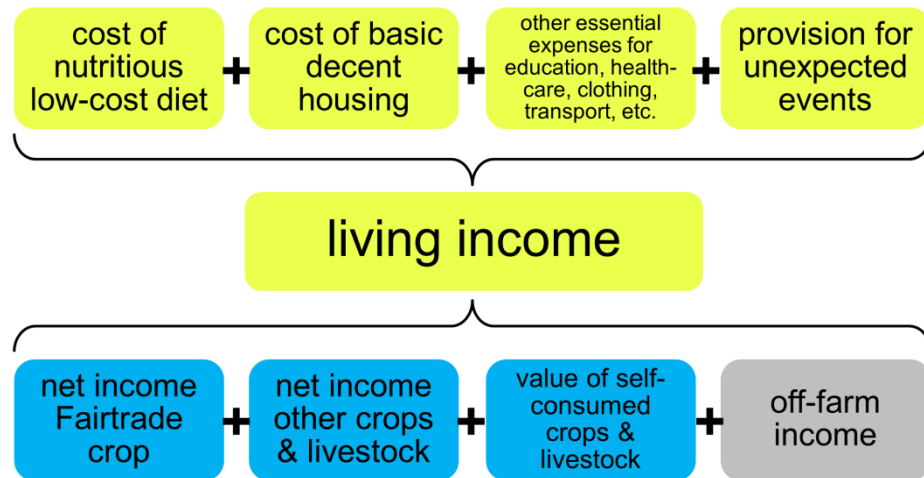


figure 1: The cost elements of a basic, decent living for a typical rural household and the possible sources of income to meet these needs.

The main variables influencing farm income are: farm size, yields and price received for the produce. As a baseline for living income calculations, the following key parameters are established:

**farm size:** Drawing a parallel with living wages (see figure 2), which are calculated on the basis of the average number of breadwinners in a household, a living income for a rural household would also take the number of adult family members working on the farm into account. Following this logic, a farm that is big enough to fully absorb the available household labour force, should be able to generate a living income. This will be called a “full-employment farm size”.

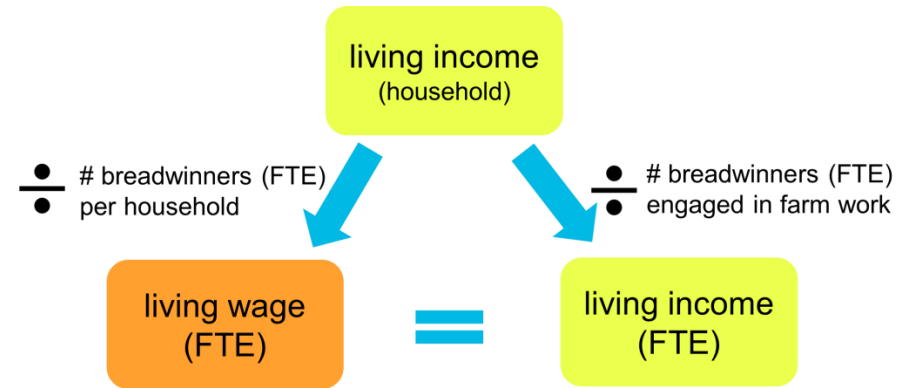


figure 2: The income needed to afford a decent standard of living is in principle the same for an average worker household as for a farmer household in the same region. To calculate a living wage, the total household income needs are divided by the average number of breadwinners in the household. Similarly, a farmer who works full-time on his or her farm should make the equivalent of a living wage, which can be expressed as a living income per farmer household member who is fully engaged in farm work. The income per full time equivalent (FTE) breadwinner, whether employed as a wage earner or working on his/her own farm, should therefore be the same.

**yields:** Adequate productivity levels are determined based on feasible yields, obtained when implementing environmentally sustainable agricultural practices. These productivity benchmarks are to be established per commodity and region.

**price:** The price received for a Fairtrade crop should allow an average farmer household with a full-employment farm size and an adequate productivity level to earn a living income when selling on fair trading terms.

**farm diversification:** Crop diversification is recommended as a strategy to improve farm and income resilience. A proportionate share of a living income would be generated from the part of the farm dedicated to the Fairtrade crop.

# FAIRTRADE LIVING INCOME STRATEGY

## FAIRTRADE'S LIVING INCOME AMBITION

**Living incomes will be achieved by average Fairtrade smallholder families with at least a full-employment farm size and an adequate productivity level, who sell their Fairtrade crop on fair trading terms.**

- ▶ Living income reference prices will be calculated based on these parameters, and will guide Fairtrade's price-setting mechanisms.
- ▶ A business case for supply chain commitment will be built around the human right to a living income, which can be achieved when the living income reference price is paid.
- ▶ Producer support programmes and Fairtrade Premium investment planning guidelines will be developed, enabling farmers to reach adequate sustainable productivity and efficiency levels.
- ▶ This ambition will be used for advocacy positioning and public awareness messaging.

The above ambition statement outlines a viable roadmap towards achieving living incomes for smallholder farmers, but it also reflects conditions which might limit Fairtrade's effective impact.

The full intended impact of establishing price levels by which farmers can make a living income will only materialize when the crops are effectively sold at the reference price, and sufficient yields are obtained, and the farmer family members actually work on their farm. The actual income result will therefore be proportionate to the sales on Fairtrade terms, productivity level achieved and the percentage of the available household labour employed. Moreover, the income share from Fairtrade sales will be proportionate to the area of the farm dedicated to this crop.

## 1. SUSTAINABLE PRICING

**Objective: Fairtrade Living Income Reference Prices are set, as a benchmark for Fairtrade sustainable pricing models.**

- Fairtrade Living Income Reference Prices will be calculated based on the gap between living income benchmarks and actual household incomes when baseline parameters are met. Household income and productivity research will provide the data needed to determine the baseline parameters of "full-employment farm size" and "feasible yields" per commodity and region.
- The net farm income is the sum of farm revenues (in cash and kind) minus the cost of sustainable production. The cost of sustainable production will include the cost of a fair remuneration of hired labour on smallholder farms. Hence, the living income reference price would cover both a living income for the farmer household as well as a living wage for hired workers. The cost of sustainable production will also include a risk margin as a buffer for calamities.
- Living income benchmarks will be consistent with living wage benchmarks, considering a compensation for sick and paid leave for self-employed farmers.
- Different mechanisms of implementing the living income reference price (i.e. through Fairtrade Minimum Prices, Premiums or separate income funds) will be assessed and are likely to be product/supply chain specific.
- An increase in the price paid to the producer escalates each time the product changes hands, translating into an exponential price increase to the end consumer, which leads to the product losing its competitiveness. Mechanisms to by-pass price/margin escalation across the supply chain will therefore be explored to avoid this.
- Since Fairtrade prices are paid to the producer organization and the share that is paid out to the individual farmer members depends partly on the efficiency of the organization, there is a remaining challenge to convert the price calculated at farmer level to a sustainable price at organizational level.

# FAIRTRADE LIVING INCOME STRATEGY

## 2. FAIRTRADE SALES GROWTH

**Objective: Existing and new Fairtrade commercial partners commit to improve farmers' incomes through paying the Fairtrade living income reference price, increasing Fairtrade sales volumes and investing in complementary programmes.**

- Key commercial stakeholders will be engaged at an early stage to jointly explore actions for improving farmers' incomes and seek supply chain commitments to make progress on living income.
- Incentives for businesses to act in support of living income at origin will be developed, by building the business case for sustainable supply and responsible sourcing, showcasing positive action and rewarding firm commitments.

## 3. SUSTAINABLE FARM YIELDS

**Objective: Fairtrade producers reach adequate sustainable productivity levels and enhance farm resilience.**

- Better yields can be obtained from enhanced productivity, improved quality and adding value on one hand, while pursuing farm resilience on the other, by implementing sustainable agricultural practices and fostering product diversification and food security.
- Appropriate yield improvement programmes will be developed based on best practice and proven effectiveness of existing initiatives, and implemented in partnership with experienced and well-equipped local organizations.
- Farm diversification opportunities will be explored as a strategy to generate additional income and improve livelihood resilience.
- Facilitating access to the financial resources for making the required farm investments needs to be part of yield improvement programmes, to ensure adequate adoption rates. The use of the Fairtrade Premium as seed funding will be encouraged.

## 4. FARM COST EFFICIENCY

**Objective: Fairtrade producers are able to calculate their production costs and make informed business decisions to improve the profitability of their farms.**

- Managing a farm as a small-scale enterprise requires an adequate understanding of the cost of production to begin with. Appropriate farmer-friendly tools will be developed, based on current tools for collecting costs of sustainable production data, for smallholders to calculate their production costs and retrieve indications on how to increase their yields.
- Such tools could feed into a central Information Management System at organizational level, allowing technical and commercial departments to trace their plans and develop productivity enhancement programmes based on real data.
- Enhanced producer capacity to provide accurate data on cost of production will in turn strengthen Fairtrade price reviewing processes as well as producers' bargaining position towards industry partners.

## 5. SPO EFFICIENCY

**Objective: Fairtrade Small Producer Organizations (SPOs) are efficient, sustainable social enterprises with good governance practice and adequate business management capacity to optimize value creation for their members.**

- Organizational development is of vital importance to ensure internal coherence, efficient and effective business performance and resilience to external risks. This is needed to become viable and sustainable social enterprises, optimize the use of their resources and generate meaningful value for their members.
- Well-managed organizations are recognized as reliable business partners and have a stronger bargaining position to negotiate

# FAIRTRADE LIVING INCOME STRATEGY

favorable terms of contracts, while gaining better access to markets.

- Similarly, producer organizations are eligible for loans when they can show good governance, viable business plans and have proper financial management procedures in place. Timely access to finance is crucial for SPOs to execute their plans: Whether they need to invest in infrastructure, renovation programmes or implement other cost reducing measures or whether they prefinance farm investments of their members to improve their productivity, without financial resources none of this can materialize.
- Fairtrade SPO standards are currently under review to better reflect living income considerations, and strengthen them as an instrument that enables SPOs to develop their full potential.

## 6. STRATEGIC PREMIUM USE

**Objective: Fairtrade Premium is invested strategically by SPOs, contributing to the accomplishment of their long-term goals, prioritizing organizational and livelihood sustainability.**

- The Fairtrade Premium can be instrumental for achieving organizational sustainability, enabling SPOs to manage their business efficiently on behalf of their members and to resource producer-led initiatives, geared towards increased farm profitability and sustainable livelihoods for farmer and worker families.
- An SPO has to secure its long term viability, before it can effectively serve its members and the surrounding communities, since it is the business that generates the means to pursue its goals.
- Premium planning guidance is being developed to strengthen the strategic planning capacity of SPOs, and support internal decision making processes for strategic premium use.

## 7. ENABLING ENVIRONMENT

**Objective: The importance of fair and effective market systems to deliver living incomes is recognized and acted upon by governments, policy makers and companies as a result of advocacy.**

- Advocacy should lead to the implementation of measures that address the imbalances of power in supply chains that obstruct progress towards living incomes.
- Influencing can take place at different levels, including global commodity forums; governments of consumer countries, at regional level (e.g. EU) or at origin. Windows of opportunity for advocacy action will be further identified.
- Hard data on living income gaps are needed to support trade policy and business regulation advocacy at international level or for lobbying for better access to services and infrastructure at a local level. Different ways to obtain living income benchmarks will be explored.
- The living income strategy is embedded in Fairtrade's Theory of Change and a specific set of impact evaluation indicators at farmer household level will be established for monitoring progress towards reaching living income levels for Fairtrade small-scale producers. In collaboration with Fairtrade's Monitoring, Evaluation & Learning team, tools and a methodology for generating and analysis of monitoring data will be developed.

The Fairtrade Living Income Strategy is an evolving approach, in which new learnings and early results from pilot implementation projects will be incorporated to continuously improve the model and optimize its impact.

For further information and updates, please contact: Carla Veldhuyzen, Sr. Advisor SPO development, at [c.veldhuyzen@fairtrade.net](mailto:c.veldhuyzen@fairtrade.net).